Intellectual Property

2010 SPRING BULLETIN

Company Directors Can Be Liable for Trade Secret Misappropriation

BY CHARLENE M. MORROW AND TODD R. GREGORIAN

In the opening weeks of 2010, Parliament in London took up a bill to consider whether company directors might be held personally liable in certain areas implicating health and safety of workers. This bill, scheduled for further consideration later this spring, does not address intellectual property. However, it reminds us to stay aware of a doctrine that already exists in U.S. law under which directors can be held accountable for corporate trade secret misappropriation.

A plaintiff seeking to establish a director's tort liability typically faces a very high hurdle in the Business Judgment Rule (BJR). Directors are not personally liable in tort unless their action, including any claimed reliance on expert advice, was clearly unreasonable under the circumstances known to them at that time. *Frances T. v. Village Green Owners Ass'n*, 42 Cal. 3d 490 (1986). Even where the underlying facts raise suspicions about the reasonableness of the board's action, a *prima facie* showing of good faith and reasonable investigation, supporting application of the BJR, is established provided only that a majority of the board is comprised of outside directors and has received advice of independent consultants on the issue. *Katz v. Chevron Corp.*, 22 Cal. App. 4th 1352 (1994); *see also FDIC v. Castetter*, 184 F.3d 1040 (9th Cir. 1999) (applying BJR in non-tort context after finding the two factors above, without further inquiry). However, one line of decisions applying the rule continues to present a potential danger for investors seeking an active role in the management of their investment.

In *PMC, Inc. v. Kadisha*, 78 Cal. App. 4th 1368 (2000), the California Court of Appeal for the Second District articulated a new theory of officer and director liability that corporate officers or directors may be liable for the trade secret misappropriation of the company in which they are investing if:

> (1) the officer or director purchased or invested in a corporation whose principal assets were the result of unlawful conduct;
>
> (2) the officer or director took control of the corporation and appointed personnel to run the corporation; and
>
> (3) the officer or director did so with knowledge of or, with respect to trade secret misappropriation, had reason to know of the unlawful conduct.

Kadisha thus created potential liability for investors taking a controlling interest in the management of the business, as their involvement may subject them to liability for past corporate wrongdoing. However, the key takeaway is that this rule only applies where there are facts suggesting the wrongdoing was a core part of the corporate strategy prior to the investment.

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Kadisha involved a suit for misappropriation of trade secrets brought by majority shareholders of a corporation against former managers who had gone on to found a new company. The *Kadisha* plaintiffs, however, also sued previously unaffiliated investors in the new entity who had assumed roles as its officers and directors.

The appellate court rejected defendants' argument that they could not be liable for trade secret violations that predated their investment, finding that "misappropriation is not limited to the initial act of improperly acquiring trade secrets; the use and continuing use of trade secrets is also misappropriation." The court further explained that officer and director liability in tort generally requires a finding of actual participation by the officer or director in the tortious conduct, but also extends to knowing approval and consent to unlawful acts. The court went on to announce the three factors identified above, and found:

> [P]laintiffs presented sufficient evidence to raise a triable issue whether, when defendants invested in [the new entity], became majority shareholders, officers and directors, effectively took control of the corporation, hired personnel to run it, and continued its operations, they knew or, with respect to trade secret misappropriation, had reason to know, that their codefendants had engaged in tortious conduct harmful to [the former corporation]. In a nutshell, there was evidence from which a trier of fact could reasonably infer defendants, in anticipation of enormous corporate and personal profit, knowingly invested at a bargain price in a corporation *whose sole business assets consisted of stolen confidential information and processes*, and subsequently controlled the entity which was engaging in unlawful conduct.

(emphasis added). In reaching this conclusion, the Court relied upon evidence that the defendant corporation was an "exact replica" of the plaintiff corporation and was founded in order to capitalize on the plaintiffs' manufacturing processes and contracts.

In addition, there may be a further limitation available to a passive director. *Kadisha* was unclear regarding whether the fact of the investors' resulting positions at the corporation (as various officers and directors) is sufficient to impose liability on its own, or whether liability was based on actual exercise of control over management of the business. Courts interpreting *Kadisha*, however, have required that plaintiffs demonstrate the investors have actual resulting control over the management of the business. *See, e.g., Verigy US, Inc. v. Mayder,* No. C-07-04330, 2008 U.S. Dist. LEXIS 89271 (N.D. Cal. Nov. 4, 2008); *M-Cam Inc. v. D'Agostino*, No. 3:05-CV-00006, 2005 U.S. Dist. LEXIS 45288 (W.D. Va. Aug. 22, 2005); *but see Moser v. Triarc Co*., No. 05-cv-1742, 2007 U.S. Dist. LEXIS 22983 (S.D. Cal. Mar. 29, 2007) (that the defendant was only a shareholder in the corporation was insufficient to support dismissal of claim; plaintiff could still show direct participation in the alleged tort).

