

## **COUNTERFEITING: Effectively Using the Tools Pursuing Available Civil Remedies**

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### **I. PRELIMINARY ACTIONS.**

#### **A. Register Trademarks and Copyrights.**

Register wherever you sell, distribute and manufacture.

#### **B. Record Trademarks and Copyrights with the U.S. Customs and Border Patrol (“CBP”).**

1. Electronic template at [www.customs.gov](http://www.customs.gov). (Electronic filing not currently available.) It is relatively inexpensive (\$190 per trademark class) and subjects imports to seizure and forfeiture. Recordation procedure. 19 C.F.R. §§133.2, 133.3.
2. Articles that infringe a federally-registered trademark or copyright are subject to detention and/or seizure.
3. Articles bearing marks that are counterfeit or that unlawfully use a federally-registered trademark are subject to seizure and forfeiture. May subject involved individuals to fine.
4. Articles bearing marks that are confusingly similar to a recorded, registered mark and restricted gray-market articles (goods bearing genuine marks not intended for U.S. importation for which U.S. Customs granted gray-market protection) are subject to detention and seizure.
5. Effective for 20 years for copyrights, 10 years for trademarks and indefinitely for trade names as long as they are in use.
6. CBP currently has over 18,000 recordations.

**C. Develop Relationships.**

With private investigators, U.S. Customs agents, police and prosecutors. The key to interdiction is follow-up at specific ports.

The International AntiCounterfeiting Coalition (“IACC”) offers monthly product-training sessions at ports for customs officers, local police, sheriff’s departments, and prosecutors.

Some manufacturers provide short “training manuals.”

**D. Monitor Auction Sites.**

1. eBay maintains its Verified Rights Owner (VeRO) program to help companies with legitimate grievances get goods removed.
2. Also, buyer/seller feedback program whereby buyers and sellers rate one another.

*But see Tiffany (NJ), Inc. v. eBay Inc.*, 2004 WL 1413904 No. 1:04-CV-04607-KMK (Trial Pleading) (S.D.N.Y. Jan. 18, 2004) complaint alleging direct and contributory trademark infringement; direct infringement from advertising links eBay purchased on Internet search engines Google and Yahoo.

**E. Make Strategic Use of Cease and Desist Letters.**

Legitimate retailers will want problem to go away.

Willfulness can be inferred from ongoing abuse after having been presented with a cease and desist letter. *Louis Vuitton Malletier and Oakley, Inc. v. Veit*, 211 F. Supp. 2d 567, 583 (E.D. Pa. 2002) (collecting cases).

**II. OPTIONS IN FEDERAL AND STATE COURTS.**

**A. Federal Framework.**

Changes to trademark laws in 1984, 1996 and 2006 significantly improved owners’ ability to obtain relief and seize counterfeit merchandise:

1. Trademark Counterfeiting Act of 1984—Criminalizes trademark counterfeiting (18 U.S.C. § 2320), authorized and strongly encouraged treble damages and attorneys’ fees in civil anti-counterfeiting cases (15 U.S.C. § 1117(b)); and authorized *ex parte* orders for seizure of counterfeit materials (15 U.S.C. § 1116(1)(A)).

2. Consumer Protection Act of 1996—Mandated that customs destroy all counterfeit goods seized unless trademark owner consents to some other disposition, imposed civil fines on persons in any way involved in importation of counterfeit goods for sale or disposition, and increased criminal penalties, and designated trafficking in counterfeit goods a “predicate act” under the Racketeer Influenced and Corrupt Practices Act (“RICO”).
3. Stop Counterfeiting in Manufactured Goods Act (2006)—Amended 18 U.S.C. § 2320 and provided additional penalties for trafficking in counterfeit marks including enhanced forfeiture, destruction, and restitution provisions, and closed the loophole of *United States v. Giles*, 213 F.3d 1247 (10<sup>th</sup> Cir. 2000) (federal law prohibiting trafficking in counterfeit goods, 18 U.S.C. § 2320, applied only to finished counterfeit products and not to trafficking in counterfeit labels).

