

Bright Ideas

A publication of the Intellectual Property Law Section
of the New York State Bar Association

Message from the Chair

It is amazing how time flies. As of this month I am into the second year of my two-year term as Section Chair, but it seems like I just started. In any event, I am happy to report several exciting developments in Section business. First, the Section has renewed its joint pro bono program with the Entertainment, Art and Sports Law Section. Any members interested in participating in this important program should contact our Pro Bono Committee Chair, Debra Resnick. On another note of continuity, we have also renewed our funding of the Miriam Maccoby Netter Fellowship, named in honor of one of the Section's great friends and founding members, for another three years. This fellowship provides a \$5,000 stipend for a New York State charity or public interest organization to hire a law student enrolled in a New York State law school to work on intellectual property matters for a semester. Fellows are also given the opportunity to participate in the Section's Executive Committee meetings and other Section functions. We are very happy and proud to continue this program in Mimi's name.

Immediate Past Chair Joyce Creidy chaired yet another successful iteration of one the Section's best annual programs: Women in IP. This year's event was held on June 8 at the offices of White & Case LLP. Attendance was strong, as was the programming. Co-Moderator Dyan Finguerra-DuCharme, counsel at White & Case LLP, and panelists Dr. Lock See Yu-Jahnes, a partner at Fitzpatrick, Cella, Harper & Scinto; Lydia Gobena, a partner at Fross Zelnick Lehrman & Zissu, P.C.; Suzanne White, Senior Counsel, Coach, Inc.; and Lydia Cheuk, General Counsel, Blue Man Group, discussed such topics as Strategies for Success, How the IP Field



Paul M. Fakler

Has Changed, Developing a Client Base, Mentoring Relationships, Equality in Compensation, and Achieving a Balance between Home and Work. Kudos to Joyce for another job well done and to White & Case for providing a fantastic venue.

Our Trademark Law and Litigation Committees have also put on very successful roundtable programs, and several of our other Committees are working on additional roundtable events. These shorter events are great ways to pick up a quick CLE credit or two while keeping abreast of the most recent developments in intellectual property practice. I strongly encourage you to look out for, and attend, future roundtables. Even better, join a committee and volunteer to organize a roundtable on a topic of interest. It is a great way to get more involved in the Section and to network with other intellectual property professionals.

The Section has also been busy on the legislative front. In particular, we were very active during

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Congress's consideration of the new patent reform legislation. We objected strongly to a provision of the legislation that would abolish the long-standing right of patent owners to seek judicial review of adverse PTO decisions in ex parte reexamination by bringing a civil action in federal district court. Although we were not ultimately successful in getting this troublesome provision removed from the legislation, we will continue to engage with Congress when important new intellectual property bills are considered. In going through this process, the Section has also forged new alliances with other intellectual property organizations, which we believe will strengthen our Section going forward and provide new opportunities for cooperative action (and events).

Finally, we are putting the finishing touches on our Fall Meeting program, co-chaired by Marc Lieberstein and Doug Miro. I am very excited about this program for a number of reasons. The Fall Meeting is unique among our various events because it allows our members to spend a few days together, combining great substantive CLE programming with fun social events in a setting

that fosters interaction. In past years, we have held this meeting at one of a few different resorts in upstate New York. This year, for the first time, the Fall Meeting will be held in the more urban setting of Philadelphia. We will be surrounded by historical buildings and other references to the founding fathers, and our program will reflect the setting. The Section is honored that both David Kappos, Director of the United States Patent and Trademark Office, and Maria Pallante, the newly appointed Register of Copyrights, among many others, will be speaking at the meeting. The social events we have lined up include dinner "beneath the stars" inside the Fels Planetarium at the Franklin Institute. Philadelphia is filled with historic places, museums, galleries of all kinds, and great shopping and restaurants, so there will be plenty for non-attorney spouses and other family members to do during the CLE portions of the program. This is the Section's first time holding the Fall Meeting in Philadelphia, and we have secured a great lineup of speakers. Please make every effort to attend, October 20-23, 2011. I promise you will be glad you did!

Paul M. Fakler

Thank You

The Intellectual Property Law Section extends its gratitude to the following for their significant sponsorship over the past year:

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Penguin Group (USA) Inc. v. American Buddha: New York's Long-Arm Statute Grows Longer for Internet Piracy

By Elizabeth McNamara and Chris Robinson

I. Introduction

On March 24, 2011, the New York Court of Appeals issued an important decision that should help New York publishers combat online piracy of their copyrighted works and that will have implications for other online content providers as well. In *Penguin Group (USA) Inc. v. American Buddha*¹ the Court held that “[i]n copyright infringement cases involving the uploading of a copyrighted printed literary work onto the Internet,” the situs of the injury for purposes of determining personal jurisdiction under C.P.L.R. § 302(a)(3)(ii) is the “location of the principal place of business of the copyright holder,” not, as some courts had held in other circumstances, the location of the infringing act or the specific location where sales or customers are lost.² The ruling is significant because it should make it easier for publishers based in New York State—which includes the majority of large book publishers and many smaller U.S. publishers—to bring actions in New York for online piracy of their published works, whether or not they can allege an infringing download or use within the state.

II. Factual Background

Penguin Group (USA) is one of New York's leading trade books publishers. In late 2008, it became aware of an Oregon not-for-profit entity called American Buddha with its principal place of business in Arizona. Through its website at www.naderlibrary.com,³ American Buddha offers to its estimated 50,000 members and to the general public free downloads of many books, articles, speeches, and movies, including books published by Penguin such as *Oil* by Upton Sinclair. The website assures its users that by downloading any works from the American Buddha library, no copyright infringement is taking place because the site merely “makes available selected artistic and literary works under a system of voluntary, free online lending, under the fair use exclusion from copyright liability accorded to libraries and archives pursuant to 17 U.S.C. Section 108.”⁴ To Penguin, however, American Buddha's “library” amounted to blatant copyright infringement.

Penguin wrote to American Buddha's counsel to demand that it remove its works from the site. American Buddha responded by invoking the safe harbor provision of the Digital Millennium Copyright Act (DMCA). Penguin served notice on the site's designated agent for service under the statute, and the work was removed, but days later American Buddha restored the work, submitting a counter-notification pursuant to section 512(g)(3) of the DMCA in which it cited 17 U.S.C. § 108, the First Amendment, and fair use.

III. The Lawsuit

Penguin responded by bringing a copyright infringement action in the Southern District of New York in which it identified four Penguin books that had been copied and made available for download on American Buddha's websites. American Buddha moved to dismiss for lack of personal jurisdiction. Penguin argued that jurisdiction was proper under C.P.L.R. § 302(a)(3)(ii) because American Buddha, as a non-domiciliary, had infringed Penguin's copyright by copying and digitally uploading its books outside the state, causing injury to Penguin in New York.⁵ Judge Gerard Lynch (since appointed to the Second Circuit) granted American Buddha's motion on the ground that an indirect financial loss or derivative commercial injury in New York based solely on the plaintiff's presence in the state was insufficient to confer jurisdiction under section 302(a)(3)(ii).⁶ The court relied on a line of cases represented by *Fantis Foods, Inc. v. Standard Importing Co., Inc.*,⁷ in which the New York Court of Appeals held that the court lacked jurisdiction over a Greek defendant for conversion of a shipment of cheese outside the United States when the only connection to New York was that the plaintiff was incorporated in New York and maintained an office there. Although Judge Lynch acknowledged that there was some competing authority for the proposition that in intellectual property cases, injury may occur where the property owner is domiciled, he found more compelling those tort cases that barred jurisdiction when based solely on indirect economic loss. Judge Lynch recognized that the online nature of the defendant's activities and the potential for widespread piracy of Penguin's copyrighted works were factors in the infringement analysis, but he ultimately rejected the relevance of the Internet to the legal question of determining the situs of the injury.⁸

On appeal to the Second Circuit, Penguin stressed that the purpose of section 302(a)(3) was to plug a perceived gap in the reach of the long-arm statute and that courts in cases such as *Fantis* had undermined that purpose by requiring that the injury to the plaintiff be felt directly in New York. Penguin stressed that the Second Circuit's decision in *DiStefano v. Carozzi, Inc.*⁹ was more relevant. In that case, the court held that a man whose employment was unlawfully terminated at a meeting in New Jersey felt the first effect of the tortious act not in New Jersey, where the firing occurred, but in New York, where he lived and worked. His New York injury—the loss of his job—was sufficient to confer jurisdiction. Further, district courts in the Second Circuit had extended the concept to find that the situs of injury in an intellectual property case was where that property was held.

Similarly, Penguin relied on the 1978 New York Court of Appeals case *Sybron Corp. v. Wetzel*¹⁰ that had rejected a narrow interpretation of section 302(a)(3) and found personal jurisdiction over a non-domiciliary company when the company hired a former employee of the plaintiff to misappropriate plaintiff's trade secrets. Because the plaintiff manufactured equipment in New York, it was foreseeable that theft of its trade secrets would eventually cause injury in New York from lost sales.¹¹ Nor was it necessary for plaintiff to point to *actual* lost sales because to impose such a requirement would foreclose that section of the long-arm statute to plaintiffs seeking anticipatory injunctive relief, which the Court considered an "unacceptable" result.¹² In 2006, *Sybron* was endorsed in *Sung Hwan Co. v. Rite Aid Corp.*, where the Court of Appeals stated: "In *Sybron*, this Court held that a tortious act committed out of state that was likely to cause injury through loss of business in state was sufficient to satisfy personal jurisdiction regardless of whether damages were ascertainable or likely recoverable."¹³

The Second Circuit laid out the competing arguments in depth, including the legislative history behind the enactment of the statute and the competing lines of case law.¹⁴ It then certified to the New York Court of Appeals the following question:

In copyright infringement cases, is the situs of injury for purposes of determining long-arm jurisdiction under N.Y. C.P.L.R. § 302(a)(3)(ii) the location of the infringing action or the residence or location of the principal place of business of the copyright holder?

In so doing, the Second Circuit sent an unmistakable signal to the Court of Appeals by highlighting that "the presence of online libraries and the Internet may have an impact on the Court of Appeals' evaluation of the situs of the injury and may figure in the Court's analysis."¹⁵

American Buddha raised a wide variety of arguments in its papers to the Court of Appeals. It argued that the Court had no place setting forth broad jurisdictional principles specific to copyright infringement when Congress had preempted the field. To decide on the situs of the injury, American Buddha contended, the Court would have to determine the situs of the copyright, which Congress had declined to do in the statute and which the fragmented complexities of copyright ownership would make impossible. It also again raised a library exemption defense under 17 U.S.C. § 108, arguing that the court should not distinguish between bricks and mortar libraries and online libraries.

American Buddha further argued that the Court should continue to rely on its decision in *Fantis* for the proposition that derivative economic injury is insufficient to confer jurisdiction. To find that the location of the rights holder is the situs of injury, American Buddha argued, would raise the specter of opening a "Pan-

dora's box" that would flood the New York courts with litigation.