For example, in *Verigy US, Inc. v. Mayder,* Plaintiff contended that defendant W. Mayder, as a director of defendant STS, Inc. and member of defendant STS LLC, was liable based on his investment in and control of the companies and his knowledge or constructive knowledge of the misappropriation of plaintiff's trade secrets. Plaintiff argued that W. Mayder had control over the companies based on: (1) his investments of $250,000 in each corporation; (2) the referral of a new investor to STS, Inc.; (3) the use of his driver's license to obtain a seller's permit for the company; (4) the operation of a website for STS, Inc.; (5) the recommendation of someone to help date R. Mayder's (W. Mayder's brother) lab notebook. Plaintiff argued W. Mayder knew or had reason to know of his brother's misappropriation of trade secrets prior to the lawsuit based on a pair of letters sent by plaintiff to R. Mayder raising the same allegations made in the lawsuit, which were forwarded to W. Mayder, who allegedly failed to perform any investigation other than asking his brother's opinion of the letters. The court rejected plaintiff's argument for liability under *Kadisha,* finding that there was insufficient evidence to show an active role in either the misappropriation itself, or control of the corporation.

Similarly, in *M-Cam Inc. v. D'Agostino*, the court addressed the control point in the context of analyzing entity liability based on investor/director status. Defendant Principal Financial Group (Principal) was an investor in Defendant IPI. Plaintiff alleged that Principal continued to invest in IPI even after plaintiff informed the company of IPI's illegal behavior, including misappropriation of its trade secrets. The district court distinguished *Kadisha* on the basis that Principal did not gain substantial control over the company through its investments:

> [I]n that case [*Kadisha*], the defendants "became majority shareholders, officers, and directors[,] effectively took control of the corporation, hired personnel to run it, and continued its operations." The California court based its holding both on the defendant company's investment in and *substantial control over* the offending corporation. M-CAM has not alleged that Principal had any control whatsoever over IPI's activities, aside from providing funding. Nor can the court infer from the Complaint that Defendant had sufficient control over IPI to be held vicariously liable for IPI's misappropriation of trade secrets.

(internal citations omitted).

In *Kadisha*, the directors sought protection under the BJR, but the rule did not provide protection from the claims because, given the nature of the misappropriation allegations, an adequate investigation was required to invoke the rule. Under established law, an investigation prior to officer/director action is necessary to invoke the BJR where there are: "(1) allegations of facts which would reasonably call for such an investigation, or (2) allegations of facts which would have been discovered by a reasonable investigation and would have been material to the questioned exercise of business judgment." *Lee v. Interinsurance Exchange*, 50 Cal. App. 4th 694 (1996). *Kadisha* shed more light on the nature of an adequate investigation, counseling that:

> (1) The person responsible for the investigation should be given direction regarding its scope;
>
> (2) The investigation should cover any alleged past acts of misappropriation;
>
> (3) The investigation should include interviews of the person(s) alleged to have actually conducted the misappropriation, and examination of relevant evidence to determine how the corporation had produced its products; and
>
> (4) The expert hired to opine on the investigation should express an opinion regarding whether the company's products were produced using plaintiffs' trade secrets.

However, *Kadisha* and subsequent cases provide little guidance as to precisely what parameters an investigation must have to support summary judgment of no liability for trade secret misappropriation or other torts. One potential analogy comes from cases analyzing the adequacy of an investigation in the context of assertions of a special litigation committee defense to a derivative action, since that defense is essentially an application of the BJR. *See, e.g., Desaigoudar v. Meyercord*, 108 Cal. App. 4th 173 (2003); *Zapata Corp. v. Maldonado*, 430 A.2d 779 (Del. Super. Ct. 1981); *Auerbach v. Bennett*, 393 N.E.2d 994 (N.Y. 1979).

