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# INTELLECTUAL PROPERTY

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## Taking a default

By [Daniel Kegan](#)

**Defaulting has pejorative connotations, but sometimes accepting a default judgment may be a wise decision.**

A default is “Failure to perform a task or fulfill an obligation, especially failure to meet a financial obligation; Law Failure of a party in a case to make a required court appearance; The failure of one or more competitors or teams to participate in a contest” (American Heritage Dictionary of the English Language, 5th ed, 2011).

Typical consequences of failing to respond to a plaintiff’s civil complaint include the court accepting as true the assertions of the complaint, awarding the plaintiff’s requested monetary and injunctive relief, awarding attorneys’ fees, and reachable assets of the defendant being transferred to plaintiff. In Internet cases, the defendant’s websites may be taken down and money in Internet accounts, such as PayPal, may be transferred to plaintiff.

If you discover you have been sued, usually you should read the complaint and other associated documents, note any deadlines for responding, jot down your initial responses and defenses, such as false assertions, assertions taken out of context, and documents you may have to contradict the complaint’s assertions. Breathe, and calm down. Then consult an attorney. If you do not have a relationship with an attorney, do local bar associations have referral services.

But sometimes, a rational evaluation indicates it likely is more efficient to accept the default judgment.

### **Class Actions**

You may receive notice that you may be involved in a class action lawsuit, and will be bound by the court’s decision unless you opt out of the class (FRCP 23). Class actions typically assert that a large number of people have been injured by the same defendant(s) in the same way. Instead of each injured person bringing their own separate lawsuit, the class action permits all the claims of all class members to be resolved in a single case. Often many prospective class members may be unaware they have been injured. Often the financial amount of the harm to each class member is small, a few dollars, and thus not worth individual efforts to reclaim it. However, by consolidating the small individual claims, the potential damage awards may be sufficient incentive to encourage the defendants to appropriately invest in ensuring safe products.

For a low-cost consumer product where the alleged harm is only a few dollars per purchase, the potential recovery may not be worth the effort of retrieving years-old purchase invoices. Class actions involving serious health injuries are quite different, and deserve careful consideration. If you remain a member of the class, your remedies against the defendant(s) will be

limited to that case outcome.

## **Notice to Defendants Across Jurisdictions**

The ubiquitous and pervasive Internet has shrunk the world and sped communications. It has also spawned diverse forms of Internet misbehavior: including Cybersquatting trademarks and domain names (15 USC § 1125(d)), online copyright infringement (17 USC § 512) with its safe harbor during take-down actions, over broad demands of patent infringement, as well as traditional criminal theft and fraud.

With Internet commerce, buy and seller are often separated by miles and court jurisdictions. Many Internet site End User License Agreements, typically not read by users, specify the jurisdiction for dispute resolution between the consumer and the Internet vendor. The Internet consumer shopping site may buy its goods from a business-to-business (B2B) Internet distributor or manufacturer with its own EULA, or may buy inventory by purchase orders.

In the United States, the Uniform Commercial Code (UCC), as enacted by each state, provides substantial uniformity in state commercial laws and disputes. In federal and state law, a defendant in a lawsuit is entitled to notice of the allegations and of court deadlines. Typically the defendant, individual or corporate entity, needs to be served with the summons, complaint and associated documents (service of process). Specific rules provide how, where, and to whom delivery of the complaint and documents is accepted service (FRC 4, 4.1, 5).

The plaintiff needs to prove service of process. For service on a defendant within the United States, the server's affidavit, or statement by a US marshal or deputy marshal suffices, if service has not been waived (FRCP 4(l)(1)). Service outside the United States can be proved as provided in an applicable treaty or convention, or by a receipt signed by the addressee or by other evidence satisfying the court that the summons and complaint were delivered to the addressee (Id 4(l)(2)).

Foreign service of process may be governed by several laws, including Hague Service, Inter-American Convention Service Convention, Foreign Sovereign Immunities Act, US state law, and the Federal Rules of Civil Procedure.