IV. The New York Court of Appeals Decision

The Court of Appeals rejected American Buddha's arguments. Responding to the Second Circuit's focus on the transforming role of the Internet, the Court reformulated the certified question to read:

In copyright infringement cases involving the uploading of a copyrighted printed literary work onto the Internet, is the situs of injury for purposes of determining long-arm jurisdiction under N.Y. C.P.L.R. § 302(a)(3)(ii) the location of the infringing action or the residence or location of the principal place of business of the copyright holder?¹⁶

The Court acknowledged that "both parties raise compelling arguments" and that *Fantis Foods* and *Sybron* represented two instances where the Court came to different conclusions about how "direct" an injury in New York had to be for purposes of jurisdiction under section 302(a)(3)(ii). The injury here was harder to "identify and quantify" because the alleged infringement "involves the Internet, which by its nature is intangible and ubiquitous."¹⁷

Ultimately, though, the Court determined that New York was the situs of injury based on the confluence of two factors. First, it acknowledged that the Internet and digital technology enable pirates "to reproduce and distribute perfect copies of works" at virtually no cost, making them instantaneously available anywhere.¹⁸ Electronic piracy of books is growing along with the proliferation of devices to read them. These realities transform the jurisdictional analysis. Because the speed and wide geographic scope of the true injury caused by the infringement bear little relationship to the location of the initial copying and uploading of the work to the Internet, it makes little sense to focus on the traditional analysis of where business was actually lost or where the original injury or copying occurred. Therefore, the Court concluded, "the out-of-state location of the infringing conduct carries less weight in the jurisdictional inquiry in circumstances alleging digital piracy and is therefore not dispositive."¹⁹

Second, the nature of copyright as a bundle of distinct rights necessarily causes the jurisdictional analysis to move beyond the situs of the infringing activity. The harm from online piracy impacts more than the reproduction and display rights implicated by an infringing download; also lost may be the incentive to write or publish, an injury surely felt in New York, where the publishers are predominantly located.²⁰ The Court recognized that publishers need an economic incentive to publish works. Further, quoting the Second Circuit's decision in *Salinger v. Colting*, the Court noted that the injury in copyright cases is often irreparable.²¹ Because the harm is so frequently

irreparable, the Court concluded, it did not matter that Penguin could not point to a direct injury in the form of specific damages from unauthorized downloads in New York. Indeed, the Court noted, in *Sybron* it had held that jurisdiction was proper “regardless of whether damages were likely recoverable or even ascertainable.”²²

Finally, the Court addressed American Buddha’s Pandora’s box argument. It observed that section 302(a)(3) (ii) contains additional hurdles to obtaining jurisdiction over an out-of-state defendant that will deter suits that should not be in New York. The plaintiff must show that the defendant had a reasonable expectation that its acts would have consequences in New York and that it might be drawn into New York litigation. While that should not be a heavy burden for the publishing industry, which is widely known to be located in New York, it may be a more difficult burden for other less evidently New York-based industries. A plaintiff also must satisfy Federal due process and show that the defendant “derives substantial revenue from interstate or international commerce.”

It is worth noting two additional points. First, in answering the certified question, the Court of Appeals ignored American Buddha’s preemption argument and gave short shrift to its lengthy briefing on the threshold question of where a copyright physically resides. Rather, in a footnote the Court simply accepted the characterization of the Second Circuit for purposes of the appeal that “copyrights have a location and that their location in this case is in New York State.”²³ Second, the Court expressly reserved the question of whether the same jurisdictional result would apply in a copyright infringement case that does not allege *Internet* piracy, simply noting that cases in New York had come to different conclusions when considering non-Internet distribution.²⁴

V. Conclusion

Courts have struggled with the challenge of applying personal jurisdiction rules developed under traditional geographic analysis to the Internet. The Internet is both everywhere and nowhere. The widespread electronic dissemination of copyright works can inflict damage on a rights holder faster and on a vastly greater scale than anything possible in the bricks-and-mortar world. On the other hand, legitimate users or disseminators of copyrighted material online risk exposure to legal action in a far greater number of jurisdictions. The publishing industry, overwhelmingly concentrated in New York, has faced significant obstacles to remaining viable in the face of the increasing threat of online piracy and other threats to its traditional business model. In *American Buddha* the Second Circuit and the New York Court of Appeals have shown a willingness to use New York’s long-arm jurisdiction to protect that valuable asset.

The ruling will have important ramifications for online content providers based in New York. Despite *American Buddha*’s focus on “printed literary works,” its reasoning applies with equal force to the digital piracy of movies, television shows, music, and other online content. As the Association of American Publishers, the Association of American University Presses, and the Association of Magazine Media pointed out in their amicus brief in support of Penguin, permitting content providers to sue out-of-state alleged infringers in New York will make it easier and quicker to obtain preliminary injunctive relief without having to do what is sometimes impossible without discovery determining where the infringing uploads take place. It will also allow New York litigants to benefit from the New York judiciary’s considerable expertise in applying copyright law to digital piracy of all content, leading to greater consistency in this area.

Endnotes

1. 16 N.Y.3d 295 (2011).
2. *Id.* at 301.
3. Although the website professes admiration for Ralph Nader’s libertarian philosophy, it disclaims any direct affiliation with him.
4. See <http://www.naderlibrary.com/naderlibrarymemberinfo.htm>.
5. Penguin was reluctant to seek out and sue users of the website and therefore did not assert jurisdiction under C.P.L.R. § 302(a)(2) for tortious acts committed within the state.
6. 2009 U.S. Dist. LEXIS 34032, at * 9, 90 U.S.P.Q. 2d (BNA) 1954 (S.D.N.Y. Apr. 21, 2009).
7. 49 N.Y.2d 317, 326 (1980).
8. 2009 U.S. Dist. LEXIS 34032, at ** 8-13 (citing *Andy Stroud, Inc. v. Brown*, No. 08 Civ. 8246, 2009 WL 539863, at *3 (S.D.N.Y. Mar. 4, 2009)).
9. 286 F.3d 81 (2d Cir. 2001).
10. 46 N.Y.2d 197, 413 N.Y.S.2d 127 (1978).
11. *Id.* at 204, 206.
12. *Id.* at 204.
13. 7 N.Y.3d 78, 85 (2006).
14. 609 F.3d 30 (2d Cir. 2010).
15. *Id.* at 42-43.
16. 16 N.Y.3d at 301.
17. *Id.* at 303-05.
18. *Id.* at 304.
19. *Id.* at 305.
20. *Id.* at 305-06.
21. *Id.*
22. *Id.* at 306.
23. *Id.* at 302 n.2.
24. *Id.* at 307 n.5.

Elizabeth McNamara, Linda Steinman, and Christopher Robinson of Davis Wright Tremaine LLP represented the publishing associations as amici before the New York Court of Appeals.

When Is “Knowledge” Knowledge? Supreme Court Applies Criminal Standard to Patent Infringement Inducement Statute

By Michael A. Oropallo and W. Cook Alciati

I. Introduction

35 U.S.C. §§ 271(b) and (c) codify the standard for contributory and induced patent infringement. The standard for contributory infringement has long required knowledge of the existence of the patent that is infringed. The U.S. Supreme Court, in *Global-Tech Appliances, Inc. v. SEB S.A.*,¹ has now extended this requirement to induced infringement, reflecting the common ancestry of sections 271(b) and (c). The Court, however, has taken the “knowledge” element to a new level, borrowing the criminal-law doctrine of “willful blindness” to infer intent even where there is no direct evidence that the accused infringer was aware of the patent-in-suit, so long as the accused *has a belief* that the patent exists and takes deliberate action to avoid learning of its existence.

In *Global-Tech* the accused infringer deliberately instructed its patent opinion counsel to examine a foreign-sold device, likely knowing that it would not contain a statutory patent marking but knowing that such marking would likely have been present on the same type of product if sold domestically. Lacking this information, the patent attorney provided a non-infringement opinion. The Court, clearly troubled by the infringer’s “willful blindness” of this fact, went out of its way to not only fashion a new “knowledge” standard for indirect infringement but also to affirm the district court’s finding of willful infringement without remanding the case to the Federal Circuit.

The Court’s new test for indirect infringement could have significant consequences in cases in which the plaintiff asserts both inducement and contributory infringement. There also will likely be a flurry of decisions addressing what constitutes a subjective belief that “a fact exists” and what type of avoidance behavior is necessary to constitute “willful blindness” and thus liability for inducement. One can also foresee opinions of counsel on these issues, similar to the pre-*Seagate* variety used to negate willful infringement before the Federal Circuit articulated the objective recklessness standard.²

II. Facts and Procedural History

Global-Tech involved a U.S. patent for a deep fryer designed by SEB S.A., a French maker of home appliances that sold products in the United States. In 1997, Sunbeam Products, Inc., a competitor of SEB, asked Pentalpha Enterprises, Ltd. to supply it with deep fryers

on the market meeting certain specifications. In order to assist it in developing a deep fryer, Pentalpha purchased an SEB fryer in Hong Kong and copied its design, absent its cosmetic features. The fryer, purchased in Hong Kong because it was not sold domestically, did not feature any U.S. patent markings.

After copying the deep fryer design, Pentalpha hired an attorney to conduct a right-to-use study but refrained from informing the attorney that it had copied the design directly from SEB or that the product had not been purchased domestically. Despite conducting a prior art search, the attorney failed to locate SEB’s patent or any other problematic prior art. Following the prior art search, Pentalpha provided Sunbeam with its deep fryer design, and Sunbeam began selling it in the United States at a lower price than SEB. Triggered by its loss of market share, SEB investigated the Sunbeam product and ultimately sued Sunbeam for patent infringement. Sunbeam immediately notified Pentalpha. SEB eventually settled with Sunbeam, then sued Pentalpha in the Southern District of New York claiming, *inter alia*, that Pentalpha had violated section 271(b) by actively inducing Sunbeam, Fingerhut Corp., and Montgomery Ward & Co. to sell or offer to sell Pentalpha’s deep fryers.

The district court addressed the inducement issue on Pentalpha’s motion for summary judgment.³ The court noted that because Pentalpha knew about SEB’s patent and continued to sell the deep fryer until SEB was awarded injunctive relief, a reasonable jury could find induced infringement.⁴ The court also rejected Pentalpha’s argument that reliance on counsel can be dispositive of liability under section 271(b).⁵

On appeal, the Federal Circuit held that induced infringement under section 271(b) requires a plaintiff to demonstrate that “the alleged infringer knew or should have known that his action would induce actual infringements....”⁶ The court further held that Pentalpha “deliberately disregarding a known risk meets the standard” and found that Pentalpha’s deliberate disregard “[was] not different from actual knowledge, but is a form of actual knowledge.”⁷

III. The Supreme Court Decision

The Supreme Court, in an opinion by Justice Samuel A. Alito, Jr., focused its analysis on Pentalpha’s principal argument on appeal: that active inducement liability un-

der section 271(b) requires more than deliberate indifference to a known risk that the induced acts may violate an existing patent. Specifically, Pentalpha argued the statute requires *actual knowledge* of a known patent.

Section 271(b) is ambiguous. It states: “Whoever actively induced infringement of a patent shall be liable as an infringer.” Notably absent is any mention of the type or degree of knowledge or intent that is necessary for liability. In addressing this issue, the Supreme Court noted that “at least some intent [is] required” and based its conclusion on the dictionary definition of “active”: “to lead on; to influence; to prevail on; to move by persuasion or influence.”⁸ The Court reasoned that there were two possible interpretations: one, “merely that the inducer lead another to engage in conduct that happens to amount to infringement, i.e., the making, using, offering to sell, or importing of a patented invention;”⁹ the other, that the inducer “must persuade another to engage in conduct that the inducer knows is infringement.”¹⁰

Ultimately, after devoting a substantial portion of its opinion to the history of section 271 and inducement case law, the Court concluded that its decision in *Aro Mfg. Co. v. Convertible Top Replacement, Co.* (“*Aro II*”)¹¹ controlled and is applicable by analogy to section 271(b).

In *Aro II*, the Court found that “a violator of § 271(c) must know that the combination for which his component was especially designed was both patented and infringing.”¹² Borrowing from that holding, the Court concluded that section 271(b) requires “knowledge that the induced acts constitute patent infringement.”¹³

Having resolved the standard required for inducement, the Court then turned to an analysis of the facts. The Court agreed with Pentalpha that something more than deliberate indifference to a known risk is required by section 271(b). Nonetheless, the Court affirmed, finding that Pentalpha’s actions satisfied the requisite statutory knowledge under the doctrine of willful blindness. The Court reasoned that ignorance of a fact that an infringer has reason to believe exists—i.e., a patent that is listed on a domestically sold product—but that the infringer fails to reasonably investigate, is akin to satisfying the knowledge requirement for certain criminal statutes. The Court arrived at this conclusion based on its finding that Pentalpha’s conduct in deliberately failing to disclose relevant prior art of which it was aware to its opinion counsel rose to a level of culpable conduct beyond that of deliberate indifference to a known risk. Specifically, the Court found that Pentalpha’s conduct rose to the level of willful blindness.

IV. Willful Blindness

The Supreme Court’s new knowledge standard for patent inducement seems reasonable in light of *Aro II* and the similarity of section 271(b) to section 271(c).

But a plaintiff’s ability to invoke the doctrine of willful blindness almost certainly will require further refinement in years to come as courts and juries grapple with the elements of inducement liability, such as what constitutes a belief that a fact exists and what type of deliberate conduct amounts to willful blindness.