Conclusion

Despite the potential "control" limitation and the ability to insulate directors from liability with a more thorough investigation, *Kadisha* represents a rather aggressive departure from traditional applications of the BJR that investors should consider when facing facts indicating potential wrongdoing at the subject investment. As the issue of directors' personal liability gains headlines in other areas, it is likely that the *Kadisha* doctrine will receive renewed attention by potential plaintiffs as well.

Federal Circuit Ruling on False Marking Invites More *Qui Tam* Actions

BY BRYAN A. KOHM

A recent ruling by the United States Court of Appeals for the Federal Circuit held that penalties in *qui tam* false marking actions must be imposed on a per article basis. *Forest Group, Inc. v. Bon Tool Co.,* 590 F.3d 1295 (Fed. Cir. 2009). Although many undecided issues remain with respect to the scope of false marking actions, the Federal Circuit's decision in *Bon Tool* will almost certainly spawn a new wave of patent litigation by *qui tam* plaintiffs.

Pursuant to 35 U.S.C. § 292, any person that marks an "unpatented article" with any word or number importing that the article is patented, with the intent to deceive the public, "[s]hall be fined not more than $500 for every such offense." The same penalty applies when an article is marked with words indicating that a patent application is pending but no such application has been filed. Any person, not merely one that has been harmed, can bring an action pursuant to § 292, so long as the recovery is split with the government.

In *Bon Tool*, the Federal Circuit rejected the district court's interpretation of the statute, which construed "every such offense" to mean each *decision* to falsely mark an article. For a variety of reasons, as explained below, the Federal Circuit held that a separate penalty of not more than $500 accrues for each *article* that is falsely marked.

Background of Case

The Forest Group ("Forest") brought a patent infringement action against Bon Tool for the sale of an improved form of a spring-loaded parallelogram stilt. Forest sold identical stilts bearing its patent markings. Forest received an unfavorable claim construction ruling and the court granted summary judgment in favor of Bon Tool, finding that the stilts at issue did not infringe the patent because they did not include a "resiliently lined yoke." In a separate action for declaratory judgment, brought by Warner Manufacturing Company, the United States District Court for the District of Minnesota construed the term "resiliently lined yoke" in a manner nearly identical to the *Bon Tool* court and granted summary judgment of noninfringement in favor of Warner.

Since Bon Tool's stilts were "identical replicas" of Forest's stilts, and could not be covered by the Forest patent, the claim construction of both courts bolstered Bon Tool's counterclaim for false marking under § 292. Indeed, the district court found that Forest had falsely marked its spring-loaded stilts with a patent number. Although the court determined that Forest lacked the intent to deceive with respect to most of its sales, it held that Forest possessed the requisite intent for those sales made after the summary judgment ruling in the *Warner* action, as Forest knew at that moment that its stilts did not practice the patent. The court, however, imposed only a $500 penalty for a single offense of § 292, despite the fact that many falsely-marked articles had been sold, under the rationale that Forest had made a single decision to falsely mark its products.

Appeal

The Federal Circuit held that the district court erred in imposing penalties for only a single "decision to mark its stilts." The Federal Circuit first explained that the plain language of the statute, which bars the marking of "*any* unpatented *article*" and imposes a fine for "*every* such offense," requires the "penalty to be imposed on a per article basis." Apart from the language of the statute, the court noted that policy considerations supported this interpretation. Specifically, it explained that the statute would be rendered "completely ineffective" unless penalties were imposed on a per article basis, as members of the public would lack sufficient financial motivation to bring *qui tam* actions and incur the enormous expense of patent litigation unless substantial penalties were recoverable.

In support of its position, Forest relied on past decisions imposing a single fine for continuous false marking. The court found this argument unpersuasive, as the rationale underlying those decisions rooted from a century-old decision interpreting a different form of the statute that imposed a penalty of not less than $100 per offense. The Federal Circuit held that Congress' amendment of the statute in 1952, which modified the penalty to be a maximum rather than a minimum, eliminated the policy rationale that imposing a fine on a per-article basis would be inequitable. It was acknowledged that a number of district courts had improperly continued to construe the statute as imposing a single fine for continuous false marking, or alternatively applying a time-based approach – for example, imposing a fine for each day or week articles were falsely marked.

Apparently recognizing that fines imposed on a per-article basis could result in extraordinary large penalties, the Federal Circuit provided some guidance as to the proper means of determining the amount of fines, though it stopped short of offering a specific formula.

