

## The Pursuit of Counterfeiting

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with which that control can be exercised, and which affirmative steps have been taken to exercise that control.<sup>29</sup> Some courts, particularly in the United States, hesitate to interfere with online marketplaces because of their contributions to the economy. They leave the onus on the trademark owners to police their marks against counterfeiters.<sup>30</sup> Others, by contrast, are disappointed with the Internet's contribution to an online marketplace filled with pirated products.<sup>31</sup> These courts maintain that an ISP's failure to implement effective anti-counterfeiting measures is tantamount to encouraging such activity and to allowing the counterfeiters to profit from their infringement of the rights of genuine brand owners.<sup>32</sup>

**Despite the United States' strong statutory stance in favor of aggressively punishing counterfeiters, the offenders have become harder to find and almost impossible to punish.**

In the end, these myriad approaches to bringing counterfeiters and their abettors to justice create confusion and inconsistency. Despite the United States' strong statutory stance in favor of aggressively punishing counterfeiters, the offenders have become harder to find and almost impossible to punish. Consequently, counterfeiting — the worst and most flagrant form of trademark infringement — increases exponentially each year.

Even more troubling is that lawmakers do not understand where solutions lie to combat counterfeiting and piracy in the modern digital age. Previous legislative efforts tried to entrap the entire Internet, threatening the public with censorship, loss of due process, compromised Internet security and worse.<sup>33</sup> Perhaps due to these inefficacies in the legal regime against counterfeiters, trademark

owners continue to turn to various forms of self-help, most prominently cease-and-desist letters and takedown notices of trademark-infringing content. If data from the copyright realm is any indication, however, these methods offer little in the way of permanent rectification against counterfeiters and are only as effective as the ISPs that process them.<sup>34</sup>

Thus far, the world remains bleak for trademark owners. Is there hope for a genuine solution on the horizon to the counterfeiting epidemic, or will the next proposal to combat counterfeiting be another fake? ♦

See endnotes on page 10.



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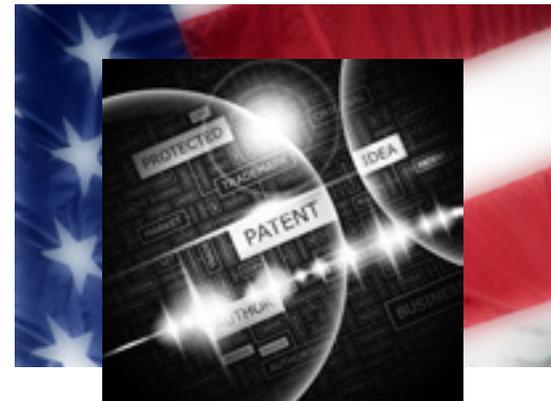
## Inter Partes Review: Three Years Later and the Difference Is?

*By Anthony S. Volpe, Dionne D. Heard and Steven M. Landolfi*

President Obama signed the Leahy-Smith America Invents Act (AIA), the complex overhaul of the patent system, into law on Sept. 16, 2011. A year later, a suite of post-grant proceedings went into effect. They provided new streamlined and expedited processes for challenging issued patents. These proceedings included *Inter Partes* Review (IPR), Post-Grant Review (PGR) and a transitional review program for covered business methods (CBM). Of the three new procedures, the IPR seems to have had the most significant effect on the legal landscape.

As of September 2015, there were more than 3,500 IPR petitions filed representing approximately 90% of the total filings.<sup>1</sup>

Congress envisioned that the IPR would be a quicker and more efficient way to combat “unwarranted litigation costs and inconsistent damage awards” by providing an alternative route to defending against patent infringement.<sup>2</sup> To this end, Congress created the Patent Trial and Appeals Board (PTAB) and assigned it the task of overseeing the IPRs. The PTAB decides whether to institute an IPR based on “prior art



consisting of patents or printed publications,” and its review is limited to claims that could be raised under §102 or §103.3.