The doctrine of willful blindness has its roots in criminal statutes that require proof that an accused acted knowingly or willfully. Courts applying the doctrine of willful blindness have held that defendants “cannot escape the reach of [certain criminal] statute[s] by deliberately shielding themselves from clear evidence of critical facts that are strongly suggested by the circumstances.”¹⁴ In other words, a defendant cannot escape liability for acting knowingly or willfully by simply turning a blind eye to facts that make his or her conduct culpable.

The two requirements of the willful blindness doctrine are that the defendant (1) must subjectively believe that there is a high probability that a fact exists and (2) must take deliberate steps to avoid learning of that fact. Thus, “a willfully blind defendant is one who takes deliberate actions to avoid confirming a high probability of wrongdoing and who can almost be said to have actually known the critical facts.”¹⁵ This test differs from that applied by the Federal Circuit, which permitted liability for inducement when there is only a known risk that the acts are infringing.¹⁶ That deliberate indifference standard did not rise to the level of actual knowledge, as does the willful blindness doctrine adopted by the Supreme Court.

V. Looking Ahead

It is easy enough to see how Pentalpha’s actions in this case made it liable under the willful blindness standard. However, in closer cases, the willful blindness standard may prove difficult to apply. One particularly troubling area is the Supreme Court’s reference to a “subjective belief” that there is a “high probability” that a fact exists. This almost certainly makes the analysis fact-specific and could lead to more litigation, as the analysis calls for examination not only of the accused infringer’s subjective belief but also of whether there is a “high probability” that a fact exists.

Another aspect of the standard that is sure to present difficult issues for judges and juries is the relationship between willful blindness and willful infringement. In *Seagate* the Federal Circuit adopted a standard of “objective recklessness” for willful infringement.¹⁷ Specifically, the court ruled that a plaintiff must present clear and convincing evidence that the alleged infringer acted despite an objectively high likelihood that the action constituted infringement and that the alleged infringer knew or should have known of the objective high likelihood of infringement. It may be difficult to reconcile this “objective recklessness” standard with the “subjective belief” inquiry now required for inducement. It seems inconsis-

tent to argue that a person can be willfully blind but not objectively reckless.

Endnotes

1. *Global Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060 (2011).
2. *In re Seagate Technology, LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007).
3. *SEB S.A. v. Montgomery Ward & Co.*, 412 F. Supp. 2d 336, 344 (S.D.N.Y. 2006).
4. *Id.*
5. *Id.*
6. *SEB S.A. v. Montgomery Ward & Co.*, 594 F.3d 1360 (Fed. Cir. 2010).
7. *Id.*
8. *Global-Tech*, 131 S. Ct. at 2065.
9. *Id.*
10. *Id.*
11. 377 U.S. 476 (1964).
12. *Id.* at 490.
13. Section 271(c) states: "Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination, or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer."
In re Seagate Technology, LLC, 497 F.3d at 1371.
14. *Global-Tech Appliances, Inc.*, 131 S. Ct. at 2062.
15. *Id.* at 2069.
16. *SEB*, 594 F.3d at 1376.

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Federal Circuit Raises the Bar for Inequitable Conduct

By Teige P. Sheehan

I. Introduction

In May 2011, the Federal Circuit issued a landmark en banc ruling in *Therasense, Inc. v. Becton, Dickinson & Co.* that redefined the doctrine of inequitable conduct.¹ A judge-made doctrine that evolved from the principle of unclean hands to deny patent rights to those who engaged in deceptive misconduct in obtaining patents,² the doctrine of inequitable conduct had become so commonly invoked as a defense in patent litigation that in 1988 the Federal Circuit famously stated that it had become “an absolute plague.”³

One benefit of succeeding on such a defense is that a finding of inequitable conduct as to even one claim renders an entire patent unenforceable, irrespective of its validity, a consequence that may also befall other members of the patent’s family within a portfolio,⁴ leading the Federal Circuit to note that “the remedy for inequitable conduct is the ‘atomic bomb’ of patent law.”⁵

Prior to its ruling in *Therasense*, not since its 1988 decision in *Kingsdown Med. Consultants, Ltd. v. Hollister Inc.* had the Federal Circuit issued a decision en banc in an attempt to limit invocation of the doctrine to cases in which it was most appropriate.⁶ Nevertheless, the percentage of patent lawsuits in which inequitable conduct is pled has risen, particularly over the past decade, perhaps due to expansion of the doctrine’s scope in several post-*Kingsdown* Federal Circuit decisions.⁷

Finding that inequitable conduct had “metastasized” and had been “overused to the detriment of the public,”⁸ the Federal Circuit determined that the time was ripe to again address the issue en banc in order to stem the “resurgence of the plague that *Kingsdown* had intended to cure.”⁹

This article discusses the holding in *Therasense* in the context of other pertinent decisions and the effect the holding may have on patent practice. Part II is a general overview of the elements of inequitable conduct—i.e., materiality and intent. Parts III and IV discuss the Federal Circuit’s articulation in *Therasense* of the standards for materiality and intent, respectively, demonstrating how the decision is expected to engender a greater degree of stringency in subsequent analyses of inequitable conduct claims. Part V discusses the possible consequences of *Therasense*, with attention to issues that remain to be settled.

II. The Core Elements of Inequitable Conduct: Materiality and Intent

To successfully assert the defense of inequitable conduct, the alleged infringer “must present

‘evidence that the applicant (1) made an affirmative misrepresentation of material fact, failed to disclose material information, or submitted false material information, and (2) intended to deceive’” the USPTO during prosecution.¹⁰ The burden is on the party asserting the defense to demonstrate, by clear and convincing evidence, at least a threshold level of both an intent to deceive and the materiality of the deception.¹¹ If, but only if, these burdens are met, the trial court then performs an equitable balancing of the levels of materiality and intent to determine whether the patentee’s conduct was sufficiently egregious to warrant rendering the entire patent unenforceable.¹² In this regard, although “a greater showing of one factor allow[s] for a lesser showing of the other,”¹³ materiality and intent are independent elements, both of which must be proved, and an insufficient showing of one cannot be overcome no matter how strong the evidentiary showing with regard to the other.¹⁴

Nevertheless, several Federal Circuit panel decisions had raised questions as to the limits of the inequitable conduct defense.¹⁵ For example, in *Ferring B.V. v. Barr Labs., Inc.*, the court held that a patentee’s failure to disclose his or her prior business relationships with declarants who, during prosecution, had provided affidavits in support of patentability constituted material misrepresentations, and a conclusion that the applicant “knew or should have known” that the undisclosed relationships were material satisfied the intent element.¹⁶ Notably, in *Kingsdown* the court had previously rejected the notion that intent could be established by a finding of “gross negligence,”¹⁷ such as where a patentee “should have known” of the materiality of undisclosed information.¹⁸

The same year *Ferring* was decided (2006), in *Digital Control, Inc. v. Charles Mach. Works*,¹⁹ the Federal Circuit reaffirmed the relevance of the broad scope of materiality embodied in prior Rule 56—which had provided that information is material “where there is a substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent”²⁰—even though Rule 56 had been modified following *Kingsdown* to replace the reasonable examiner standard with one that was more objective and specific.²¹ And, the year following the *Digital Control* and *Ferring* decisions, the Federal Circuit held in *McKesson Information Solutions, Inc. v. Bridge Medical, Inc.*²² that the rejection of claims during prosecution of one patent is information that is material to the prosecution of a related application, even if the pertinent claims of the copending applications are not “substantially similar,”²³ provided that “a reasonable examiner would substantially likely

consider [such information] important in deciding whether to allow an application to issue as a patent.”²⁴

III. *Therasense*: “But-for Materiality”

The patentee in *Therasense* brought a patent infringement suit against competitors, who responded with a defense of inequitable conduct pertaining to assertions made to the USPTO during prosecution of the patent in suit.²⁵ The patentee had argued that contested language of one of its prior patents did not disclose an essential limitation of the patent in suit.²⁶ However, during prosecution of the European counterpart of the prior patent, the patentee had submitted briefs that seemed to argue that it did teach such a limitation and did not disclose these briefs to the USPTO during examination of the patent in suit.²⁷ The trial court found that the nondisclosure amounted to inequitable conduct and held the patent unenforceable.²⁸ A panel of the Federal Circuit affirmed, and the patentee petitioned for rehearing en banc.²⁹

Recognizing the problems that unfettered inequitable conduct litigation imposes on the courts and patent practice and the failure of the *Kingsdown* decision to fully remedy the situation by addressing only the intent element, the en banc court in *Therasense* articulated a more stringent materiality standard.³⁰ By analogy to other areas of intellectual property law,³¹ the court held that an undisclosed prior art reference is material only if the USPTO “would not have allowed a claim had it been aware of the undisclosed prior art.”³² To conduct this analysis, a court is to give claims their broadest possible interpretation, and the alleged infringer must demonstrate “but-for materiality” by a preponderance of the evidence.³³ The Federal Circuit noted that because of the higher burden of proof required to invalidate claims, a district court’s invalidation of a claim on the basis of a deliberately withheld reference is sufficient, but not necessary, to demonstrate the reference’s but-for materiality.³⁴ The court also noted an exception to the requirement of but-for materiality, specifically for cases of “affirmative egregious misconduct.”³⁵ For example, as opposed to mere nondisclosure of a prior art reference,³⁶ “the filing of an unmistakably false affidavit” can constitute such egregious misconduct as to obviate a but-for materiality determination.³⁷

Furthermore, in declining to “abdicate its responsibility to determine the boundaries of inequitable conduct” by deferring to the USPTO’s rules, the Federal Circuit explained that a definition of materiality as any violation of current Rule 56 would be too broad.³⁸ Rule 56 currently holds that noncumulative information is material if “[i]t establishes, by itself or in combination with other information, a prima facie case of unpatentability.”³⁹ Because this formulation encompasses even information the patentee might have been able to render irrelevant through subsequent argument or explanation, the Federal Circuit found it

to be too broad.⁴⁰ Rule 56 also holds that information is material if “[i]t refutes, or is inconsistent with, a position the applicant takes” in arguing for patentability or against unpatentability.⁴¹ The court rejected this formulation on the ground that it “broadly encompasses anything that could be marginally relevant to patentability.”⁴² Because the materiality element of the inequitable conduct holding under review in *Therasense* had been analyzed in accordance with current Rule 56, the Federal Circuit reversed the inequitable conduct holding and remanded the case to the district court for a determination of whether the nondisclosed material satisfied the new “but-for materiality” test.⁴³

IV. Intent to Deceive Must Be “Knowing and Deliberate”

The Federal Circuit emphasized in *Therasense* that sustaining the intent element of inequitable conduct requires the alleged infringer to “prove by clear and convincing evidence that the applicant knew of the reference, knew that it was material, and made a deliberate decision to withhold it.”⁴⁴ In this regard, the court reiterated that a mere showing of gross negligence or that an applicant should have known of the materiality of undisclosed information does not establish that the patentee acted with the specific intent to deceive the USPTO.⁴⁵ Acknowledging that “direct evidence of deceptive intent is rare,” however, the court reaffirmed that “a district court may infer intent from indirect and circumstantial evidence.”⁴⁶

To meet the clear and convincing evidentiary standard in such a case, the court cautioned that “the specific intent to deceive must be ‘the single most reasonable inference able to be drawn from the evidence,’”⁴⁷ and “the evidence ‘must be sufficient to require a finding of deceitful intent in the light of all the circumstances.’”⁴⁸ Finally, because the burden of proof lies on the party asserting inequitable conduct, the patentee must provide a good-faith explanation for withholding a material reference only in rebuttal, where an intent to deceive has first been demonstrated by clear and convincing evidence.⁴⁹ In that regard, because the district court’s finding of intent to deceive was premised on the “should have known” standard and “the absence of a good faith explanation for failing to disclose” the briefs in question, the Federal Circuit directed the trial court, on remand, to “determine whether there is clear and convincing evidence that [the patentees] knew of the [European Patent Office] Briefs, knew of their materiality, and made the conscious decision not to disclose them in order to deceive” the USPTO.⁵⁰