First, the court stressed that a fine of $500 per article is the maximum, not the default. The court also explained that lower courts should "balance between encouraging enforcement of an important public policy and imposing disproportionately large penalties for small, inexpensive items produced in large quantities." When dealing with inexpensive mass-produced articles, the court noted that a penalty of a fraction of cent per article may be appropriate.

The Federal Circuit's guidance that mass-produced products should incur smaller penalties on a per article basis is unlikely to dissuade potential *qui tam* plaintiffs, as the penalties can still result in very large awards. For example, in a case against Solo Cup, which was dismissed by the district court before the determination of penalties, the plaintiff alleged that twenty-one billion disposable lids were falsely marked. *Pequignot v. Solo Cup Co.*, 646 F. Supp. 2d 790 (E.D. Va. 2009). Even a fine of one-half cent per lid would exceed $100 million in penalties.

Forest argued that imposing penalties on a per article basis under § 292 would encourage a "'new cottage industry' of false marking litigation by plaintiffs who have not suffered any direct harm." The Federal Circuit rejected Forest's

argument and noted that such litigation is explicitly authorized by the statute. Not surprisingly, as predicted by Forest, the *Bon Tool* decision has sparked a wave of *qui tam* actions. Indeed, since the middle of February, an entity named "Patent Compliance Group" has filed twelve separate false marking actions, including actions against Activision, Wright Medical Technology, Hunter Fan, Timex, and Brunswick.

Outstanding Issues

A number of undecided issues remain regarding the application of § 292. For one, it is unclear whether falsely marking an article with one patent number will lead to the imposition of penalties if that same article is covered by another patent. The language of the statute bars the false marking of an "unpatented article," not just falsely marking an article. As such, even if an article is falsely marked with one patent number, it may be a defense that the article is also covered by other patents.

The scope of the "patent pending" provision of § 292 also will likely be subject to future litigation. Is merely having a pending patent application generally related to the article sufficient to avoid penalties? Or must the pending claims of the application cover the article? Obviously, the scope of pending patent claims evolves during the prosecution process, and continuations offer the possibility of submitting an entirely new set of claims apart from pending applications.

Quick Updates

Mere Mortals Have No Exclusive Rights in Greek Gods, Holds California District Court

The immortal gods are free for all mortal beings to use – and none can claim exclusive rights to them under copyright law. So, in effect, holds the United States District Court for the Northern District of California in granting summary judgment to the defendant in *Bissoon-Dath v. Sony Computer Entertainment of America, Inc.*, Case No. 08-cv-01235 MHP, 2010 U.S. Dist. LEXIS 21090 (N.D. Cal. Mar. 9, 2010).

Jonathan Bissoon-Dath and Jennifer B. Dath sued Sony for copyright infringement, claiming that Sony's computer game, "God of War," infringed their copyrights in a series of related written works of fiction, including a treatment, "The Adventures of Owen," and a screenplay, "Olympiad." Sony's work was an action-adventure game based on Greek mythology, featuring a mortal protagonist, named Kratos. Both Sony's work and the plaintiffs' works have the common theme of a human acting at the behest of a Greek god. The plaintiffs claimed that God of War went beyond that, sharing components of expression – elements of plot, character relationships, themes, settings, mood, pace, and dialogue – which the Ninth Circuit has held critical in determining copyright infringement.

In considering Sony's motion to dismiss on summary judgment, the central issue before the court was whether there was substantial similarity of such protected expression. The court determined that story lines, plot idea, and other scenes from both works that flow naturally from basic plot premises that go back to Greek mythology are generic and not indicative of creativity, and so are not protected by copyright law. Thus, similarities in such elements of the works were not considered by Judge Stanton to prove actionable copying. As such, the court granted Sony's motion and held that "no reasonable juror could find substantial similarity of ideas and expressions" between the plaintiffs' works and God of War.

According to the court, "Greek gods, dialogues among them about mortal affairs, rivalries among the gods, and mythical beasts such as the Hydra or the Nemean Lion are unprotectable elements; it is uncontroversial that they have been used widely in both ancient and modern artistic works, in the naming of astronomical bodies and spacecraft, and in other fields." *Bissoon-Dath* serves as a reminder that in order to succeed in a claim of copyright infringement, a plaintiff must be in a position to show that the elements of a work sought to be protected meet the standard for copyright protection to begin with – in particular, originality.