The current consensus appears to be that IPRs are a more efficient and favorable route for an accused or potential infringer to defend against claims

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(or potential claims) of patent infringement. A party accused of infringement can file an IPR petition, assuming that it has the necessary prior art, as an alternative to a declaratory judgment complaint in an attempt to convince the PTAB to cancel all or some of the patent claims. One immediate procedural advantage is that the claims do not benefit from a presumption of validity in an IPR. The claims are construed under the “broadest reasonable interpretation” standard and the petitioner does not have to meet the clear and convincing standard applied in litigation.<sup>4</sup> Additionally, the IPR process is likely to be much shorter in duration than a declaratory judgment action. If instituted, the IPR is about a 12-18 month process.<sup>5</sup> The IPR process is also streamlined through limited discovery and testimony. Since there is no vehicle for damages, the process is focused only on patentability.

The creation of the IPR procedure was driven in no small part by what was seen as a way to slow the rise of the non-practicing entity (NPE), and the perceived surplus of litigation caused by NPEs asserting patents. The definition of an NPE is itself a complicated topic. For this discussion, an NPE is an entity, such as a company, university or individual, which is enforcing a patent that it is not actively commercializing through the sale of a protected product. In many cases, the asserted patent is a purchased right and the NPE merely agglomerates patents without ever developing the technology or employing it in a product.

Recent statistics published by the USPTO support the conclusion that the implementation of the IPR has been successful for defendants. Even including instances in which the IPR was dismissed or the case was settled,

the PTAB has instituted a trial regarding at least one claim in 48% of IPR petitions. All instituted claims were found to be unpatentable in 72% of the cases that reached a final written decision. Only 8% of final written decisions have resulted in no instituted claims being found to be unpatentable.<sup>6</sup> These figures provide some insight into what has been the fate of NPE-owned patents. According to one recent article, IPRs challenging NPE-owned patents appear more likely to be instituted and, on average, are instituted for a larger number of challenged claims.<sup>7</sup>

Based on these statistics, one can reasonably argue that IPRs have had a positive effect on the patent system and are helping to rein in NPEs. They are providing an opportunity for defendants to combat NPE allegations of patent infringement without lengthy litigation proceedings and at a lower cost. NPE patents are being centrally reviewed while trials against many defendants are stayed.

A question remains, however, regarding whether a negative effect on NPEs is a positive effect in general. Although many view NPEs broadly and paint all non-practicing entities as trolls, this view fails to consider the positive effects that some entities, like university research entities and teaching hospitals, can receive from enforcement to provide funding for additional research. With respect to those NPEs who purchase patents with an eye toward enforcement, they are more likely to have done due diligence to justify their investment and the likelihood of receiving a reasonable return on the investment. If this is the case, the NPE investment vindicates the initial research venture, confirms that the resulting technology has value, and provides additional funding. Accordingly, the purchasing NPE provides a market for patent rights that foster

research by entities that never intended to commercialize the invention. Thus, NPEs create opportunities (perhaps the only opportunities) for non-manufacturing patentees to monetize their patents. These factors indicate that the IPR process should not be judged exclusively on its effect on NPEs.

Additional questions spring from whether the IPR statistics actually indicate a negative effect on NPEs. In some cases, the NPE fully expects the assertion of a patent to result in an almost knee-jerk reaction to filing an IPR. However, this knee-jerk reaction may actually benefit the NPE. For one, the IPR may provide the best prior art against the asserted patents and a successful defense of the patent(s) in the IPR can strengthen the patents market position while also establishing an estoppel against assertion of the same art in litigation. While the limitations on prior art available in an IPR may mean that the patent challenger can supplement the matter in court and overcome the estoppel, the estoppel remains a strong negotiating point for the NPE in licensing talks.

Another consequence of the IPR may benefit the NPE. Since many NPEs engage contingent fee counsel, the prospect of having an early read on the potential prior art and the patentability of the patent can be attractive to counsel considering taking the contingent case. The limited nature of the IPR means less resources are spent on getting the PTAB's view of the patent and there is the possibility of an improved licensing position. Contingent fee counsel also benefits from secondary “knee-jerk” reaction by the petitioner requesting a stay, which limits the litigation effort for the NPE and contingent fee counsel. Thus, it is not clear that the targeted NPEs have been as severely impacted as originally expected.