V. Conclusion

The Federal Circuit now requires a showing, by the preponderance of the evidence, that a claim would not have been allowed had undisclosed information been disclosed—i.e., a “but-for materiality” test—and, by

clear and convincing evidence, that such information was withheld with the specific intent of deceiving the USPTO—i.e., a “knowing and deliberate” test for intent.⁵¹ By “tighten[ing] the standards for both intent and materiality,”⁵² *Therasense*, together with another recent holding requiring that inequitable conduct be pled in accordance with the heightened particularity standards of FED. R. CIV. P. 9(b),⁵³ has the potential to stem the untoward tide of inequitable conduct litigation. Indeed, the Federal Circuit has already reversed a district court’s finding of inequitable conduct for failure to apply the “but-for materiality” and intent analyses articulated in *Therasense*.⁵⁴ Another consequence of the holding, which was alluded to in *Therasense*, may be a reduction in the prolixity of references with which applicants have felt compelled to “deluge” the USPTO during prosecution because of the “shadow of the hangman’s noose” cast by an overly broad inequitable conduct doctrine, with a potential to streamline the examination process.⁵⁵

However, the holding’s impact may well depend on whether the Supreme Court hears an appeal from the Federal Circuit’s decision, believed by many to be likely.⁵⁶ Another pending issue is whether, in light of the Federal Circuit’s expression in *Therasense* of an unfavorable view of Rule 56,⁵⁷ the USPTO will alter the rule so as to bring applicants’ duty to disclose information during examination in line with the but-for materiality standard. Indeed, the USPTO proposed an amendment to Rule 56 that would explicitly adopt the definition of materiality articulated in *Therasense*.⁵⁸ Another issue, faced by the applicants in *Therasense*⁵⁹ as well as in cases such as *McKesson*,⁶⁰ is what information pertaining to the examination of one application should be disclosed to the USPTO during examination of another. Although the holding in *Therasense* suggests that the substantive burden involved in making such decisions may now be less problematic, the corresponding procedural issues pertaining to application processing at the USPTO have yet to be fully settled.⁶¹

Endnotes

- 2011 WL 2028255 (Fed. Cir. 2011) (en banc).
- See *Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240 (1933); *Hazel-Atlas Glass Co. v. Hartford Empire Co.*, 322 U.S. 238 (1944), overruled on other grounds; *Standard Oil Co. v. United States*, 429 U.S. 17 (1976); *Precision Instruments Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806 (1945).
- Burlington Indus., Inc. v. Dayco Corp.*, 849 F.2d 1418, 1422 (Fed. Cir. 1988).
- See *Kingsdown Med. Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867, 877 (Fed. Cir. 1988) (en banc); *Consol. Aluminum Corp. v. Fosco Int’l Ltd.*, 910 F.2d 804, 808-812 (Fed. Cir. 1990).
- Therasense*, 2011 WL 2028255, at *8 (quoting *Aventis Pharma S.A. v. Amphastar Pharm., Inc.*, 525 F.3d 1334, 1349 (Fed. Cir. 2008) (Rader, J., dissenting)).
- 863 F.2d 867, 876 n.15 (Fed. Cir. 1988).
- See Christian E. Mammen, *Controlling the “Plague”: Reforming the Doctrine of Inequitable Conduct*, 24 BERKELEY TECH. L.J. 1329, 1361-1375 (2009), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1339259#; Posting by Dennis Crouch to Patently-O, <http://www.patentlyo.com/patent/2010/06/measuring-the-plague-of-inequitable-conduct.html> (June 2, 2010).
- Therasense*, 2011 WL 2028255, at *9, *13.
- Ferring B.V. v. Barr Labs., Inc.*, 437 F.3d 1181, 1202 (Fed. Cir. 2006) (Newman, J., dissenting).
- Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d 1357, 1365 (Fed. Cir. 2008) (quoting *Cargill, Inc. v. Canbra Foods, Ltd.*, 476 F.3d 1359, 1364-65 (Fed. Cir. 2007)).
- See *Digital Control Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1313 (Fed. Cir. 2006).
- See *Monsanto Co. v. Bayer BioScience N.V.*, 363 F.3d 1235, 1239 (Fed. Cir. 2004).
- Union Pac. Res. Co. v. Chesapeake Energy Corp.*, 236 F.3d 684, 693 (Fed. Cir. 2001).
- See *Hoffman-La Roche, Inc. v. Promega Corp.*, 323 F.3d 1354, 1359 (Fed. Cir. 2003); *Star Scientific*, 537 F.3d at 1366.
- See Mammen, *supra* note 7, at 1361-75.
- 437 F.3d 1181, 1188, 1190-91 (Fed. Cir. 2006).
- 863 F.2d at 876.
- Hoffmann-La Roche Inc. v. Lemmon Co.*, 906 F.2d 684, 687-688 (Fed. Cir. 1990); see also *J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1560 (Fed. Cir. 1984) (a pre-*Kingsdown* decision holding that the element of intent can be sustained by a showing of gross negligence which, in turn, is demonstrated where an applicant should have known of information’s materiality); *Praxair, Inc. v. ATMI, Inc.*, 543 F.3d 1306, 1313-14 (Fed. Cir. 2008) (espousing a rule by which intent is established if an applicant should have known of the materiality of an undisclosed reference).
- 437 F.3d 1309 (Fed. Cir. 2006).
- 37 C.F.R. § 1.56 (1977).
- See *Ferring B.V. v. Barr Labs., Inc.*, 437 F.3d at 1202 n.3 (Fed. Cir. 2006) (Newman, J., dissenting); Mammen, *supra* note 7, at 1364-65. As discussed in Parts III and V, *infra*, current Rule 56 may be subject to further revision in light of *Therasense* (see Press Release. USPTO, Press Release 11-36, USPTO Studying *Therasense* v. Becton, Dickinson Decision to Assess Impacts on Agency Practice and Procedures; Expects to Issue Further Guidance to Applicants Soon (May 26, 2011), available at <http://www.uspto.gov/news/pr/2011/11-36.jsp>; Revision of the Materiality to Patentability Standard for the Duty To Disclose Information in Patent Applications, 76 Fed. Reg. 43,631, 43,632 (July 21, 2011) [hereinafter “Proposed Rule Amendment”]).
- 487 F.3d 897 (Fed. Cir. 2007). See *Larson Mfg. Co. of South Dakota, Inc. v. Aluminart Prods. Ltd.*, 559 F.3d 1317, 1338 (Fed. Cir. 2009).
- McKesson*, 487 F.3d at 919. Thus, whereas the Federal Circuit had previously held that substantial similarity between the rejected claims of one application and the claims of a copending application is sufficient for the rejection to be material to the prosecution of the copending application, *McKesson* stood for the proposition that a finding of materiality did not require such substantial similarity (*id.*; see *Dayco Prods., Inc. v. Total Containment, Inc.*, 329 F.3d 1358, 1367 (Fed. Cir. 2003)).
- McKesson*, 487 F.3d at 913 (quoting *Akron Polymer Container Corp. v. Exxel Container, Inc.*, 148 F.3d 1380, 1382 (Fed. Cir. 1998) (quotation marks and citation omitted)).
- Therasense*, 2011 WL 2028255, at **1-3.
- Id.* at *2.
- Id.* at *3.
- Id.* at *3.
- Id.* at *4.
- Therasense*, 2011 WL 2028255, at *11.

31. See *id.* at *15.
32. *Id.* at *11.
33. *Id.*
34. See *id.* at *11.
35. *Id.* at *12.
36. See *id.* at *12 (holding that an entire patent should not be stricken down “where the patentee committed only minor missteps or acted with minimal culpability”). See also Posting by Kevin E. Noonan to Patent Docs, <http://www.patentdocs.org/2011/05/therasense-inc-v-becton-dickinson-co-fed-cir-2011.html> (May 25, 2010) (suggesting examples of prior, potentially “minor missteps” which had resulted in findings of inequitable conduct in previous cases).
37. *Therasense*, 2011 WL 2028255, at *12.
38. *Id.* at *14; see 37 C.F.R. § 1.56.
39. *Therasense*, 2011 WL 2028255, at *14 (quoting 37 C.F.R. § 1.56 (b) (1)).
40. See *Therasense*, 2011 WL 2028255, at *14; 37 C.F.R. § 1.56 (b).
41. *Therasense*, 2011 WL 2028255, at *14 (quoting 37 C.F.R. § 1.56 (b) (2)).
42. *Therasense*, 2011 WL 2028255, at *14.
43. See *id.* at *16.
44. *Id.* at *9. See *Mollins PLC v. Textron, Inc.*, 48 F.3d 1172, 1181 (Fed. Cir. 1995).
45. *Therasense*, 2011 WL 2028255, at *10 (“Proving that the applicant knew of a reference, should have known of its materiality, and decided not to submit it to the [US]PTO does not prove specific intent to deceive.”).
46. *Id.* at *10. See *Larson Mfg. Co. of South Dakota, Inc. v. Aluminart Prods. Ltd.*, 559 F.3d at 1340.
47. *Therasense*, 2011 WL 2028255, at *10 (quoting *Star Scientific, Inc. v. R.J. Reynolds Tobacco Co.*, 537 F.3d at 1366).
48. *Therasense*, 2011 WL 2028255, at *10 (quoting *Kingsdown*, 863 F.2d at 873 (emphasis added)).
49. See *Therasense*, 2011 WL 2028255, at *10.
50. *Id.* at *16.
51. *Id.* at *9, *11, *16.
52. *Id.* at *9.
53. See *Exergen Corp. v. Wal-Mart Stores, Inc.*, 575 F.3d 1312, 1328 (Fed. Cir. 2009).
54. See *American Calcar, Inc. v. American Honda Motor Co., Inc.*, 2011 WL 2519503, at *10-*11 (Fed. Cir. 2011).
55. See *Therasense*, 2011 WL 2519503, at *9; Posting by Dennis Crouch to Patently-O, <http://www.patentlyo.com/patent/2010/01/what-does-a-patent-examiner-do-with-900-references.html> (Jan. 28, 2010). See also *eSpeed, Inc. v. Brokertec USA, L.L.C.*, 480 F.3d 1129, 1137 (Fed. Cir. 2007) (materiality established in part by an applicant’s submission of a 1139-page “blizzard of paper” to the USPTO and misrepresenting, as found by the Federal Circuit, that the submission did not contain prior art).
56. See Sheri Qualters, “*Therasense*” a Strong Candidate for High Court Review, *Patent Lawyers Say*, LAW.COM, May 26, 2011, <http://www.law.com/jsp/law/LawArticleFriendly.jsp?id=1202495407647>.
57. See *Therasense*, 2011 WL 2519503, at *14.
58. See Qualters, *supra* note 56; Proposed Rule Amendment, *supra* note 21, at 43,632-43,633 (“While not as inclusive as current § 1.56 (b), the Office expects that the ‘but-for’...standard from *Therasense* will result in patent applicants providing the most relevant information and reduce the incentive for applicants to submit information disclosure statements containing only marginally relevant information out of an abundance of caution.”).
59. See *Therasense*, 2011 WL 2519503, at **1-3.
60. See *McKesson*, 487 F.3d at 919.
61. See Posting by Courtenay Brinckerhoff to PharmaPatents, <http://www.pharmapatentsblog.com/patent-office-practice/revisiting-ids-guidelines-while-youre-at-it/> (June 3, 2011); Posting by Nabeela Rasheed to Orange Book Blog, <http://www.orangebookblog.com/2011/05/therasense-in-this-case-the-court-unabashedly-states-that-it-is-reining-in-inequitable-conduct-because-to-do-so-is-in-the-i.html> (May 25, 2011).

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The Standard of Proof for Trademark Abandonment

By Daniel E. Bonilla

I. Introduction

A trademark owner loses its rights to a mark if it does not use the mark in a consistent and controlled manner. This outcome derives from the mark's purpose, which is to indicate the source or origin of the associated goods or services. If the mark ceases to indicate source or origin, it has ceased to serve the purpose for which the law protects it. As a result, the mark is deemed "abandoned."

Under the Lanham Act, a mark is considered abandoned "(1) [w]hen its use has been discontinued with intent not to resume such use" or "(2) [w]hen any course of conduct of the owner, including acts of omission as well as commission, causes the mark to become the generic name for the goods or services on or in connection with which it is used or otherwise to lose its significance as a mark."¹ Under the first prong, nonuse for three consecutive years constitutes prima facie evidence of abandonment. The second prong covers "naked licensing," which is when a trademark owner fails to exercise adequate control over the licensee's use of its trademark to such an extent that the mark ceases to identify goods or services that the trademark owner originally controlled. Establishing either prong enables a licensee who invokes an abandonment defense to use the trademark and deprives the trademark owner of the power to enforce the mark.