### **Hague Service**

The Convention on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters (Hague Service Convention) established a simpler means to make service in other contracting states. It was adopted 15 November 1965, superseding the 1905 Civil Procedure Convention. Before the Hague Service Convention, and currently for service to entities in states not party to the Hague Service Convention, diplomatic channels were generally used to serve legal documents, such as Letters Rogatory (FRCP 4(f)(B), 28(b)(B), 28 USC § 1782.

As of June 2015 the Hauge Service Convention had 68 contracting state parties. These included the USA, Canada, China, Mexico, United Kingdom, and excluded Afghanistan, Iran, Iraq, North Korea, Saudi Arabia, and Singapore. For the full list of contracting states, <[http://www.hcch.net/index\\_en.php?act=conventions.status&cid=17](http://www.hcch.net/index_en.php?act=conventions.status&cid=17)>.

### **Inter-American Service**

The Inter-American Convention on Letters Rogatory and Additional Protocol (IACAP) are a pair of international agreements designed to facilitate judicial assistance between countries. The United States interprets those agreements as limited to covering service of process and countries must be a party to both agreements in order for a treaty relationship to exist. Replacing the traditional letters rogatory process, the IACAP provides a mechanism for service of documents by a foreign central authority. The Department of Justice is the U.S. Central Authority under the IACAP. Requests from the United States are transmitted via a private contractor carrying out the service functions of the U.S. Central Authority on behalf of the Department of Justice.<<http://travel.state.gov/content/travel/en/legal-considerations/judicial/service-of-process/iasc-and->

additional-protocol.html>.

Members currently are Argentina, Brazil, Chile, Colombia, Ecuador, Guatemala, Mexico, Panama, Paraguay, Peru, USA, Uruguay, and Venezuela. Neither the Convention nor the Additional Protocol expressly provide for service by mail. Litigants should consult local counsel to determine if mail or other methods of service are available, and what effect the use of alternative methods might have on later efforts to have a U.S. judgment locally enforced.

### **Foreign Sovereign Immunities**

The Foreign Sovereign Immunities Act defines the jurisdiction of United States courts in suits against foreign states, the circumstances in which foreign states are immune from suit and in which execution may not be levied on their property, and for other purposes (90 Stat 2981; 28 USC §1330, §1391(f), §1441(d), §1602-11, 19 January 1977).

Issues to consider when considering serving under a convention or treaty include:

- whether the convention is the exclusive means of service;
- whether contracting states can limit service in their jurisdiction;
- types of lawsuits covered;
- the proper methods for serving process.

The Hague Service Convention only applies when the defendant's address is known (Article 1). See FRCP 4(f)(2).

### **Alternatives to Traditional Service**

When after plaintiff's diligent search and inquiry a defendant cannot be readily located and served, a court may permit service by publication or other means. Publication may be in a newspaper in the court's jurisdiction or when the defendant is considered to reside. Service may also be permitted on defendant-relevant social media or by email. With today's Internet commerce, a defendant's website address (Uniform Resource Locator, URL) may be known while not knowing the location of the defendant.

If the defendant is the URL or email domain registrant, their address, phone, and email contacts may be disclosed in a Whois registry. However, despite the Internet rules for providing accurate Whois information, many domain registrants don't, or register under privacy services, which conceal the registrant's information.

When a defendant's Whois record does not fully identify them and their contact information, a plaintiff can seek to compel the privacy service, domain registrar, internet service provider, and Internet shopping site host to disclose. This compelled disclosure requires additional requests to the court, and is not automatically granted. There is a First Amendment right to anonymous speech on matters of public policy. Commercial speech has narrower rights. Likely illegal activity has few protected speech rights.

### **Internet Suits with Many Defendants**

Complaints of trademark, copyright, or patent infringement on the Internet now may involve hundreds of defendants. Some may be identified not by a personal name and postal address but by website URL or email address or John Doe standing names until additional discovery reveals the true name for an amended complaint.