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Even outside of the NPE realm, it is difficult to assess the benefits of the IPR because the AIA is a multifaceted law with many interwoven and competing factors that are influencing the resulting practices and outcomes. Further, some issues may have been unforeseeable at the time the AIA was contemplated. For example, some IPRs, usually related to pharmaceutical patents, have been filed as a way to influence stock prices and benefit from short selling tactics.<sup>8</sup> It is also difficult to predict the effect that the law will continue have in the future, especially given that there have been recent decisions (e.g., regarding subject matter eligibility<sup>9</sup> and the standard for awarding attorney's fees to a prevailing party<sup>10</sup>) that are also contributing major change to the legal landscape.

Some are calling for further changes to the law. There have been proposals that would require fee shifting to further protect defendants from unwarranted costs.<sup>11</sup> This same proposed law would allow the USPTO to change the IPR's "broadest reasonable interpretation" standard to match the narrower

interpretation used by district courts, thus benefitting patent owners. Thus, no party appears to be fully satisfied with the current state of the law.

At this point, further changes may be premature. Only a handful of appeals of IPR final written decisions have been decided by the Federal Circuit. A PTAB IPR decision was overturned for the first time only months ago. In *Microsoft Corp. v. Proxyconn, Inc.*,<sup>12</sup> the Federal Circuit decided that while the PTAB is to use the "broadest reasonable interpretation standard," its interpretation cannot be "unreasonably broad." Future decisions will continue to shape the outcome of the AIA and the IPR.

Although the AIA is relatively new, it is clear that it has changed patent enforcement. However, it clearly is not the single driving force altering patents or combating misuse of the patent system. There are likely to be more changes in the patent laws and the interpreting case law. Keeping all of the competing factors in sight while allowing the law to take shape may be the best way to ensure that the changes made a positive difference. ♦

See endnotes on page 10.



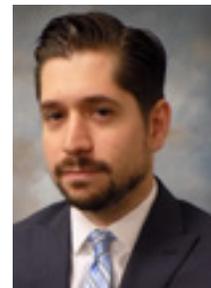
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**The Pursuit of Counterfeiting**

1 See *Impacts of Counterfeits and Piracy to Reach US\$1.7 Trillion by 2015*, Int'l Chamber of Commerce, Feb. 2, 2011, [http://www.iccwbo.org/News/Articles/2011/Impacts-of-counterfeiting-and-piracy-to-reach-US\\$1-7-trillion-by-2015/](http://www.iccwbo.org/News/Articles/2011/Impacts-of-counterfeiting-and-piracy-to-reach-US$1-7-trillion-by-2015/) (extrapolating results of 2008 study to 2015).

2 See Trevor Little, *Nike Named Most Counterfeited Brand, but Statistics Don't Give the Full Picture*, World Trademark Review, June 30, 2014, <http://www.worldtrademarkreview.com/blog/detail.aspx?g=c085ce3e-8f80-486c-a50f-026f55d39a23> (identifying Nike, Apple, Rolex, Samsung, and Adidas as top five counterfeited brands in 2013, according to trade report by World Customs Organization).

3 The Lanham Act, 15 U.S.C. § 1051 *et seq.* governs the trademark legal regime in the United States. For its specific definition of trademark counterfeiting, see 15 U.S.C. § 1116(d).

4 See 15 U.S.C. § 1116(d); see also Christopher P. Bussert, *Trademark Counterfeiting: A New Danger*, 15 AM. B. ASS'N FRANCHISE LAWYER, No. 4 (2012) (outlining counterfeiting factors). The U.S. Patent and Trademark Office's Principal Register is where most trademarks are recorded, provided they are sufficiently distinctive. In contrast, the Supplemental Register is the record of descriptive marks that have generally not yet acquired the requisite distinctiveness to be recorded on the Principal Register.

5 See *id.* If the goods or services are not identical, the trademark owner is relegated to relying on ordinary trademark infringement claims.

6 See *id.*; see also Anessa Cramer & Mark Sommers, *Taking an Aggressive Stance against Counterfeiters: An Overview of Trademark Counterfeiting Litigation under the Lanham Act*, IP LITIGATOR (1999), <http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=d-0fb159b-947e-427a-b03a-e6d60cf272f5>. Counterfeiting excludes parallel imports, gray-market goods, and production overruns because the seller would have been authorized to use the owner's registered mark at the time of the goods' manufacture or production.