Two recent federal appellate decisions have addressed the appropriate standard of proof for trademark abandonment claims. The Eighth Circuit in *Cnty. of Christ Copyright Corp. v. Devon Park Restoration Branch of Jesus Christ's Church*² held that abandonment must be proved by clear and convincing evidence. In *FreecycleSunnyvale v. The Freecycle Network*³ the Ninth Circuit did not determine the standard of proof but noted that the majority of district courts that have directly addressed the issue have required clear and convincing evidence. Similarly, the Eleventh Circuit avoided deciding the standard, instead holding that the outcome of the dispute before it would be the same whichever standard of proof were applied,⁴ but the court noted that federal courts require a "'stringent,' 'heavy,' or 'strict burden of proof'" to establish abandonment.⁵

By contrast, the Federal Circuit held several years ago that the appropriate standard is preponderance of the evidence.⁶ In the court's view, Congress did not indicate that it intended to raise the standard of proof beyond the preponderance of the evidence standard applicable to normal civil matters. Neither the Second nor the Third Circuit has directly addressed either standard, but both circuits have used language such as "strictly prove,"

"stringent standard," and "high burden" in discussing abandonment.

II. The Eighth Circuit

In *Cnty. of Christ Copyright Corp.*, the Eighth Circuit held that the proper standard of proof for abandonment is clear and convincing evidence.⁷ The case, involving two religious entities, was brought by the Community of Christ Copyright Corp. (COC) in the Western District of Missouri over the use of its trademark RLDS.⁸ The defendant, Devon Park, claimed that COC had abandoned the mark by nonuse. The district court disagreed and granted summary judgment for COC.

The Eighth Circuit affirmed. The court cited multiple examples of COC's continued use of the mark, such as including it on its buildings, podiums, and newsletters. The court found that COC's intention to no longer be identified by the RLDS marks did not rise to the level needed to establish abandonment. The court thus held that Devon Park had failed to show clear and convincing evidence that COC abandoned the RLDS mark.

III. The Ninth Circuit

FreecycleSunnyvale v. The Freecycle Network involved naked licensing and abandonment of a trademark in a not-for-profit context.⁹ Plaintiff FreecycleSunnyvale (FS) was a local affiliate member group of The Freecycle Network (TFN), a national organization that promotes "freecycling."¹⁰ Local activists founded FS without TFN's authority or knowledge, but once TFN learned of the local group, TFN permitted it to use TFN's logo so long as the local group did not use the mark for commercial purposes. Two years later, for reasons that are not clear from the decision, TFN sent the local group cease and desist emails and caused Yahoo! to terminate FS's Yahoo! Group. Shortly thereafter, FS commenced a declaratory judgment action in the Northern District of California. After TFN counterclaimed, FS moved for summary judgment on the issue of naked licensing. The district court granted FS's motion, holding that TFN had abandoned its trademarks via naked licensing.

On appeal, the Ninth Circuit examined previous decisions involving the standard of proof for abandonment and explained that the majority of lower courts that have interpreted "strictly proven" have required clear and convincing evidence. The court did not, however, decide which standard of proof applies in the Ninth Circuit; instead, it noted that the circuit has previously held that a proponent must meet a "stringent standard of proof."¹¹ Avoiding a ruling as to the standard, the court referred to a "clear and convincing evidence" standard in framing the abandonment issue. Ultimately,

the court held that the local group's claim that TFN abandoned its trademark would have succeeded regardless of whether the court applied a preponderance of the evidence standard or a clear and convincing evidence standard.

IV. The Second and Third Circuits

The Second Circuit also has not yet determined whether the standard of proof for abandonment is preponderance of the evidence or clear and convincing evidence. In 1980, however, the court articulated a "strictly proven" standard in *Saratoga Vichy Spring Co., Inc. v. Lehman*,¹² which is often cited by the Second Circuit and New York district courts.

In *Saratoga Vichy Spring*, the plaintiff, a water bottling company, sued both another water bottling company and the State of New York for trademark infringement and other claims. The plaintiff argued, among other things, that it had acquired secondary meaning for the term "Saratoga"¹³ and that the State had abandoned its "Saratoga Geyser" mark, which the State had used for its own water products from 1910 to 1971.¹⁴ The State argued that despite some years of inactivity due to a lack of budget appropriations and litigation with its former distributor, the mark had not been abandoned. The district court agreed and granted summary judgment for the defendants.

On appeal, the Second Circuit stated that "abandonment, being a forfeiture of a property interest, should be strictly proved" and that "the statutory aid to such proof should be narrowly construed."¹⁵ The plaintiff, the court found, had failed to prove nonuse and, as such, the State's mark continued to be valid from a period of time before any possible acquisition of secondary meaning. Three years later in *Warner Bros., Inc. v. Gay Toys, Inc.*, the court briefly noted that a claim for failure to police a trademark must meet a "high burden of proof."¹⁶

Although the Second Circuit has not specified precisely what "strictly proved" or "high burden of proof" require, the Eastern and Southern Districts of New York typically have required clear and convincing evidence.

In the Southern District of New York, *E. Gluck Corp. v. Rothenhaus* involved a defendant who asserted a defense of abandonment against a watchmaker.¹⁷ The plaintiff alleged that the defendant had infringed its "NOW" trademark. In response, the defendant raised an abandonment defense. The court held that a successful abandonment defense requires clear and convincing evidence.¹⁸ While the court noted that additional facts would be needed to prove conclusively whether the plaintiff had abandoned its "NOW" trademark in favor of "Armitron Now," it held that the defendant had failed to prove abandonment by clear and convincing evidence.

Similarly, the Eastern District of New York court in *Fifth Ave. of Long Island Realty Assocs. v. Caruso Mgmt. Co.* explained that a party asserting abandonment must prove the claim by clear and convincing evidence.¹⁹ The court held that the defendant, the owner of a large residential and shopping area, met the standard by showing that the plaintiff, the owner of a shopping center, had abandoned the trademark "Americana" via nonuse over a period of years.

As with the Second Circuit, the Third Circuit also has yet to determine the exact standard for abandonment.²⁰ In *United States Jaycees v. Philadelphia Jaycees*, the court stated that "abandonment, being in the nature of a forfeiture, must be strictly proved," and that a party that brings a claim of insufficient control "must meet a high burden of proof."²¹ The court held that the defendant, a local organization of the national plaintiff organization, had failed to prove abandonment and that the national organization had exercised sufficient control to maintain its trademarks.

More recently, in *Doebler's Pa. Hybrids, Inc. v. Doebler*, the Third Circuit defined naked licensing as the "uncontrolled licensing of a mark whereby the licensee can place the mark on any quality or type of goods or services, raising a grave danger that the public will be deceived by such a usage."²² The court noted that the burden is "high" for a naked licensing theory. Moreover, "[b]ecause naked licensing if established is treated as an abandonment of the trademark, which triggers the loss of trademark rights against the world, anyone attempting to show such abandonment via naked licensing faces a stringent standard of proof."²³ Ultimately, the panel could not conclude as a matter of law that naked licensing occurred; it found that sufficient quality control may have existed based upon the parties' special relationship.

Although the Third Circuit has yet to address the standard directly, a New Jersey district court has. In *Zinn v. Seruga*, the court acknowledged that abandonment must be "strictly proved" and stated that "[e]vidence of abandonment must be clear and convincing."²⁴ The court concluded that the plaintiffs, who claimed the defendant abandoned its "Artoflex" trademark, had failed to provide "credible, clear and convincing evidence in support of their argument."²⁵ The court cited *American Olean Tile Co. v. American Marazzi Tile, Inc.*,²⁶ an Eastern District of Pennsylvania decision in which the court also imposed a "clear and convincing" standard.

An apparent majority of federal district courts that have identified the standard of proof for abandonment corresponding to terms such as "strictly prove" have required clear and convincing evidence.²⁷ Therefore, courts in the Second and Third Circuits, based on the "strictly proven," "high burden of proof," and "stringent standard of proof" formulations, have generally required, at least, more than a mere preponderance of the evidence.

In practice, this likely means that a local licensee or trademark user will have to present a substantial amount of evidence to prove that a national licensor or trademark owner granted a naked license leading to abandonment of a trademark.

V. Conclusion

The standard of proof for abandonment claims is not settled in all jurisdictions. In fact, a circuit split exists between the Federal Circuit and the Eighth Circuit, with the latter adopting the clear and convincing evidence standard. A majority of district courts seem to have required clear and convincing evidence. Despite the Second and Third Circuits not having decided upon one of the stated standards, their lower courts have interpreted language such as “strictly prove,” “stringent standard,” and “high burden” as requiring clear and convincing evidence. Ultimately, the standard of proof required to prove abandonment will likely require a party claiming abandonment to show more than a mere preponderance of the evidence.

Endnotes

1. 15 U.S.C. § 1127 (2006).
2. 634 F.3d 1005, 1010 (8th Cir. 2011).
3. 626 F.3d 509, 515 (9th Cir. 2010).
4. *Cumulus Media, Inc. v. Clear Channel Commcn's, Inc.*, 304 F.3d 1167, 1175 n.12 (11th Cir. 2002).
5. *Id.* at 1175.
6. *Cerveceria Centroamericana, S.A. v. Cerveceria India, Inc.*, 892 F.2d 1021, 1024 (Fed. Cir. 1989); see also *Crash Dummy Movie, LLC v. Mattel, Inc.*, 601 F.3d 1387, 1391 (Fed. Cir. 2010) (also requiring a “challenger to prove abandonment by a preponderance of the evidence”).
7. *Cnty. of Christ Copyright Corp.*, 634 F.3d at 1010 (citing 3 J. McCarthy, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 17:12 (4th ed. 2008)). The court simply cited the treatise without further elaboration when it stated what the appropriate burden of proof was.
8. Both parties use RLDS to reference the Reorganized Church of Jesus Christ of Latter Day Saints.
9. 626 F.3d 509 (9th Cir. 2010).
10. Freecycling involves the recycling of goods by giving unwanted items to others to continue using the items for their intended purpose rather than disposing of the items.
11. *Freecycle sunnyvale*, 626 F.3d at 514. The court also cited two previous Ninth Circuit cases with parentheses that included the “strictly proven” and “high burden of proof” language.
12. 625 F.2d 1037 (2d Cir. 1980).
13. The company’s mineral water came from a spring in Saratoga Springs, N.Y.
14. At some point between 1971 and 1976, the State filed an application for registration of the “Saratoga Geyser” trademark. In 1978, the State provided a private company with a license to sell its water product under the mark “Saratoga Geyser.”
15. *Saratoga Vichy*, 625 F.2d at 1044.
16. *Warner Bros., Inc. v. Gay Toys, Inc.*, 724 F.2d 327, 334 (2d Cir. 1983) (citing *United States Jaycees v. Phila. Jaycees*, 639 F.2d 134, 140 (3d Cir. 1981)).
17. 585 F. Supp. 2d 505 (S.D.N.Y. 2008).
18. *Id.* at 513-14 (citing *Pilates, Inc. v. Current Concepts, Inc.*, 120 F. Supp. 2d 286, 312 (S.D.N.Y. 2000)).
19. 718 F. Supp. 2d 292, 306 (E.D.N.Y. 2010) (citing *Saratoga Vichy*, 625 F.2d at 1044).
20. In an unpublished opinion, the Third Circuit cited a Second Circuit case for the proposition that abandonment requires clear and convincing evidence. *ITT Indus. v. Wastecorp, Inc.*, 87 F. App’x 287, 294 (3d Cir. 2004) (citing *Saratoga Vichy*, 625 F.2d at 1044). Subsequent precedential Third Circuit cases, however, do not state whether the proper standard is preponderance of the evidence or clear and convincing evidence. Also, *Zinn v. Seruga*, 2009 U.S. Dist. LEXIS 89915 (D.N.J. Sept. 28, 2009), a more recent District of New Jersey ruling requiring clear and convincing evidence, cites another district court as opposed to the Third Circuit.
21. 639 F.2d 134, 139, 140 (3d Cir. 1981) (citation omitted).
22. 442 F.3d 812, 823 (3d Cir. 2006) (citation omitted).
23. *Id.* at 824 (quoting *Creative Gifts, Inc. v. UFO*, 235 F.3d 540, 548 (10th Cir. 2000)).
24. No. 05-3572, 2009 U.S. Dist. LEXIS 89915, at *66 (D.N.J. Sept. 28, 2009) (citing *American Olean Tile Co. v. American Marazzi Tile, Inc.*, No. 86-3089, 1988 U.S. Dist. LEXIS 11103, at *17 (E.D. Pa. Oct. 5, 1988)).
25. *Id.*
26. *American Olean Tile Co.*, 1988 U.S. Dist. LEXIS 11103, at *17.
27. See *Freecycle Sunnyvale*, 626 F.3d 509, 515 (9th Cir. 2010) (“Most published lower court decisions that have reached this issue appear to have interpreted the ‘strictly proven’ standard to require ‘clear and convincing’ evidence of naked licensing.”); *EH Yacht, LLC v. Egg Harbor, LLC*, 84 F. Supp. 2d 556, 564-65 (D.N.J. 2000) (describing that the majority of courts have held that “strictly proven” requires proof by clear and convincing evidence).

