

Santa Clara University

The Fine Line Between Battling Online Counterfeiters & Engaging in IP Trolling

Prof. Eric Goldman, Associate Dean for Research

<http://www.ericgoldman.org>

egoldman@gmail.com





“Schedule A Defendants” = “SAD” Scheme

**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

EMOJI COMPANY GmbH,

Plaintiff,

v.

THE INDIVIDUALS, CORPORATIONS,
LIMITED LIABILITY COMPANIES,
PARTNERSHIPS, AND
UNINCORPORATED ASSOCIATIONS
IDENTIFIED ON SCHEDULE A HERETO,

Defendants.

Case No. 21-cv-1739

Judge



COMPLAINT

Plaintiff, EMOJI COMPANY GmbH, by undersigned counsel, hereby complains of the

Why Rightsowners Use the SAD Scheme

- **Historically, notice-and-takedown was the primary rightsowner enforcement tool against infringers/counterfeiters in online marketplaces**
- **Rightsowners have long wanted to ditch notice-and-takedown**
 - Not scalable/expensive
 - No staydowns/whack-a-mole/recidivism
- **SAD Scheme provides super-notice + compensation (+ volume + international recourse)**

How the SAD Scheme Works

- **Step 1: Rightsowner files complaint against (hundreds of) defendants listed on Schedule A**
- **Step 2: Rightsowner files Schedule A and seals it**
- **Step 3: Rightsowner requests and gets ex parte TRO**
- **Step 4: Rightsowner submits the TRO to online marketplaces**
- **Step 5: Marketplaces honor TRO & freeze vendor's account/cash**
- **Step 6: Vendor settles with rightsowner to resuscitate business**
- **Step 7: Rightsowner drops vendor from lawsuit**
- **Step 8: Rightsowner gets default judgment against remaining no-show defendants and executes against frozen cash**

SAD Scheme Example

2/17/2021 Amazon.com: This Is Going To Make Me Poop Coffee Mug 2020 | Quarantine Funny Hilarious Gag Gift Novelty Tea Cup | Gifts For Her, Gifts For Him, Cute Mug | Emoji Gifts Birthday Present: Kitchen & ...



Deliver to Bensenville 60106

Home & Kitchen



Hello, Sign in Account Returns & Orders



All Best Sellers Prime Today's Deals Customer Service New Releases Books Find a Gift Fashion Kindle Books Gift Cards Toys & Games Support Black entrepreneurship

Amazon Home Shop by Room Discover Shop by Style Home Décor Furniture Kitchen & Dining Bed & Bath Garden & Outdoor Home Improvement

Shop the Kids' Store by age 0-24 months 2-4 years 5-7 years 8-12+ years Shop now +

Home & Kitchen > Kitchen & Dining > Dining & Entertaining > Novelty > Drinkware > Coffee Mugs



Roll over image to zoom in



This Is Going To Make Me Poop Coffee Mug 2020 | Quarantine Funny Hilarious Gag Gift Novelty Tea Cup | Gifts For Her, Gifts For Him, Cute Mug | **Emoji** Gifts Birthday Present

Brand: Coffee Mug

Price: \$12.99 + \$6.99 shipping

Get \$50 off instantly. Pay \$0.00 ~~\$42.99~~ upon approval for the Amazon Rewards Visa Card. No annual fee.

Material	Ceramic
Color	Black
Brand	Coffee Mug
Capacity	10.88 Ounces

About this item

- ✓ This mug features printing on both sides and it is home and restaurant use, dishwasher and microwave safe. 100% pure white ceramic with

\$12.99

+ \$6.99 shipping

Arrives: Feb 24 - March 2

Fastest delivery: Feb 22 - 25

In Stock.

Qty: 30



Add to Cart



Buy Now



Secure transaction

Ships from 1 Milion

Sold by 1 Milion

Deliver to Bensenville 60106

Add to List

Add to Wedding Registry

Have one to sell?