7 See Cramer & Sommers, *supra*.

8 See Org. for Econ. Cooperation & Dev., *Economic Impact of Counterfeiting and Piracy*, Executive Summary, at 8 (2007) (listing negative impacts of counterfeiting).

9 See *id.*

10 See *id.* The risk to health and safety is particularly exacerbated in the field of counterfeit pharmaceuticals.

11 See *id.* at 8, 13.

12 See Cramer & Sommers, *supra*. Section 35 of the Lanham Act provides for treble damages in cases of trademark counterfeiting absent extenuating circumstances. See Bussert, *supra*. In contrast to ordinary trademark infringement, triple damages and attorneys' fees are awarded with regularity for successful counterfeiting claims. *Id.*

13 See *id.* In addition to suing them for civil liability, trademark owners can also report counterfeiting, or more precisely, trafficking in counterfeit goods, to the U.S. Attorneys' Office as a crime under The Trademark Counterfeiting Act of 1984. See 18 U.S.C. § 2320. Other crimes also typically feature in counterfeiting cases, such as criminal conspiracy under 18 U.S.C. § 371, money laundering under 18 U.S.C. § 1956-57, smuggling under 18 U.S.C. § 545, and the Racketeer Influenced and Corrupt Organizations Act (RICO) under 18 U.S.C. § 1961. The availability of criminal charges means that trademark owners can turn over counterfeiting

cases to the police and prosecutors instead of handling them themselves at much higher costs and use imprisonment as a powerful deterrent against future infringers. See Katherine Hendricks, *Counterfeiting: Effectively Using the Tools Pursuing Available Civil Remedies* (2007).

14 See Int'l Trademark Assoc., *Addressing the Sale of Counterfeits on the Internet* (2009).

15 See *id.*

16 See *id.*

17 See Bussert, *supra*.

18 See Colleen J. Orscheln, *Bad News Birkins: Counterfeit in Luxury Brands*, 14 J. MARSHALL REV. INTEL. PROP. L. 249, 256 (2015). Most lawsuits against counterfeiters end in default, but judgments are difficult to collect because the defendants cannot be located.

19 See Julianne R. Davis & Parna Mehrbani, *Combating Counterfeiting: How Owners Can Protect Their Brands, Oregon Business*, at 52 (2014). Trademark owners should ascertain how and where their brand will appear online, so that they can regularly monitor and follow where the brand is being abused. *Id.* This involves a constant review of domain name registrations, search engine results, goods in similar, related, or complimentary product categories, social media accounts, online marketplace listings, and sharing sites, and any abuses of the brand name swiftly removed. *Id.* Technological preventative measures, such as RFID tags, are also considered beneficial. See Hendricks, *supra*.

20 See Scott Gelin & G. Roxanne Elings, *Contributory Liability for Trademark Counterfeiting in an Ecommerce World*, 1 N.Y.U. J. INTEL. PROP. & ENT. L., No. 2 (2010).

21 See *id.*

22 See *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 860 (1982) (finding existence of contributory infringement); see also, generally, *Lockheed Martin Corp. v. Network Solutions, Inc.*, 985 F. Supp. 949 (1997) (deciding contributory infringement applied to ISPs that have direct control and monitoring of instrumentality used to infringe).

23 See Susan M. Kayser et al., *Combating Contributory Infringement on the Internet*, 69 INT'L TRADEMARK ASSOC. BULLETIN, No. 9 (2014) (delineating requirements for contributory infringement finding).

24 See 600 F.3d 93, 106-10 (2d Cir. 2010); see also, *Building a Trademark Safe Harbor for Contributory Counterfeiting Liability after Tiffany v. eBay*, 86 ST. JOHN'S L. REV., No. 1, Art. 7, at 252-53 (2012).

25 See *id.* But see, *1-800-CONTACTS, Inc. v. Lens.com, Inc.*, 722 F.3d 1229 (10th Cir. 2013) (finding that knowledge of specific acts unnecessary for finding of contributory infringement if ISP has knowledge that at least some of its users engage in infringing activity).