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Details to follow

L'Oréal v. eBay: Towards a New EU Liability Regime for Online Marketplaces

By Chehrazade Chemcham

I. Introduction

On July 12, 2011 the European Court of Justice (ECJ) rendered its judgment in *L'Oréal SA et al. v. eBay International AG et al.*¹ The ruling is the first in which the ECJ has considered and ruled on issues of “primary” and “secondary” liability of online marketplace operators like eBay. Its significance mirrors that of the Second Circuit in *Tiffany (NJ) Inc. v. eBay, Inc.*² The IP community awaited the decision with trepidation, hoping it would settle many uncertainties regarding the scope of Article 14 of Directive 2000/31 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (“E-Commerce Directive”) and establish whether an online marketplace operator may be liable under EU law for its customers’ infringements. The ECJ did just that and more, as it defined the contours of a new liability regime for online marketplace operators around Article 14 of the E-Commerce Directive and Article 11 of Directive 2004/48 on enforcement of Intellectual Property Rights (the “Enforcement Directive”).

II. Factual Background

In May 2007 L'Oréal sent eBay a letter expressing concern over the widespread infringement of its intellectual property rights on eBay's European websites, including instances of trademark counterfeiting.³ Not satisfied with eBay's response, L'Oréal commenced a formal action in the United Kingdom before the High Court of Justice against eBay and seven individual claimed infringers, asking Justice Arnold to find eBay and the individual defendants jointly liable for the sale of counterfeit products (displaying the AMOR AMOR and LANCOME trademarks) and infringing L'Oréal products (not destined for sale in the European Economic Area (EEA) and offered for sale and sold without any packaging) through www.ebay.co.uk.⁴ L'Oréal also asked the High Court to find eBay directly liable for the use of L'Oréal trademarks, such as SHU UEMURA and MATRIX, on the eBay website and as sponsored links.⁵ In addition, L'Oréal asked the High Court of Justice to grant an injunction against eBay by virtue of Article 11 of the Enforcement Directive, even if eBay were not directly liable for the infringements.⁶

On May 22, 2009, the High Court made a number of findings of fact and concluded that the state of proceedings did not permit a final judgment in the case. Thereafter, on July 16, 2009, the High Court formally stayed the proceedings and referred a number of questions of law to the ECJ for its interpretation.

The issues considered by the High Court were:

- **Are the goods sold by the individual defendants infringing goods?** There were four categories of goods: counterfeits, non-EEA goods, tester/dramming bottles, and unboxed products. The High Court established that counterfeits and non-EEA goods clearly infringed L'Oréal's trademark rights. The Court requested guidance from the ECJ regarding whether the sale of testers or dramming bottles not intended for sale to consumers by the brand owner or unpackaged products infringed L'Oréal's trademark rights, as prior ECJ cases or opinions were not clearly on point.⁷
- **Is eBay jointly liable for any infringements committed by the individual defendants?** The High Court found that, as a matter of domestic common law, eBay was not under any legal duty or obligation to prevent infringement of third parties' intellectual property rights.⁸ The Court qualified this answer, however, by explaining that eBay may come “under such a duty or obligation with regard to future infringements as a result of the operation of Article 11 of the Enforcement Directive.”⁹ Interestingly, Justice Arnold noted that there is nothing in eBay's systems and policies that favors or encourages the list or sale of counterfeit goods, testers and dramming boxes, or unboxed products¹⁰ and that eBay takes active steps to prevent or at least minimize such activities.¹¹
- **Is eBay liable as a primary infringer for use of the L'Oréal trademarks in relation to infringing goods?** Use here encompasses use of L'Oréal trademarks in sponsored links or in connection with the offer for sale and sale of infringing goods. While Justice Arnold explained his position that the display of sponsored links to users should constitute trademark use, he referred the question to the ECJ.¹² He noted that the ECJ's jurisprudence does not clearly establish whether eBay's use of L'Oréal's trademarks constitutes use “in the course of trade.”
- **Does eBay have a defense under Article 14 of “E-Commerce Directive”?** Because there were three pending ECJ references on the proper interpretation of Article 14, the High Court did not spend any time on this issue and referred it directly to the ECJ.¹³

- **Does L'Oréal have a remedy against eBay under Article 11 of the Enforcement Directive?** L'Oréal argued that Article 11 of the Enforcement Directive entitles it to an injunction against eBay to prevent future infringements even if eBay is not liable for direct trademark infringement.¹⁴ The High Court referred this question to the ECJ because there is some uncertainty as to the application of Article 11 against intermediaries.

The ECJ judges are assisted by Advocates-General who prepare written opinions on cases before the Court. Six months before the ECJ answered the High Court's questions in *L'Oréal*, Advocate General (AG) Jaaskinen issued an opinion that ultimately was followed for the most part by the ECJ but not in one major area, i.e., the scope of Article 14 of the E-Commerce Directive and its application to online marketplace operators. The AG concluded that eBay "may well benefit from an exemption [from liability] if the conditions of Article 14 of the [E-Commerce Directive] are satisfied."¹⁵ The AG questioned whether the "neutrality" test applied by the ECJ in prior decisions applies to "hosting activities" covered by Article 14 of the E-Commerce Directive,¹⁶ and he noted that "it would be surreal that if eBay intervenes and guides the contents of listings in its system with various technical means, it would by that fact be deprived of the protection of Article 14 regarding storage of information uploaded by the users."¹⁷

III. The ECJ Decision

A. Does Supplying Demonstration Products Put Them into the Market?

The first question addressed by the ECJ was whether "the supply by the trademark owner of items bearing that mark intended for demonstration to consumers in authorized retail outlets and free samples of products bearing the trademark amount[s] to those goods being put in the market within the meaning of Directive 89/104¹⁸ ('Trademarks Directive') and Regulation No. 40/94¹⁹ ('Community Trademark Regulation')."²⁰ The ECJ held that in the absence of evidence to the contrary, demonstration or sample products supplied to authorized distributors and intended for demonstration to consumers in authorized retail outlets are not put on the market within the meaning of Trademarks Directive and the Community Trademark Regulation.²¹ Thus, because trademark rights are not exhausted when such products are put on market in the European Union by distributors, the trademark owner can object to such sales.

B. Does the Removal of Packaging Infringe L'Oréal Trademarks?

The ECJ next considered whether "the removal of the packaging of goods infringe[s] L'Oréal trademarks and thus entitle[s] L'Oréal to oppose the resale of unpackaged goods."

While the ECJ had previously addressed issues involving repackaged pharmaceutical products and exhaustion of trademark rights, it had never addressed directly the sale of products without any packaging. The ECJ ruled that Article 5 of the Trademarks Directive²² and Article 9 of the Community Trademark Regulation²³ allow trademark owners to oppose the resale of unboxed products on the ground that the person reselling the unboxed products has removed the packaging, such that essential information like the identity of the manufacturer or the person responsible for marketing the product is missing.²⁴ Even if trademark owners cannot establish that removal of the packaging has deprived consumers of important information, the ECJ explained that they may be able to oppose the resale of unboxed products if they can establish that removal of the packaging damaged the image of their products and the reputation of their trademarks.²⁵

C. Is the Sale of Trademarks as Keywords Lawful?

The next question was whether a trademark owner is entitled pursuant to Article 5(1)(a) of the Trademarks Directive and Article 9(1)(a) of the Community Trademark Regulation to prevent an online marketplace operator from advertising on the basis of a keyword that is identical to the brand owner's trademark and that has been selected without the brand owner's consent.²⁶ The ECJ noted that it established in prior cases that use of a keyword constitutes "use in the course of trade."²⁷ It found in *L'Oréal* that a trademark owner is entitled to prevent an online marketplace operator from advertising (on the basis of a keyword that is identical to the owner's trademark) goods bearing that trademark that are offered for sale on that marketplace "where that advertising does not enable reasonably well-informed and reasonably observant internet users, or enables them only with difficulty, to ascertain whether the goods concerned originate from the [trademark owner] or from an undertaking economically linked to the [trademark owner], or on the contrary originate from a third party."²⁸

D. What Law Is Applicable to the Display of Trademarks on an Online Marketplace Operator's Website?

The ECJ next addressed whether the display of signs identical with or similar to trademarks on a marketplace operator's website should be analyzed under the Trademarks Directive and the Community Trademark Regulation. The ECJ noted that offers for sale of trademarked goods on an online marketplace's website inevitably will trigger the display of signs identical or similar to trademarks. Although in such circumstances those signs are used on the website, the ECJ noted that it is "none the less not evident that it is the operator of the online marketplace that is 'using' them within the meaning of the Trademarks Directive and the Community Trademark Regulation." These laws would apply, the ECJ stated, if the operator were to use the identical or similar signs on its own commercial communications. The ECJ noted

that the E-Commerce Directive, in particular Section 4 of Chapter II, which concerns the liability of intermediary service providers in electronic commerce, applies in this context.²⁹ The ECJ thus held that “the operator of an online marketplace does not use, for the purpose of Article 5 of the [Trademarks Directive] or Article 9 of [the Community Trademark Regulation], signs identical with or similar to trademarks which appear in offers for sale displayed on its website.”³⁰

E. Is the Operator of an Online Marketplace a “Host” Under Article 14(1) of the E-Commerce Directive?

The next issue was whether the service provided by the operator of an online marketplace is covered by Article 14(1) of the E-Commerce Directive and, if so, in what circumstances the operator of an online marketplace may be found to have “awareness” of infringing content within the meaning of Article 14(1) of the E-Commerce Directive.³¹ Article 14 provides:

1. Where an information society service is provided that consists of the storage of information provided by a recipient of the service, Member States shall ensure that the service provider is not liable for the information stored at the request of a recipient of the service, on condition that:

(a) the provider does not have actual knowledge of illegal activity or information and, as regards claims for damages, is not aware of facts or circumstances from which the illegal activity or information is apparent; or

(b) the provider, upon obtaining such knowledge or awareness, acts expeditiously to remove or to disable access to the information.

2. Paragraph 1 shall not apply when the recipient of the service is acting under the authority or the control of the provider.

3. This Article shall not affect the possibility for a court or administrative authority, in accordance with Member States’ legal systems, of requiring the service provider to terminate or prevent an infringement, nor does it affect the possibility for Member States of establishing procedures governing the removal or disabling of access to information.