#### **B. State Courts.**

1. Most states’ civil statutes do not provide important tools to victims or law enforcement available under federal law. Nonetheless, according to the IACC, a large percentage of criminal counterfeiting enforcement takes place at the state level.
2. Every state has a statutory registration system for processing trademarks, and three quarters of states make counterfeiting a crime. In Washington, *see* RCW 9.16.030. In Washington, counterfeiting can be a felony. RCW 9.16.035.
3. In Washington, civil counterfeiting is addressed under RCW 19.77.140 (trademark imitation) and RCW 19.77.150 (remedies). Remedies include injunctive relief restraining manufacture, use, display or sale of “counterfeits or colorable imitations,” disgorgement of profits, damages, delivery of the counterfeits “to an officer of the court” or to the “registrant” for destruction, reasonable attorneys’ fees and an amount not to exceed three times the profits and damages where the court finds the wrongful acts were committed “in bad faith or otherwise.”
4. No reported Washington appellate cases address counterfeit goods and statutory remedies.

### **III. PURSUING CIVIL REMEDIES: FORUM, VENUE AND JURISDICTIONAL ISSUES.**

#### **A. Forum.**

1. Is there an **agreement to arbitrate**? Should you include an arbitration

clause in an agreement with a foreign manufacturer?

- a. Advantages: Convenient forum and venue;
- b. Disadvantage: Difficulties in enforcing arbitral orders (scheduling, discovery, judgment).

- 2. **U.S. International Trade Commission** (an independent, quasi-judicial federal agency that determines import injury to U.S. industries) through Section 337 (of the Tariff Act of 1930).

Exclusion Orders: Has authority to issue exclusion orders and cease and desist orders as to imports that infringe valid and enforceable U.S. intellectual property works (patents, trademarks, copyrights, mask works). These orders can be limited or general (including against unnamed manufacturers). Orders are enforced by CBP.

*E.g., Certain Automotive Parts, 337-TA-557* (instituted January 3, 2006) against Taiwanese producers of replacement parts for Ford F-150 trucks; *Tadalafil or Any Salt Thereof* (instituted May 17, 2005) against fake Cialis sold primarily through offshore Internet pharmacies.

- 3. Federal Courts:

28 U.S.C. § 1331 (federal question); 28 U.S.C. § 1332 (diversity);

28 U.S.C. § 1337 (regulating commerce);

28 U.S.C. § 1338:

(a) original and exclusive jurisdiction: patent, plant variety protection and copyright cases; original but not exclusive jurisdiction: trademarks;

(b) original jurisdiction: unfair competition when joined with a “substantial and related” copyright, patent plant variety protection or trademark claim

28 U.S.C. § 1367 (supplemental jurisdiction for related state law claims);

15 U.S.C. § 1116(a) (power to grant injunctions);

- 3. State Courts – do not have jurisdiction of copyright and patent claims.  
28 U.S.C. § 1338.

**B. Venue.**

1. Statutory provisions:

28 U.S.C. § 1391(b): where (1) any defendant resides; (2) substantial part of events or omissions occurred or substantial part of property located; or (3) any defendant may be found, if otherwise no district.

28 U.S.C. § 1400 (patents and copyrights, mask works and designs) where the defendant or his agent resides or may be found or where acts of patent infringement occurred.

2. Strategic Considerations:

Does venue require bad faith to get remedies? *See* 5 J. Thomas McCarthy, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 30:91, at 30-196 (2007) (hereinafter “MCCARTHY”) (collecting cases). Are there other considerations pertaining to remedies? *E.g.*, law on statutory damages?