Multi-defendant Internet cases may include major manufacturers and distributors of infringing goods as well as numerous small businesses which bought the questioned goods for retail resale. Some purchases likely are innocent, other vendors know they are buying infringing goods.

For a foreign defendant in a multi-defendant Internet suit, it may be more efficient to accept the possibility of an adverse default judgment than to hire the attorneys (likely both in the foreign jurisdiction and in the court's jurisdiction) to gather the required evidence and defend against the complaint.

Suits against infringement often seek immediate relief, a court order to takedown websites and to freeze financial accounts such as PayPal. A temporary restraining order (TRO) can be issued without notice to defendant if specific facts clearly show that immediate and irreparable injury, loss, or damage will result to the movant before the adverse party can be heard in opposition. (FRCP 65(b)).

## Settlement

For a particular defendant to settle the lawsuit, plaintiff will likely want to know and see supporting documents at least for:

- defendant's purchases of the accused goods—
  - showing full contact information for the entity selling to you and
  - the number and cost of items defendant bought, and the purchase dates;
- the different items defendant sold, numbers of each, and sales price and profit;
- number of the goods remaining in inventory;
- number of goods still on order or in transit to defendant;
- samples of the infringing goods;
- certification that defendant no longer is selling any unauthorized items plaintiff claims rights to.

The plaintiff typically uses this information to support its claims against the larger upstream infringer and to determine the post-hoc royalty to demand from the settling defendant.

A plaintiff may seek statutory damages, which may be available without proof of defendant's sales and profit, nor of plaintiff's lost profits. Copyright, \$750 to \$30,000 in the court's discretion, up to \$150,000 for willful infringement, all sums per "work" (17 USC § 504(c)); Trademark counterfeiting, from \$1,000 to \$200,000 per counterfeit mark per type of goods or services, if willful up to \$2,000,000, as the court considers just (35 USC § 117(c)).

## Federal Default Rules

US courts and administrative tribunals prefer to decide cases on their merits, after courteous adversary presentations of evidence and legal argument. Courts tend to give defendants reasonable opportunities to appear and defend on the merits, at times even after a judgment by default.

A careless plaintiff may make procedural errors that can be grounds to set aside a default judgment and begin an active defense. Is the amount of the requested judgment supported by competent evidence. Was service of process properly performed and adequately documented.

For the court clerk to enter a judgment by default, any financial award must be for a sum certain or a sum that can be made certain by computation (FRCP 55(b)(1)). Additionally, plaintiff must show that the defendant is neither a minor nor an incompetent person. (FRCP 55(b)(1): <[https://en.wikipedia.org/wiki/Age\\_of\\_majority](https://en.wikipedia.org/wiki/Age_of_majority)>).

“On the Internet, nobody knows you’re a dog,” or an adult above a jurisdiction’s age of majority (Peter Steiner’s 1993 New Yorker cartoon). In most jurisdictions, the age of majority is legally set somewhere between [18 ad 21](#) inclusive. Many minors are computer and Internet literate; a number have initiated financially successful Internet businesses.

Defendants actively serving in the US military may have state and federal judicial and administrative actions that might adversely affect their civil rights temporarily suspended. (Servicemembers Civil Relief Act (SCRA), 50 USC §§ 501 et seq.

Less quickly and with more evidence, a court may enter a judgment by default. FRCP 55(v)(2). A default judgment may be entered against a minor or incompetent person only if represented by a general guardian, conservator, or other like fiduciary who has appeared. Id. For “good cause” a court may set aside an entry of default. FRCP 55(c).

In evaluating good cause, courts typically consider three factors: 1) was the default willful; 2) will plaintiff be prejudiced by setting aside the entry of default; and 3) does defendant have a meritorious defense to plaintiff’s claims.