The ECJ noted that a service provider does not fall within the scope of Article 14 if the provider, “instead

of confining itself to providing that service neutrally by merely technical and automatic processing of the data provided by its customers, plays an active role of such a kind as to give it knowledge of, or control over, those data.”³² While the ECJ noted that eBay not only processes data entered by “customers-sellers, but also provides at times assistance intended to optimize or promote certain offers for sale, it directed the High Court to determine based on the facts before it whether eBay took a “neutral” position between the “customer-seller” and “potential buyers.”³³

Should the High Court establish that eBay took a neutral approach, eBay would be covered by Article 14 of the E-Commerce Directive. Once it is determined that Article 14 applies to eBay, the High Court would then have to determine whether eBay is exempt from liability under Article 14(1)(a) and (b) of the E-Commerce Directive.³⁴

A service provider covered by Article 14 will be exempt from liability if

- (1) it “has not had ‘actual knowledge of illegal activity or information’ and
- (2) as regards to claims for damages, it has not been “aware of facts or circumstances from which the illegal activity or information is apparent,” or
- (3) having obtained such knowledge or awareness, it has acted expeditiously to remove, or disable access to, the information.”³⁵

The ECJ directed the High Court to consider whether eBay has, in relation to the offers for sale at issue in the case, been “aware of facts or circumstances from which the illegal activity or information is apparent.”³⁶

In sum, regarding defenses against ISP liability, the ECJ held:

- Article 14 applies to “the operator of an online marketplace where that operator has not played an active role allowing it to have knowledge or control of the data stored.”³⁷
- The operator “plays such a role when it provides assistance which entails, in particular, optimizing the presentation of the offers for sale in question or promoting them.”³⁸
- Even if an operator has not played an active role as described above and, thus, would fall within the scope of Article 14 of the E-Commerce Directive, such an operator “cannot, in a case which may result in an order to pay damages, rely on the exemption from liability provided for in that provision if it is aware of facts or circumstances on the basis of which a diligent economic operator *should have realized that the offers for sale in question were unlawful* and, in the event of it being so aware, failed to act

expeditiously in accordance with Article 14(1)(b) of [the E-Commerce Directive].”³⁹

F. Must Member States Ensure Preventative Measures?

The next issue was whether Article 11 of the Enforcement Directive requires Member States to “ensure that the operator of an online marketplace may, regardless of any liability of its own in relation to the facts at issue, be ordered to take, in addition to measures aimed at bringing to an end infringements of intellectual property rights brought about by users of its services, measures aimed at preventing further infringements of that kind.”⁴⁰ Article 11 provides:

Member States shall ensure that, where a judicial decision is taken finding an infringement of an intellectual property right, the judicial authorities may issue against the infringer an injunction aimed at prohibiting the continuation of the infringement. Where provided for by national law, non-compliance with an injunction shall, where appropriate, be subject to a recurring penalty payment, with a view to ensuring compliance. Member States shall also ensure that rightholders are in a position to apply for an injunction against intermediaries whose services are used by a third party to infringe an intellectual property right, without prejudice to Article 8(3) of Directive 2001/29/EC.

The question referred by the High Court concerned the last sentence of Article 11. The ECJ first noted that an “injunction aimed at prohibiting the continuation of the infringement” has a different meaning than an injunctions against intermediaries.⁴¹ The ECJ also noted that since the United Kingdom has not yet adopted specific rules to implement the third sentence of Article 11, the High Court, when applying national law, will have to do so in light of the wording and purpose of the third sentence.⁴²

The ECJ held that Member States have to ensure that national courts are able to order the operator of an online marketplace to take measures that contribute not only to bringing to an end infringements of those rights by users of that marketplace but also to preventing further infringements of that kind.⁴³

In terms of measures that can be imposed, the ECJ laid out the following principles:

- The measures cannot consist in an active monitoring of all the data of each of its customers.⁴⁴
- The measures cannot create barriers to legitimate trade.⁴⁵ The ECJ noted that injunctions cannot have

as their “object or effect a general and permanent prohibition on the selling, on that marketplace, of goods bearing those trade marks.”⁴⁶

- The measures imposed must strike “a fair balance between the various rights and interests” of the public, the rights holder, and the online marketplace operator.⁴⁷
- Injunctions must be effective, proportionate, dissuasive, and must not create barriers to legitimate trade.⁴⁸

According to the ECJ the following would be acceptable injunctions:

- Injunctions to suspend perpetrator’s accounts.⁴⁹
- Injunctions forcing the online marketplace operator to make it easier to identify its customers-sellers.

IV. Conclusion

The ECJ decision should allow the High Court to render a final decision in the dispute between L’Oréal and eBay. Besides the direct impact the decision will have on the case before the High Court, the decision also will have an impact on future or pending cases before European Union national courts involving keywords, testers, un-packaged products, and marketplace operators’ liability. The most significant aspects of the decision would seem to be (1) the extent to which the “hosting services’ defense” available under Article 14 of the E-Commerce Directive applies to online marketplaces like eBay and (2) the recognition that courts can seek to prevent future infringements by directing online marketplaces to take specific measures.

While in the United States Second Circuit established in the *Tiffany* case that eBay’s “generalized knowledge” infringement is not sufficient to impose liability on eBay for its customers’ infringing activities, it seems that such “generalized knowledge” or “awareness” could potentially expose eBay to liability in the European Union. The ECJ decision clearly widens the gap between American and European approaches to the enforcement of intellectual property rights on online marketplaces, leaving us to wonder how eBay will respond to this divergence in liability standards given that its business is global in nature and counterfeiting a cross-border phenomenon.

Endnotes

1. Case No. C-324/09.
2. 600 F.3d 93 (2d. Cir. 2010).
3. Case No. C-324/09 at ¶ 32.
4. See *id.* at ¶¶ 33-37.
5. *Id.* ¶¶ 38-42.
6. *Id.* ¶ 43.

7. Case No. HC07C01978, *L’Oreal S.A. et al. v. Ebay International AG*, [2009] EWHC 1094 (Ch), ¶¶ 307-341.
8. *See id.* ¶¶ 343-82.
9. *Id.* at ¶ 375.
10. *Id.* at ¶¶ 377, 378, 379.
11. *Id.* at ¶ 377.
12. *Id.* at ¶¶ 383-425.
13. *Id.* at ¶¶ 433-43.
14. *Id.* at ¶ 444-65.
15. Case C-324/09, AG Opinion of 9 December 2010, ¶ 151.
16. *Id.* at ¶¶ 138-42, 146.
17. *Id.* at ¶ 145.
18. Directive 89/104/EEC of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Marks.
19. Council Regulation (EC) No 40/94 of 20 December 1993 on the Community Trade Mark.
20. Case No. C-324/09, at ¶ 69.
21. *See id.* at ¶¶ 72-73.
22. Article 5 of the Trademarks Directive provides:

“1. The registered trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:

(a) any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered;

(b) any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark and the sign, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the trade mark.

2. Any Member State may also provide that the proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade any sign which is identical with, or similar to, the trade mark in relation to goods or services which are not similar to those for which the trade mark is registered, where the latter has a reputation in the Member State and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.

3. The following, inter alia, may be prohibited under paragraphs 1 and 2:

(a) affixing the sign to the goods or to the packaging thereof;

(b) offering the goods, or putting them on the market or stocking them for these purposes under that sign, or offering or supplying services thereunder;

(c) importing or exporting the goods under the sign;

(d) using the sign on business papers and in advertising.”
23. Article 9 of the Community Trademark Regulation provides: “A Community trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:

* * *

(c) any sign which is identical with or similar to the Community trade mark in relation to goods or services which are not similar to those for which the Community trade mark is registered, where the latter has a reputation in the Community and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the Community trade mark.”
24. Case No. C-324/09 at ¶ 83.
25. *Id.*
26. *Id.* at ¶ 86.
27. *Id.* at ¶ 87(citing Joined cases C-236/08 to C-238/08, *Google France and Google* [2010] ECR I-0000, ¶¶ 51 and 52 and Case C 278/08 *BergSpetche* [2010] ECR I-0000, ¶18).
28. *Id.* at ¶ 97.
29. *Id.* at ¶ 104.
30. *Id.* at ¶ 105.
31. *Id.* at ¶ 106.
32. *Id.* at ¶¶ 112-13.
33. *Id.* at ¶¶ 114-16.
34. *Id.* at ¶ 118.
35. *Id.* at ¶ 119.
36. *Id.* at ¶ 120.
37. *Id.* at ¶ 123.
38. *Id.*
39. *Id.* at ¶ 124 (emphasis added).
40. *Id.* at ¶ 127.
41. *Id.* at ¶ 128.
42. *Id.* at ¶ 137.
43. *Id.* at ¶ 144.
44. *Id.* at ¶ 139 (citing Article 15(1) of the E-Commerce Directive and Article 2(3) of the Enforcement Directive).
45. *Id.* at ¶ 140 (citing Article 3 of the Enforcement Directive).
46. *Id.* at ¶ 140.
47. *Id.* at ¶ 143.
48. *Id.* at ¶ 144.
49. *Id.* at ¶ 141.

**Chehrazade Chemcham is Co-Chair of the Section’s
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SCHEDULE OF EVENTS

Thursday, October 20

- 4:00 – 6:00 pm **General Registration** – Hotel Lobby
- 6:00 – 7:30 pm **Cocktail Reception** – Boathouse Row
Join us for cocktails and hors d'oeuvres. Dinner is on your own.

Friday, October 21 *All Sessions will be held in the Grand Ballroom*

- 7:00 – 9:30 am **"Express" Breakfast Buffet for Rittenhouse Hotel Guests** – Lacroix Restaurant
Tickets distributed at Hotel Check-in.
- 9:00 am - 12:30 pm **Free time to explore Philadelphia**
- 9:00 am – 12:30 pm **General Registration** – Hotel Lobby
- 12:30 – 2:00 pm **Buffet Lunch** – Mary Cassatt Lounge
- 1:30 - 2:00 pm **MCLE Sign-in and Registration** – Grand Ballroom East Foyer
- 2:00 - 5:20 pm **GENERAL SESSION** – Grand Ballroom
- 2:00 – 2:15 pm **Welcome & Introductory Remarks**
Paul M. Fakler, Esq., Intellectual Property Law Section Chair
Arent Fox LLP
New York, NY
- Program Chairs**
Marc A. Lieberstein, Esq.
Kilpatrick Townsend & Stockton LLP
New York City
- Douglas A. Miro, Esq.**
Ostrolenk Faber LLP
New York City
- 2:15 – 3:30 pm **MAXIMIZING MONETARY RECOVERY IN TRADEMARK CASES**
The Founding Fathers would marvel at the millions of dollars being awarded in recent trademark cases. Our distinguished panel of outside and in-house counsel, along with an expert in trademark damages, take us through the best practices for maximizing your monetary recovery in trademark cases, including an inside look at *adidas v. Payless*, the largest trademark infringement verdict ever rendered.
- Panelists:** **R. Charles Henn, Jr., Esq.**, Kilpatrick Townsend & Stockton LLP, Atlanta
 Daryl Martin, MSc, CLP, IPmetrics, San Diego
 Sara Vanderhoff, Esq., Associate General Counsel, adidas, Portland

SCHEDULE OF EVENTS

Friday, October 21, *Continued*

- 3:30 – 4:30 pm** **A VIEW FROM THE COPYRIGHT OFFICE**
Hear from the newly appointed 12th Register of Copyrights and Director of the United States Copyright Office.
- Speaker:** **Maria A. Pallante, Esq.**, Register of Copyrights, United States Copyright Office
- 4:30 – 4:40 pm** **Coffee Break** – Grand Ballroom East Foyer
- 4:40 – 5:40 pm** **PENGUIN V. AMERICAN BUDDHA: DID THE FOUNDING FATHERS CONTEMPLATE NATIONWIDE JURISDICTION BASED SOLELY ON WEBSITE ACCESS?**
Join in a moderated discussion about the impact of the recent New York Court of Appeals *Penguin v. American Buddha* decision on the scope of personal jurisdiction in copyright cases in New York, and its potential application to other areas of intellectual property.
- Moderator:** **Stephen W. Feingold, Esq.**, Kilpatrick Townsend & Stockton LLP, New York City
Panelists: **Paul M. Fakler, Esq.**, Arent Fox LLP, New York City
 Hon. Noel Hillman, United States District Court Judge, District Court of New Jersey
- 7:00 – 10:00 pm** **Children's Dinner** – Boathouse Row
Drop off your children for dinner, crafts, games and fun. **Pre-registration required.**
- 7:00 – 8:00 pm** **Cocktail Reception** – Cassatt Tea & Garden Room
Reception Sponsored by: ARENT FOX LLP
- 8:00 – 10:00 pm** **Dinner** – Cassatt Lounge
Dinner Wine Sponsored by: KILPATRICK TOWNSEND & STOCKTON LLP

Saturday, October 22 *All Sessions will be held in the Grand Ballroom*

- 7:00 – 9:30 am** **"Express" Breakfast Buffet for Rittenhouse Hotel Guests** – Lacroix Restaurant
Tickets distributed at Hotel Check-in.
- 8:30 am** **Registration and Coffee** – Grand Ballroom East Foyer
- 9:10 am – 12:15 pm** **GENERAL SESSION** – Grand Ballroom