3. Use of foreign venue and remedies may be required for successful attack on counterfeit goods.

**C. Personal Jurisdiction or Its Absence; Go for Available Parties.**

1. *Corporate officers or directors* are generally personally liable for all torts which they authorize, direct or participate in, and a showing of intent or bad faith is not required to prove liability. *Rolex Watch U.S.A., Inc. v. Zeotec Diamonds, Inc.*, No. 02-01089 (C.D. Cal. Nov. 7, 2002), *citing Hewlett-Packard Co. v. Repeat-O-Type Stencil Manufacturing Corp.*, No.C-92-3330 DLJ, 1995 WL 552168 (N.D. Cal. Aug. 30 1995) (order re plaintiff’s motion for summary judgment).

Determine level of individual (and spousal) involvement for potential joint liability theory and access to jointly-held assets.

2. *Other available parties* may include street, flea market and other vendors and their management, retail stores, landlords, mall owners, and Internet providers, etc. Such parties may be contributory or vicarious infringers:

a. *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9<sup>th</sup> Cir. 1996) seminal case (holding that a cause of action for contributory and vicarious copyright and contributory trademark infringement existed against a swap meet owner for the infringing activities of independent vendors).

- b. *Hard Rock Café Licensing Corp. v. Concession Svcs., Inc.*, 955 F.2d 1143 (7<sup>th</sup> Cir. 1992) (holding that a cause of action for contributory trademark infringement existed against a flea market owner for the infringing activities of a vendor).
- c. *Mallatier v. Carroll*, No. 05-CV-3331 (TPG) (S.D.N.Y. June 27, 2005). Canal Street, New York City litigation brought by Louis Vuitton against owners of buildings housing vendors of counterfeit goods; remedies included preliminary injunction requiring landlord to evict tenants selling counterfeit goods; signs stating that vendors do not carry genuine goods; announcements that counterfeit sales are illegal and weekly inspections; mandatory covenants in all leases for future tenants against sale of counterfeit goods.
- d. *Arista Records Inc. v. Flea World, Inc.*, 78 U.S.P.Q.2d 1339 (D.N.J. 2006) (flea market operator liable for contributory and vicarious copyright infringement for vendors' sales of unauthorized copies).
- e. *Tiffany (NJ) Inc. v. eBay Inc.*, No. 1:04-CV-04607-KMK (S.D.N.Y.)

#### IV. COMPLAINT, FILING AND SERVICE OF PROCESS.

##### A. Complaint.

- 1. What to Plead:
  - a. Counterfeit nature of the trademark;
  - b. Trademarks infringed (statutory damages apply per mark infringed) regardless of number of infringing items sold or offered for sale. *Microsoft v. Wen*, No. C99-04561 MEJ, 2001 WL 1456654 at \*5 (N.D. Cal. Nov. 13, 2001);
  - c. Advertising injury (if possible) may lead to insurance coverage, if any, e.g., *Century 21, Inc. v. Diamond State Insurance*, 442 F.3d 79 (2d Cir. 2006);
  - d. Willfulness: deliberate and unnecessary duplicating of plaintiff's mark in a way calculated to appropriate or otherwise benefit from goodwill plaintiff has nurtured. *SecuraComm Consulting Inc. v. Securacom Inc.*, 166 F.3d 182, 187 (3d Cir. 1999); deliberate intent to deceive. *Lindy Pen Co. v. Bic Pen Corp.*, 982 F.2d 1400, 1405 (9<sup>th</sup> Cir. 1993);

- e. To invoke § 1117's special civil monetary remedies against counterfeiting, the claimant must establish that: (1) the defendant intentionally used a counterfeit mark in commerce; (2) knowing the mark was counterfeit; (3) in connection with the sale, offering for sale, or distribution of goods; and (4) its use was likely to confuse or deceive. *State of Idaho Potato Comm'n v. G&T Terminal Packaging Inc.*, 425 F.3d 708 (9<sup>th</sup> Cir. 2005), *citing* MCCARTHY § 25:15 (citing 15 U.S.C. §§ 1114(1)(a), 1117(b));
- f. Plead other applicable trademark (*e.g.*, infringement, dilution), copyright, trade dress and state law claims.