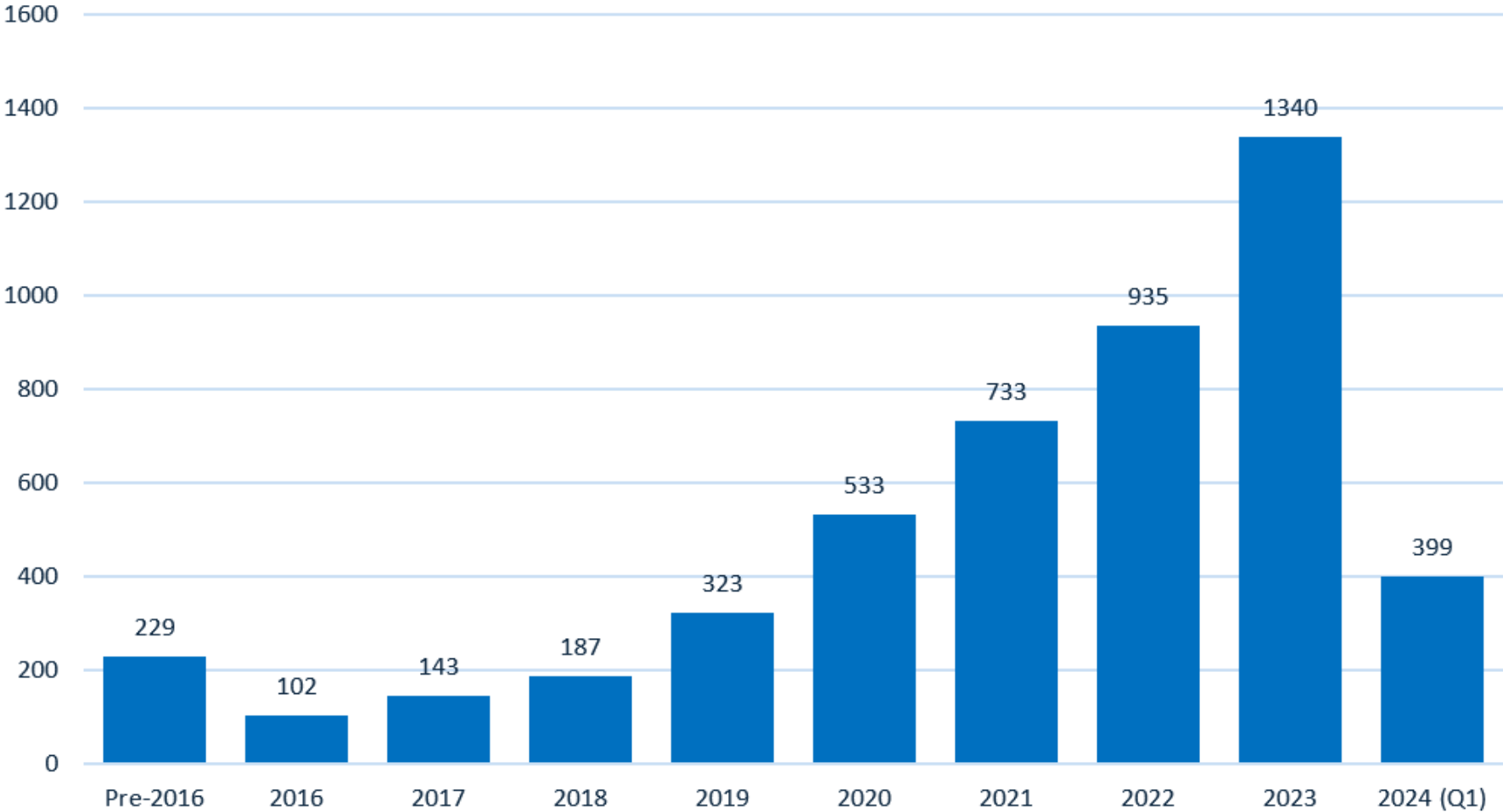
Statistics (as of 12/28/22)

- Volume: 3,200+ cases
- Location: 88% in N.D. Ill. & 7+% in S.D. Fla.
- IP Type: 88% trademarks, 6% copyright, 6% patents
- How Resolved*: 70% defaults, 28% stipulated judgments
- Number of defendants: 600,000+
- Foregone filing fees: \$250M+



Statistics (as of 3/29/24)

SAD Scheme Cases Filed



Estimate: 268,000 defendants in 2023 = \$107M in lost filing fees

Why the SAD Scheme Works So Well for Rightsowners

● Reduce litigation costs

- Non-individualized robo-pleading
- Bypass service
- Reduce filing fees through improper joinder.
 - Ex: Betty's Best sued 1,099 defendants & saved \$440k in filing fees. *Betty's Best, Inc. v. Schedule A Defendants*, 2023 WL 8310347 (S.D. Fla. Nov. 17, 2023)
- Non-individualized adjudication