SCHEDULE OF EVENTS

Saturday, October 22, *Continued*

- 9:10 – 10:25 am** **THE FIGHT AGAINST COUNTERFEITING IN THE 21ST CENTURY**
What would our Founding Fathers think of the problems we face today in the never ending battle against counterfeits? Our distinguished panel will discuss the latest enforcement techniques, protection mechanisms, and their impact (or lack thereof).
- Panel Chair:** **Barbara Kolsun, Esq.**, Executive Vice President/General Counsel, Stuart Weitzman, New York City
- Panelists:** **William B. Belmont, Esq.**, The Belmont Group, New York City
Suzanne White, Esq., Senior Counsel, COACH, Inc., New York City
Andrea M. Sharrin, Esq., Deputy Chief, Computer Crime and Intellectual Property Section, Criminal Division, United States Department of Justice
Kathleen McGee, Director, Mayor's Office for Special Enforcement, New York City
- 10:25 – 10:35 am** **Coffee Break** – Grand Ballroom East Foyer
- 10:35 – 11:25 am** **THE BUSINESS OF PRACTICING LAW**
Would our Founding Fathers have adopted the billable hour? A look at the changing practice of law and how to best serve your clients.
- Panelists:** **Marcie L. Borgal Shunk**, Principal, The BTI Consulting Group, Inc., New York City
Anil V. George, Esq., Senior Intellectual Property Counsel, NBA Properties, New York City
- 11:25 am – 12:15 pm** **INEQUITABLE CONDUCT IN THE UNITED STATES:
AN UPDATE ON THE NEW ETHICAL STANDARDS**
The panel will discuss the impact of the recent cases *Therasense v. Becton, a* and *In re Bose*, including how those cases, along with the current U.S.P.T.O. ethical rules, effect an attorney's ethical obligation to disclose information to the U.S.P.T.O. and/or in litigation.
- Panelists:** **Patents: Robert C. Faber, Esq.**, Ostrolenk Faber LLP, New York City
Trademarks: Glenn Gundersen, Esq., Dechert LLP, Philadelphia
- 12:15 – 1:20 pm** **Attorney's Buffet Lunch** – Mary Cassatt Lounge

SCHEDULE OF EVENTS

Saturday, October 22, *Continued*

- 1:25 – 2:40 pm** **PATENT LAW REFORM: WOULD OUR FOUNDING FATHERS APPROVE?**
Hear from all sides of the issue on whether Patent Law Reform will make a difference, who will benefit, and whether it advances the Arts and Sciences as our Founding Fathers envisioned all those years ago.
- Moderator:** **Douglas A. Miro, Esq.**, Ostrolenk Faber LLP, New York City
Panelists: **David Kappos, Esq.**, Director, United States Patent and Trademark Office
 David L. Marcus, Esq., V.P., Deputy General Counsel and Chief Patent Counsel, Comcast Cable Communications, Inc., Philadelphia
 Patrick Raymond, MBA, Founder, Inventor's Association of Manhattan and www.myinventionscore.com, New York City
 Louis Lagler, Esq., Rentsch Partners Ltd., Switzerland
- 2:45 – 2:55 pm** **Coffee Break** – Grand Ballroom East Foyer
 Sponsored by: HISCOCK & BARCLAY, LLP
- 2:55 – 3:45 pm** **BRAND EXPANSION AND CONSUMER TRENDS OUR FOUNDING FATHERS COULD NEVER HAVE IMAGINED!**
Our experienced panel will examine how brand owners can expand the scope of their brands, including the latest in licensing, business and consumer trends, as well as new ways to market and promote consumer products.
- Panelists:** **Florian Peter**, CEO, CScout Inc., New York City
 Jacqueline M. Lesser, Esq., Woodcock Washburn LLP, Philadelphia
- 3:45 pm** **Free time to explore Philadelphia**
- 6:30 – 7:30 pm** **Cocktail Reception in the Space Command Center at the Franklin Institute**
 Sponsored by: THOMSON COMPUMARK
Children's hands-on activities include making Alka Seltzer Bottle Rockets and "Slime."
Meet in the Hotel Lobby at **6:15 pm sharp** to walk to the Franklin Institute.
- 7:30 – 9:00 pm** **Dinner in the Fels Planetarium at the Franklin Institute**
Join us for dinner on our final evening.

Sunday, October 23

- 7:00 – 9:30 am** **Plated Breakfast *for Rittenhouse Hotel Guests*** – Lacroix Restaurant
 Tickets distributed at Hotel Check-in.
- 1:00 pm** **Hotel Check-Out**



We wish to express special thanks to our
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Trade Winds

Trade Winds offers Section members a way to keep up on the comings and goings of their colleagues and upcoming events of interest. Has there been a change in your practice? Any recent or forthcoming articles or lecture presentations? Won any awards recently? Please e-mail submissions to Jonathan Bloom at jonathan.bloom@weil.com.

Section Chair Paul Fakler has launched a copyright blog, "Title 17: The S(c)ite for Copyright Law." The blog is devoted to news, analysis, and discussion relating to copyright law and may be found at <http://www.title17.net>.

Welcome New Members:

Kristin Anderson
Natalia Azava
Barbara A. Bablenis
Amanda Marie-frances Bakale
Allen Deepak Bass
Chad T. Baum
Melissa Beth Berger
Marlynne Bidos
Michael Lloyd Binns
Anne Marie Bowler
Robin Noel Brenner
Elina Brodskaya
Stephanie A. Bugos
Claudio Buttitta
Salvatore Frank Calcagno
Rhina Margarita Cardenal
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Kathryn Feiereisel
Rayna Sara Feldman
Kenneth Paul Ferreyro
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Christopher T. Gassett
Yijun Ge
Jackson P. Gerber
Steven Gerber
Ali N. Glaser

Peter Glass
Jacquelyn Glick
Gabriel David Gold
Elysa B. Goldberg
Margarita Golden
Daniel Ross Goodman
Robert Laurence Greenberg
Neal S. Greenfield
Dondre D. Greenhouse
Samuel A. Griffel
David Hao Guo
Mario Jose Gutierrez
Elias Leonid Hantula
David Moffat Harris
John V. Hodge
Kimberly D. Hoffman
Steven Hoffman
Justin Luther Holt
Andrew David Howse
Rachel Elizabeth Hundley
Divya Jayachandran
Mark G. Johnston
Sarah D. Katz
Morgan Rucker Kennedy
Tafiya T. Khan
Housheng Ko
Adam E. Kraidin
Katherine Leviton Kriegman
Chien-ting Kuo
Moira Schneider Laidlaw
Jessica B. Lee
Juwon Lee
Lisa Lee
Sharon Lee
Ashley Levitt
Jonathan Longobardi
Lorna Lowe
Margaret Grace Mastrodonato
Jamison Tyler Mazey
Wayne McNulty
Victoria Anne Carmel Mercer
Stephen a. Mick
Jason B. Mollick
Kathleen Gard Moriarty
James H. Neale
Kenneth Brian Nicholds

Anthony Nigro
Jennifer Lauren O'Connell
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Julianna Orgel
James Thomas Osborne
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Darius Samerotte
Diana Gladys Santos
Ivan A. Saperstein
Brian Jason Sapir
Reza Sarbakhsh
Daniel Eli Schlossberg
Erika Vanessa Selli
Anirban Sen
Nupur Shah
James Daniel Shead
Rupangini Singh
Elina Slavin
Jeremy Slotnick
Kyung-Han Sohn
Gabriela Staber
Jamie L. Stroud
Roger S. Thompson
Brian L. Tremer
Vladimir Tsirkin
Navdeep Kaur Tucker
Lindsey Elise Utrata
Rodrigo Nicolas Valle
John Colby Van Horn
Nicholas B. Vislocky
Jordan L. Walbesser
Jessica Walch
Mary Gormley Waldron
Megan Haley Wantland
Hadas Weisman
Barton J. Weiss
Nili Wexler
Adam Lowell Yokell
Shan Zhong

MEMBERSHIP APPLICATION

New York State Bar Association

INTELLECTUAL PROPERTY LAW SECTION

Membership in the New York State Bar Association's Intellectual Property Law Section is a valuable way to:

- enhance professional skills;
- keep up-to-date with important developments in the legal profession;
- join colleagues in exciting Section events.

OPPORTUNITIES FOR EDUCATION

The Intellectual Property Law Section offers both the experienced and novice practitioner excellent opportunities to enhance their practical and legal knowledge and expertise. Through Section activities, including conferences on intellectual property (an annual Winter event), members may examine vital legal developments in intellectual property law. The Section's Web site provides current information regarding Section events and offers "members only" access to current issues of *Bright Ideas* and current Committee bulletins providing updates on intellectual property law. The Section sponsors continuing legal education (CLE) credit-bearing programs for Section members at reduced rates. Recent programs offered by the Section related to computer software and biotechnology protection, conducting intellectual property audits, and practical considerations in trade secret law. Now, with Mandatory Continuing Legal Education (MCLE) requirements, Intellectual Property Law Section membership is more valuable than ever before! The Section also sponsors joint programs with Law Schools including an annual writing contest for law students wherein the winning articles appear in an issue of *Bright Ideas*.

OPPORTUNITIES FOR PROFESSIONAL DEVELOPMENT

Intellectual Property Law Section committees address unique issues facing attorneys, the profession and the public. The Section offers opportunities to serve on committees such as Copyright Law; Diversity Initiative; Ethics; Greentech; International IP Law; Internet & Technology Law; Legislative/Amicus; Litigation; Meetings and Membership; Patent Law; Pro Bono and Public Interest; Trademark Law; Trade Secrets; Transactional Law; and Young Lawyers.

Committees allow you to network with other attorneys from across the state and give you the opportunity to research issues and influence the laws that can affect your practice. Committees are also an outstanding way to achieve professional development and recognition. Law students are automatically members of the Young Lawyers Committee. Section members may join more than one committee.

A VOICE IN THE ASSOCIATION

The Intellectual Property Law Section takes positions on major professional issues that affect practitioners and advocates those positions within the New York State Bar Association, the legislature, and the public.

See page 30 to become a member of the Intellectual Property Law Section

COMMITTEE ASSIGNMENT REQUEST

Please designate, from the list below, those committees in which you wish to participate. For a list of Committee Chairs and their e-mail addresses, please refer to page 31 of this issue.

- | | |
|----------------------------------------------------------------------------|-----------------------------------------------------------------|
| <input type="checkbox"/> Copyright Law (IPS1100) | <input type="checkbox"/> Litigation (IPS2500) |
| <input type="checkbox"/> Diversity Initiative (IPS2400) | <input type="checkbox"/> Patent Law (IPS1300) |
| <input type="checkbox"/> Ethics (IPS2600) | <input type="checkbox"/> Pro Bono and Public Interest (IPS2700) |
| <input type="checkbox"/> Greentech (IPS2800) | <input type="checkbox"/> Trademark Law (IPS1600) |
| <input type="checkbox"/> International Intellectual Property Law (IPS2200) | <input type="checkbox"/> Trade Secrets (IPS1500) |
| <input type="checkbox"/> Internet and Technology Law (IPS1800) | <input type="checkbox"/> Transactional Law (IPS1400) |
| <input type="checkbox"/> Legislative/Amicus (IPS2300) | <input type="checkbox"/> Young Lawyers (IPS1700) |

Please e-mail your committee selection(s) to Naomi Pitts at: npitts@nysba.org

* * *

To be eligible for membership in the Intellectual Property Law Section, you first **must** be a member of the NYSBA.

- ☐ As a member of the NYSBA, I enclose my payment of \$30 for Intellectual Property Law Section dues.
(Law student rate: \$15)
- ☐ I wish to become a member of the NYSBA and the Intellectual Property Law Section. I enclose both an Association and Section application with my payment.
- ☐ Please send me a NYSBA application. No payment is enclosed.

Name _____

Office _____

Office Address _____

Home Address _____

E-mail Address _____

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Office Fax No. _____

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Please return payment and application to:

Membership Department
New York State Bar Association
One Elk Street
Albany, New York 12207
Telephone: 518/487-5577
FAX: 518/487-5579
<http://www.nysba.org/membership>

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The Intellectual Property Law Section encourages members to participate in its programs and to contact the Section Officers or Committee Chairs for information.

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Anyone wishing to submit an article, announcement, practice tip, etc., for publication in an upcoming issue of *Bright Ideas* is encouraged to do so. Articles should be works of original authorship on any topic relating to intellectual property. Submissions may be of any length.

Submissions should preferably be sent by e-mail to Jonathan Bloom, Editor-in-Chief, at the address indicated on this page. Submissions for the Winter 2011 issue must be received by October 15, 2011.

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