2. What to Pray For (Remedies):

- a. Actual damages (hard to show);
- b. Profits (15 U.S.C. § 1117(a)(1)) (plaintiff must prove sales only);
- c. Trebling (15 U.S.C. § 1117(b));
- d. Injunctive relief (15 U.S.C. § 1116);
- e. Destruction of goods (15 U.S.C. § 1118);
- f. Statutory damages (15 U.S.C. § 1117(c)):
  - i. \$500 - \$100,000 per mark per type of goods;
  - ii. If conduct is willful, up to \$1,000,000 per mark per type of goods;
- g. Enhanced damages if warranted (15 U.S.C. §§ 1117(a) and (b));
- h. Reasonable attorneys' fees, costs and investigative fees. *See* Section VI below.

**B. Civil *Ex Parte* Seizure Orders (15 U.S.C. § 1116).**

1. Applicability:

- a. Counterfeit goods only (not merely infringing; not overruns or gray-market goods);
- b. Registered trademarks only;

- c. “Identical or substantially indistinguishable” marks on goods registered in the same class as the genuine mark holder;
  - d. “Means of making” counterfeit products.
2. Requirements:
- a. Notify U.S. Attorney (15 U.S.C. § 1116(d)(2) and § 1118);
  - b. Verified complaint or affidavit of trademark holder (15 U.S.C. § 1116(d)(3));
  - c. Post bond (against wrongful seizure) (15 U.S.C. § 116(d)(4));
  - d. Nothing but an *ex parte* order will suffice;
  - e. Clearly establish:
    - (i) No publicity of requested seizure;
    - (ii) Likelihood of success on the merits (showing counterfeit mark used in connection with a sale or offer of sale);
    - (iii) Immediate and irreparable injury without the seizure;
    - (iv) Specific location of counterfeit product where seizure will occur;
    - (v) Balance of harm favors movant;
    - (vi) Target of seizure would destroy, move, hide products and documents if proceeding was on notice.
3. Where possible, commence proceeding under seal. *See* 15 U.S.C. § 1116(d)(8).
4. Generally requires deep pockets.
5. Requirements for [Proposed] Order set forth at 15 U.S.C. § 1116(d)(5). Application for order must contain information required for order (15 U.S.C. § 1116(d)(3)(B)).
6. Other items include seizure of books and records (protective order); papers filed under seal until the person against whom the order is directed has opportunity to contest and seizure confirmation hearing (15 U.S.C. § 1116(d)(10)(A)).



7. Service of the order is to be made by a federal, state or local law enforcement officer (e.g., federal marshal, customs agent, secret service agent or post office officer). 15 U.S.C. § 1116(d)(9). Drastic acts like seizure should be conducted by neutral and impartial persons, and such acts may be met by resistance better addressed by public officer. *Warner Bros., Inc. v. Dae Rim Trading, Inc.*, 877 F.2d 1120, 1125 (2d Cir. 1989).

It may be desirable for plaintiff's attorney to accompany officers on the seizure to identify items to be seized. Senate-House Joint Explanatory Statement on Trademark Counterfeiting Legislation, 130 Cong. Rec. H12076, at 12082 (Oct. 10, 1984).

8. Wrongful seizure 15 U.S.C. § 1116(d)(11):
  - a. Defendant can recover damages for lost profits, cost of materials, lost goodwill;
  - b. Punitive damages if seizure was sought in bad faith;
  - c. Prejudgment interest (from date of service of claimant's pleading until recovery granted);
  - d. Reasonable attorneys' fees unless the court finds extenuating circumstances.

**C. Service of Process.**

1. Find and serve defendants within 120 days. Rule 4(m), Fed. R. Civ. P. Note: requirement does not apply to service in a foreign country pursuant to Rule 4(f) or (j)(1).
2. Service upon individuals in foreign countries governed by Rule 4(f)(1): Hague Convention or other means "reasonably calculated to give notice."
3. Service of injunctions after hearing, after notice to defendant – anywhere in the United States and enforceable by granting the injunction by any other U.S. District Court in whose jurisdiction a defendant may be found. 15 U.S.C. § 1116(a).