● Increase odds of winning in court

- Bypass jurisdiction
- Sealing hinders defense
- Dismiss any resisting defendants to control narrative
- Courts will make mistakes that won't be corrected on appeal

● Turn a profit

- Freezes force settlements
- Default judgments are collectible
- Courts don't realize the impact of their rulings.
 - Ex: An ex parte TRO helped Betty's Best overfreeze \$19M+ (from 64 of 1,099 defendants)

Schedule A Cases

Proposed orders in trademark cases brought against "Schedule A" defendants should conform, to the extent feasible, to the templates posted below. When a plaintiff submits a proposed temporary restraining order, preliminary injunction order, or default order to the court's Proposed Order Inbox, plaintiff should also submit a document that shows, in red text, any differences between Plaintiff's proposed order and the relevant template order.

To the extent that a proposed temporary restraining order, preliminary injunction order, or default order requests relief beyond the relief authorized in the templates, the plaintiff's motion should support that request with citations to legal authority consistent with Seventh Circuit precedent.

[TRO Template Schedule A Cases](#)

[Preliminary Injunction Template for Schedule A Cases](#)

[Default Judgment Template for Schedule A Cases](#)

Example: Court Issues Ex Parte TRO Despite Jurisdiction & Joinder Defects

- **Rightsowner sued 20 defendants for uploading allegedly infringing videos to YouTube and got ex parte TRO**
- **But preliminary injunction denied...**
 - Jurisdiction: “uploading videos to YouTube doesn’t create jurisdiction in YouTube’s home court”
 - Joinder: “no allegations suggesting the claims against each separate Defendant arise out of the same transaction or occurrence; rather, they allege separate acts of copyright infringement”

Example: Ex Parte TRO Restrained a Fair Use



- “The Court previously found that Emoji Company satisfied its burden, largely due to the absence of any adversarial presentation. But now, based on Winlyn’s motion, the Court finds that Emoji Company is not entitled to continuing preliminary injunctive relief against Winlyn”
 - “The word “Emoji” helpfully describes the stickers that Winlyn is selling”
 - “Winlyn will most likely be able to show that its use of the mark was fair and in good faith”
- How many other TRO mistakes were there?

Example: “Fraud on the Court” Produces Ex Parte TRO



Plaintiff's Flag



Defendant's Flag

- **Rightsowner used “fraud on the court” to obtain ex parte TRO**
 - Misidentified the plaintiff
 - Mislocated the plaintiff
 - Mislocated the defendant & claimed expatriation risk
 - Misclaimed service
 - Changed legal theory from TM to CR claim
- **Court: SAD Scheme cases “do not permit relaxing the standards for pre-suit investigation—if anything, they require the opposite. If a plaintiff seeks extraordinary relief with respect to many defendants, it should expect to put in a corresponding amount of effort.”**
- **Consequences: fee shift + dismissal of defendant with prejudice**

Example: Court Lightly Sanctions “Misconduct”

- Patent owner sued 163 defendants, got ex parte TRO + Amazon freeze
- Court: “aspects of Plaintiff’s conduct in this litigation suggest possible misconduct”
 - “clear discrepancies” between patent claims and defendants’ products
 - Patent owner said most defendants “were difficult to find and contact [but] contact information for many of the parties was readily available”
 - Voluntarily dismissing defendants “suggests an improper purpose...Plaintiff used Rule 41 as part of a broader strategy to freeze the accounts of its competitors, then withdraw its claim against any party that happened to object”
 - Patent owner sent TRO to other marketplaces, even though TRO only applied to Amazon
 - Due to sealing, “Defendants could neither ensure their compliance with the TRO nor respond to Plaintiff’s arguments in opposing its extension.”
- “Sanctions” = 2 defendants get bond payout of <\$20k
 - Defendants dismissed WITHOUT prejudice
 - Fee shift denied due to voluntary dismissal
 - No inquiry into other defendants

Implications

- **Avoidable errors routinely occur because the SAD Scheme impermissibly cuts corners on due process**
 - “Ends justifies means” is the *opposite* of the rule of law
- **The SAD Scheme hurts the public**



How to Stop the SAD Scheme

- Judicial education
- Changes in online marketplace behavior?
- Stricter sanctions
- Attorney discipline
- Statutory reforms?
 - Scaled filing fees
 - Stronger presumptions against sealed defendant identities



Eric Goldman, *A SAD New Category of Abusive Intellectual Property Litigation*, COLUM. L. REV. FORUM (2023),

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4381824