Defendant Nick Steiner in the United Kingdom knowingly misrepresented in a takedown notice that plaintiff’s principal published on its website material infringing defendant’s copyright. USA-based plaintiff served defendant using the designated central authority under Article 18 of the Hague Convention, in accord with FRCP 4(f)(1), as demonstrated by proof of service, copy of USM-94 request for service abroad, and certificate establishing that service was delivered by the designated UK central authority, stating “method, the place and the date of the service and the person to whom the document was delivered. Automatic Inc v Steiner, 115 USPQ2d 1710 (ND CA 2014).

In adopting the report of Magistrate Judge Spero, Judge Hamilton concluded (Id at 1726):

Although defendant was not served with the report and recommendation, and thus did not file any objections, the court is satisfied by Judge Spero’s detailed findings that the summons and complaint were properly served on defendant. There is no clear requirement in 28 U.S.C. § 636(b) that a report and recommendation be served on the opposing party. However, the court normally requests that the moving party do so, out of an abundance of caution. In this case, given that defendant was properly served (notwithstanding the difficulty of service in the U.K. under the Hague Convention) yet chose to default, the court will require no further expenditure of resources.

The court finds the report correct, well-reasoned and thorough, and adopts it in every respect. Accordingly, plaintiffs’ motion for default judgment is GRANTED. Judgment shall be entered for the plaintiffs, and the court awards plaintiffs damages in the amount of \$960.00 for Hotham’s work and time, \$1,860.00 for time spent by Automattic’s employees, and \$22,264.00 for Automattic’s attorney’s fees, for a total of \$25,084.00.

For certain specified reasons, a defendant may move, generally within a year, for relief from a judgment or order. FRCP 60(c). Some of the reasons are newly discovered evidence that could not have been discovered with reasonable diligence in time to move for a new trial under FRCP 59(b); mistake, inadvertence, surprise, or excusable neglect; fraud, misrepresentation, or misconduct by an opposing party; the judgment has been satisfied or is no longer equitable; or for another reason that justified relief. FRCP 60(b).

However, just because a jurisdiction is a Hague Service Convention party doesn’t mean service, discovery, and collection become a breeze. China is a convention party, yet has the reputation of rejecting or delaying discovery requests under the

Convention. Tiffany (NJ) LLC v Qi Andrew (SD NY, 2010-cv-09471, Doc 104, 15 June 2015); Gucci America v Weixing Li, [768 F3d 122](#) (2d Cir 2014). Reportedly a Chinese court has rarely if ever enforced a USA judgment against a Chinese firm, and US court rarely recognize a Chinese judgment against a US firm. (Marc Davis, “The great Firewall of China,” 101 ABA J 17, 18 (Nov 2015).

## Considerations

If the infringing goods are a small, incidental part of defendant’s business and if the takedown webstore and frozen financial account are small and incidental, and if defendant is not personally yet identified, it might be efficient to accept the losses without contest.

When these conditions are not met—the defendant is personally identified, large sums of money are frozen or at risk, reputation as an infringer may harm future business or restrict travel—then the consequences of default become more severe, and settlement or active defense become more favorable options.

Defendants should consider consulting with a local attorney in their own jurisdiction, to advise on:

- likely consequences and costs of default, of settlement;
- possible redress from the vendor of the infringing goods;
- how to reduce the likelihood of a vender selling defendant counterfeit goods;
- how important the taken-own Web site is to defendant’s expected future businesses;
- how salient the infringing goods are to defendant’s whole business and life.

It generally is prudent for a defendant to monitor the case. Federal court dockets and those of many states are now freely available to the domestic and international public.

If settlement appears the preferred resolution, then an attorney experienced in the legal subject area (such as intellectual property infringement) can be engaged to negotiate a mutually acceptable resolution as quickly and inexpensively as feasible. Defendant’s name will likely be disclosed to plaintiff’s attorneys, but might be negotiated to exclude from the public record.

If the complaint contains material falsehoods or mischaracterizations, significant funds are at risk, or defendant’s reputation and future prospects are at bothersome risk, then an active defense may be warranted.

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*Daniel Kegan, <[daniel@keganlaw.com](mailto:daniel@keganlaw.com)>*  
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