**V. WHAT IF THE DEFENDANTS ALSO ARE OR MIGHT BE CRIMINAL DEFENDANTS?**

**A. Federal.**

1. Statutes:
  - a. 18 U.S.C. § 2320—Trafficking in Counterfeit Goods or Services Anti-Counterfeiting Consumer Protection Act of 1996, the “Trademark Counterfeiting Act of 1996”—increased penalties and tightened loopholes in existing laws. *See also* strengthened civil provisions in Section VI;
  - b. 18 U.S.C. § 1961 *et seq.* – RICO;
  - c. 18 U.S.C. § 371 – Criminal Conspiracy;
  - d. 18 U.S.C. §§ 1956, 1957 – Money Laundering;
  - e. 18 U.S.C. § 545 – Smuggling Goods into the United States.
2. Federal law enforcement agencies include: Customs and Border Protection (Inspectors and Import Specialists) and Immigration and Customs Enforcement Agents; Federal Bureau of Investigation; United States Postal Service; Bureau of Alcohol, Tobacco and Firearms; Internal Revenue Service; and U.S. Attorneys.

**B. State.** *See, e.g.,* RCW 9.16.035.

**C. Advantages to Criminal Prosecution:**

1. Can be brought by police/prosecutors;
2. Deterrent effect of potential fine and/or imprisonment;
3. Potentially lower cost than civil litigation;
4. Criminal measures for willful trademark counterfeiting and copyright piracy on a commercial scale are WTO obligations.

**D. Disadvantages:**

1. Tougher evidentiary standards;
2. U.S. Attorney’s offices may view enforcement with skepticism—except for large cases—and the irony is that if the case is large and well

developed by private counsel, the office legitimately may conclude that the case is adequately addressed. *See* Federal Principles of Prosecution;

3. If you are hoping for criminal prosecution be prepared to establish high impact on the community or “criticality”;
4. If a target becomes willing to talk about civil settlement upon mention of potential criminal prosecution, you may find yourself in a difficult ethical position. Can you settle in exchange for an agreement not to refer? Would the U.S. Attorney’s Office respect such an agreement in any event?

## **VI. ATTORNEYS’ FEES.**

### **A. Trademark Infringement.**

Under 15 U.S.C. § 1117(a), applicable generally to trademark infringement cases, “The court in exceptional cases may award reasonable attorney fees to the prevailing party.”

1. Circuits differ on whether standards applicable to plaintiffs and defendants are the same. *Compare, e.g., Stephen W. Boney, Inc. v. Boney Services, Inc.*, 127 F.3d 821 (9<sup>th</sup> Cir. 1997) (applying copyright rule in *Fogerty* to trademark cases) *with Door Systems, Inc. v. Pro-Line Door Systems, Inc.*, 126 F.3d 1028 (7<sup>th</sup> Cir. 1997).
2. An exceptional case may be:
  - a. Malicious, fraudulent, deliberate and willful. *Tire Kingdom, Inc. v. Morgan Tire & Auto, Inc.*, 253 F.3d 1332, 1335 (11<sup>th</sup> Cir. 2001);
  - b. Bad faith. *Takecare Corp. v. Takecare of Oklahoma, Inc.*, 889 F.2d 955 (10<sup>th</sup> Cir. 1989);
  - c. Vexatious litigation tactics/effort to “bury” plaintiff. *Securacomm Consulting, Inc. v. Securacom, Inc.*, 224 F.3d 273 (3d Cir 2000);
  - d. “Groundless, unreasonable, vexatious, or pursued in bad faith.” *Scott Fetzer Co. v. Williamson*, 101 F.3d 549, 555 (8<sup>th</sup> Cir. 1996).
3. Courts retain discretion to deny attorneys’ fees where no intentional counterfeit use. *Zelinski v. Columbia*, 335 F.3d 633 (7<sup>th</sup> Cir. 2003). However, a failure to award attorneys’ fees in an intentional infringement or counterfeiting case may be an abuse of discretion. *See Playboy Enterprises, Inc. v. Baccarat Clothing Co.*, 692 F.2d 1272 (9<sup>th</sup> Cir. 1982).