The Federal Circuit Revisits the Standard for Inducement of Infringement

On February 5, 2010, in *SEB v. Montgomery Ward & Co., Inc.*, 594 F.3d 1360 (Fed. Cir. 2010), the United States Court of Appeals for the Federal Circuit revisited the standard for proving inducement of patent infringement in light of their decision in *DSU Medical Corp. v. JMS Co., Ltd.*, 471 F. 3d 1293 (Fed. Cir. 2006) (en banc). In *SEB*, a panel led by Judge Rader affirmed the district court's denial of Pentalpha Enterprises' motion for judgment as a matter of law on SEB's claim that Pentalpha had induced infringement of the asserted patent. The Federal Circuit rejected Pentalpha's argument that *DSU Medical* requires a patentee to prove the alleged infringer had actual knowledge of the patent.

Section 271(b) of the Patent Act states, "[w]hoever actively induces infringement of a patent shall be liable as an infringer." While a party is traditionally liable for so-called direct patent

infringement only when it makes, uses, sells, offers for sale or imports an infringing product into the United States, or supplies substantial components of that product for export from the United States, § 271(b) extends the reach of U.S. patent laws, imposing liability for the direct infringement of others. Inducement is a particularly important theory in markets where product development and sales involve a combination of U.S. and international activities.

The court held in *DSU Medical* that a plaintiff must adduce evidence of culpable conduct, directed to encouraging another's direct infringement, not merely that the inducer had knowledge of the direct infringer's activities. The court further noted that "[t]he requirement that the alleged infringer knew or should have known his actions would induce actual infringement *necessarily includes the requirement that he or she knew of the patent.*" (emphasis added).

In *SEB*, patentee SEB sued manufacturer Pentalpha and Montgomery Ward for infringement of a patent claiming a deep fat fryer with an inexpensive plastic outer shell or skirt. Pentalpha purchased a SEB deep fat fryer and copied the design. After agreeing to supply an American seller, Pentalpha obtained a "right-to-use" study, but failed to inform the patent attorney that the company had copied SEB's design.

The jury found infringement and inducement of infringement based on Pentalpha's sales to Montgomery Ward. Pentalpha argued post trial that SEB had not shown that Pentalpha knew of the patent, as required by *DSU Medical*. The Federal Circuit noted that in *DSU Medical*, the alleged infringer knew of the patent and therefore the court had not addressed the scope of the knowledge requirement. As in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007), the court turned to caselaw from other civil contexts to determine that "'deliberate indifference' is not necessarily a 'should have known' standard" but rather a "form of actual knowledge." Inducement may be established by showing that the defendant deliberately disregarded the risk that a patent existed. The failure to inform the patent attorney of the direct copying and the president's familiarity with U.S. patent law provided "considerable evidence of deliberate indifference." An alleged infringer may defeat a showing of deliberate indifference by establishing actual belief that a patent covering the accused product did not exist but Pentalpha provided no such evidence.

After *SEB*, patentees no longer have to prove actual knowledge, but may point to evidence of deliberate indifference by the alleged infringer. However, the Federal Circuit has another opportunity to address this standard: Pentalpha's petition for rehearing *en banc*, asks: "Does a claim for inducing infringement under § 271(b) require that the inducer 'knew of the patent,' as set forth in *DSU* . . . or does it merely require . . . that the inducer 'deliberately ignored the risk that [the plaintiff] had a patent that covered its [product]'?"

The Inevitable Disclosure Doctrine Lives On

Can a company prevent an executive from starting a new job at a competitor just because the executive might disclose company trade secrets? Under the "inevitable disclosure" doctrine developed more than a decade ago, "the answer was yes if the disclosure seemed a near certainty." But in recent years, the doctrine has been in decline and various courts and commentators have essentially proclaimed its demise. However, the recent case of *Bimbo Bakeries USA, Inc. v. Chris Botticella*, No. 10-0194 (E.D. Pa. Feb. 9, 2010), shows that there is still some breath left in this doctrine.

A dispute arose in January 2010 between Pennsylvania-based Bimbo Bakeries and Chris Botticella, Bimbo's Vice President of California Operations, after Bimbo discovered that Botticella secretly accepted a job offer from Hostess Brands, Inc., one of Bimbo's three major rivals, a few months earlier. Bimbo sued Botticella, seeking a preliminary injunction preventing him from starting employment with Hostess.

