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Exercise Caution When Crafting Jury Instructions in Willful Infringement Cases

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Intellectual property holders fight to protect their intellectual property assets in good economic times and bad. The potential for recovery of substantial damages for willful infringement can serve as a carrot to encourage trademark and copyright holders to enforce their rights. The recent increase in bankruptcy filings due to the global economic downturn, however, may affect intellectual property holders' ability to recover damages for willful infringement.

Even where a plaintiff receives a judgment for willful infringement, there is still a risk that, if the unsuccessful defendant files for bankruptcy, the plaintiff may not be able to recover its judgment. In bankruptcy proceedings a bankruptcy discharge releases the defendant debtor from personal liability for certain debts. Although the timing of the discharge varies, unless there is litigation involving objections to the discharge, the debtor usually will receive a discharge. Section 523(a)(6) of the Bankruptcy Code, however, provides that when an individual (as opposed to a corporation) files for bankruptcy, the individual debtor may not discharge a debt for "willful and malicious" injury to another entity. For an act to be willful under the Bankruptcy Code, the debtor must have subjectively intended the consequences of the act, not merely the act itself. And for an act to be malicious under the Code, the debtor must have committed a wrongful act, intentionally, that necessarily causes injury, and was done without just cause or excuse. By comparison, under trademark law "willful infringement" occurs when one intentionally or knowingly infringes another's trademark.

In prior bankruptcy proceedings the courts treated cases of willful trademark and copyright infringement as nondischargeable under the Bankruptcy Code. Accordingly, an

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individual defendant found liable for willful infringement could not discharge its debt through bankruptcy proceedings. Recently, however, a federal court analyzed this general rule and determined that because the definition of “willfulness” under the Copyright Act differs from the definition of willfulness required under the Bankruptcy Code, a finding of willful copyright infringement does *not* ensure that the debt will be nondischargeable in bankruptcy proceedings. *In re Barboza*, 545 F.3d 702 (9th Cir. 2008). The same is likely to hold true for willful trademark infringement, as the definition of willful under the Lanham Act also differs from the definition of willful under the Bankruptcy Code.

In *In re Barboza*, in the underlying federal district court action in the Northern District of California, New Form, Inc., the owner of copyrights for several films, sued Mr. Barboza and his wife Ms. Albarran, alleging willful copyright infringement. The court instructed the jury that if it finds the defendants infringed and knew they were infringing or acted with a reckless disregard to whether their actions constituted infringement, then the jury must find the defendants liable for willful infringement. The jury decided in favor of New Form on its willful infringement claim. Shortly thereafter the defendants filed for bankruptcy.

On summary judgment the bankruptcy court held that the debt was not dischargeable because the jury found the infringement was willful. The defendants appealed, and the Bankruptcy Appellate Panel affirmed, finding that the plaintiff’s award of damages for intentional copyright infringement was not dischargeable under the Bankruptcy Code because the defendants’ acts were willful. On appeal the Ninth Circuit reversed and remanded the case. The Ninth Circuit held that there was a genuine issue of material fact as to whether the infringement was willful under the Bankruptcy Code’s definition. It also held that the lower court erred by failing to address separately whether the defendants’ acts were also “malicious” as defined by the Bankruptcy Code.

This case serves as a warning to trademark and copyright owners as well as the counsel who represent them in willful infringement cases. When presenting evidence and crafting jury instructions, beware. In willful infringement cases, to prevent an individual defendant from having its debt discharged in bankruptcy, the plaintiff should consider introducing sufficient evidence and including additional jury instructions to satisfy the Bankruptcy Code’s definitions of “willful” and “malicious.” By including the additional jury instructions in the original infringement action, plaintiff may be able to prevent an individual defendant from discharging

its debt in later bankruptcy proceedings. If such additional willful jury instructions are not included in the original infringement action, the plaintiff risks losing its ability to recover its judgment or being required to relitigate issues from the infringement action in bankruptcy court to obtain the necessary findings of willfulness and maliciousness. In short, the jury instructions would include a willful jury instruction to satisfy the trademark, copyright, or patent statutes, and a willful jury instruction to satisfy the requirements of the Bankruptcy Code.

Simply including additional jury instructions necessary to support a finding that the infringement was “willful” and “malicious” under the Bankruptcy Code may eliminate the risk that an individual defendant found liable for willful infringement will be able to discharge its debt through bankruptcy.

FOR ADDITIONAL INFORMATION ON THIS ISSUE, CONTACT:



Kathryn Bartow Ms. Bartow specializes in intellectual property matters, including complex litigation in copyright, trademark and trade dress infringement, dilution, unfair competition and false advertising cases.