26 See *Building a Trademark Safe Harbor, supra*, at 265-67.

27 See *id.*

28 See *id.*

29 See Kayser et al., *supra*.

30 See *Building a Trademark Safe Harbor, supra*, at 268.

31 See *Building a Trademark Safe Harbor, supra*, at 268-69.

32 See *id.*

33 See Michael A. Carrier, *SOPA, PIPA, ACTA, TPP: An Alphabet Soup of Innovation – Stifling Copyright Legislation and Agreements*, 11 NORTHWESTERN J. OF TECH. & INTEL. PROP., No. 2 (2013) (discussing recent proposed bills specifically targeting online counterfeiting and piracy). Due to an outpouring of opposition from the public and content providers online, progress on these bills has stalled indefinitely.

34 See generally, Daniel Seng, *The State of the Discordant Union: An Empirical Analysis of DMCA Takedown Notices*, 18 VA. J. L. & TECH. 369 (2014). Under the Digital Millennium Copyright Act (DMCA), ISPs enjoy certain safe harbors from liability if they promptly take down copyrighting-infringing content upon receipt of a takedown notice from the copyright holder. In the past ten years, the most popular ISPs such as Google and Twitter receive thousands of take-down notices each month.

**Inter Partes Review**

1 AIA Trial Statistics – September 2015 – <http://www.uspto.gov/patents-application-process/appealing-patent-decisions/statistics/aia-trial-statistics>

2 House Report 112-98, p. 40 (June 1, 2011)

3 Daniel Golub, "IPRs Complicate the Litigation Funding Landscape for Patent Owners," *Landslide 8* (September/October 2015) 20 – 26.

4 *In re Cuzcoo Speed Tech, LLC*, No. 2014-1301, slip op. (Fed. Cir. July 8, 2015)

5 USPTO Trial Practice Guide 77 Fed. Reg. 48756 (August 14, 2012)

6 AIA Trial Statistics – September 2015.

7 Love et al. "Inter Partes Review: An Early Look at the Numbers," 81 U Chi L Rev Dialogue 93 (2014).

8 See Article at <http://www.ipwatchdog.com/2015/06/22/its-time-to-whack-ipr-trolls/id=58902/>

9 *Alice Corp. Pty. Ltd. v. CLS Bank International*, 134 S. Ct. 2347 (2014)

10 *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014) and *Highmark Inc. v. Allcare Health Mgmt. Sys.*, 134 S. Ct. 1744, 1747 (2014)

11 Innovation Act, H.R. 9, 114th Cong. (2015-2016).

12 No. 14-1542 (Fed. Cir. 2015)

**Patent-Eligible Subject Matter**

1 U.S. Constitution. Article One, Section 8, Clause 8. 235 U.S.C. §101.

3 28 U.S.C. §1295.

4 *Gottschalk v. Benson*, 409 U.S. 63 at 67 (1972).

5 See generally *Parker v. Flook*, 437 U.S. 584 (1978) (Court held that applicant was not entitled to a patent for a method to monitor threshold limits for a catalytic conversion process, as process was not sufficiently novel and useful, separate and apart from the underlying formula).

6 *Diamond v. Diehr*, 450 U.S. 175 (1981).

7 *Id.* at 190 - 193.

8 S.Rep.No.1979, 82d Cong., 2d Sess., 5 (1952); H.R.Rep. No.1923, 82d Cong., 2d Sess., 6 (1952).

9 *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980).

10 *Bilski v. Kappos*, 561 U.S. 593 (2010).

11 *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S. Ct. 1289 (2012).

12 *Id.* at 1292.

13 *Association for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107 (2013).

14 *Alice Corp. Pty. Ltd. v. CLS Bank Intern.*, 134 S. Ct. 2347 (2014).

15 *Id.* at 2355, quoting *Mayo Collaborative Services v. Prometheus Laboratories, Inc.* at 1297.

16 Available at <http://www.uspto.gov/patent/laws-and-regulations/examination-policy/2014-interim-guidance-subject-matter-eligibility-0>.