The district court, in its determination of whether to issue a preliminary injunction against Botticella, considered four factors: (1) the moving party's (Bimbo's) likelihood of success on the merits; (2) the extent to which the moving party will suffer irreparable harm if the injunction is denied; (3) the extent to which the non-moving party (Botticella) will not suffer greater harm than the moving party as a result of the injunction; and (4) the public interest.

Regarding the first factor, the court found that Bimbo would likely prevail on its trade secret misappropriation claim. Botticella had detailed confidential knowledge about Bimbo's financial, product, and strategic data. In fact, Botticella was one of only seven employees knowing all three of the closely-guarded secrets behind making the "nooks and crannies" in Thomas' English Muffins, a $500 million Bimbo product. Further, immediately after Hostess accidentally disclosed Botticella's upcoming move,

Botticella accessed–and possibly copied–a number of Bimbo's highly-confidential documents using his laptop. Botticella said he had accessed the files to practice his computer skills, but the court found this simply not credible.

For the second factor, the court found that Bimbo would suffer irreparable harm without an injunction. The court stated that disclosure of Bimbo's trade secrets to Hostess would harm Bimbo by giving Hostess a competitive edge against its key rival.

Regarding the third factor, the court found that the harm to Botticella was outweighed by the potential harm to Bimbo if no injunction issued. Botticella argued that an injunction would prevent him from taking one of the few executive positions within his expertise. However, the court noted that a preliminary injunction would only delay Botticella's employment with Hostess for the few months until the overall case against Botticella was decided, a minor harm.

For the fourth factor, the court found that the public's interest favored issuing the injunction. The public's interest in keeping Bimbo's trade secrets from its direct competitor outweighed Hostess' freedom to hire whomever it chooses, since the public has an interest in trade-secret preservation.

In view of these facts, the court issued the preliminary injunction against Botticella, finding it inevitable that Botticella would disclose Bimbo's trade secrets in his new job with Hostess.

Tiffany v. eBay – No Infringement but False Advertising Claims Remain

In a closely watched case testing the limits of on-line marketplace liability when counterfeit goods are sold through the site, the Second Circuit upheld a lower court ruling that eBay was not liable for trademark infringement in connection with the sale of counterfeit Tiffany merchandise through its online auction. *Tiffany & Co. v. eBay Inc.*, No. 08-3947 (2d Cir. April 1, 2010).

Like other online marketplaces, eBay allows sellers to sell directly to buyers via its site. eBay charges a listing fee and takes a cut of the ultimate sale price, but never takes possession of the sale item. In a proactive effort to reduce the sale of counterfeit items on its website, and at considerable expense, eBay created and implemented several anti-fraud procedures and takedown policies, as well as educational tools for brand owners and sellers regarding fake goods.

Alarmed at what it considered a huge volume of blatantly counterfeit Tiffany jewelry being offered for sale on eBay, and not satisfied that eBay was doing enough to reduce the sale of counterfeits, Tiffany pushed eBay to affirmatively screen products before allowing them to be offered for sale on the site. When eBay refused to meet Tiffany's additional policing demands, Tiffany sued eBay based on several claims, including contributory trademark infringement.

The crux of the contributory trademark infringement claim was who should bear the burden of policing a brand owner's trademarks in the world of e-commerce. Tiffany argued that eBay had general knowledge that counterfeit Tiffany items were being sold and therefore had an obligation to monitor and preemptively remove listings of fake Tiffany merchandise. eBay countered that it is the brand owner's responsibility to monitor and report potentially infringing items, which eBay would then remove. The district court ultimately concluded that it is the brand owner's responsibility to police its trademarks and a general knowledge of counterfeiting was not sufficient to make eBay liable, a ruling which the Second Circuit affirmed.

"For contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods. Some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary."

The Court of Appeals did, however, return the issue of liability for false advertising back to the district court for reconsideration. Since eBay did advertise items as Tiffany merchandise, when a sizeable proportion of them were not genuine, the court stated that, "The law requires us to hold eBay accountable for the words that it chose insofar as they misled or confused consumers."

Although eBay need not stop all advertisements for this kind of merchandise, it cannot mislead or confuse consumers. As the court stated, "A disclaimer might suffice."

The court's ruling underscores the need for online marketplaces to have and to act on meaningful take down policies, and to implement appropriate fraud control systems. But it also clearly establishes that brand owners cannot expect to shift the policing burden entirely onto the providers of online marketplaces. That burden falls to a much greater extent on the trademark owners themselves.

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