## **B. Counterfeiting.**

Under Section 15 U.S.C. § 1117(b) (counterfeiting), the court “*shall*, unless the court finds extenuating circumstances, enter judgment for [treble damages] together with a reasonable attorney’s fee” for willful counterfeiting. (Emphasis added.) Intentional sale of counterfeit articles thus mandates attorneys’ fees.

1. Extenuating circumstances are not defined in the statute and are to be determined on a case-by-case basis. *Fendi S.a.s. Di Paola Fendi E Sorelle v. Cosmetic World, Ltd.*, 642 F. Supp. 1143, 1147 (S.D.N.Y. 1986). See also *Levi Strauss & Co. v. Shilon*, 121 F.3d 1309, 1314 (9<sup>th</sup> Cir. 1997); *Microsoft Corp. v. CMOS Techs, Inc.*, 872 F. Supp. 1329, 1339 (D.N.J. 1994).
2. The exception for extenuating circumstances is narrow. *E.g.*, *Shilon*, 121 F.3d 1309, *supra*. Examples might include unsophisticated individual, operating on a small scale and posing no risk to public health or safety, and financial hardship.
3. Attorneys’ Fees Are Available to Defendants for Wrongful Copyright Infringement. 15 U.S.C. § 1116(d)(11).

## **C. Copyright.**

Under 17 U.S.C. § 505, the Court may in its discretion award the prevailing party reasonable attorneys’ fees and costs.

1. Under *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994), prevailing plaintiffs and defendants are to be treated alike in court’s exercise of discretion to grant fees.
2. In determining whether to grant attorneys’ fees, the Court may consider such factors as frivolousness; motivation; objective unreasonableness in both the factual and legal arguments of the case; the need in the particular circumstance to advance considerations of compensation and deterrence; and promotion of the Copyright Act’s objectives. *Id.* Exceptional circumstances are not a prerequisite to such an award. *Historical Research v. Cabral*, 80 F.3d 377, 378 (9<sup>th</sup> Cir. 1996). Willful infringement is an important factor favoring an award of fees, but does not, in itself, compel an award. *Id.* at 379.

## **D. Washington State Law.**

“The court, in its discretion, may enter judgment awarding reasonable attorneys’ fees . . .” RCW 19.77.150.

## **VII. IMPORTANCE OF METRICS.**

### **A. To Avoid Counterfeiting.**

Use high radio-frequency RFID tags, unique labeling and materials that can't be readily copied.

### **B. For Technical Evaluation of Goods as Authentic or Counterfeit.**

Create lists describing how to spot authentic goods and counterfeit goods. Publicize. Many trademark owners publish their lists on the web.

### **C. Damages.**

*Tommy Hilfiger v. Goody's Family Clothing*, No. 1:00-CV-1934-BBM, 2003 WL 22331254 (N.D. Ga. May 9, 2003) (for willful blindness to purchase and sale of counterfeit jeans and t-shirts, retailer liable for trebled damages of \$2,066,985 or in the alternative, statutory damages of \$2,100,000 and profits of \$8,976,440, reasonable attorneys' fees and costs)

Statutory damages may be awarded for: (1) not less than \$500 or more than \$100,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed, as the court considers just; or (2) if the court finds that the use of the counterfeit mark was willful, not more than \$1,000,000 per counterfeit mark, per type of goods or services sold, offered for sale, or distributed, as the court considers just. 15 U.S.C. § 1117(c).

Interpreted to apply per mark infringed regardless of number of infringing items sold or offered for sale. *Microsoft v. Wen*, No. C99-04561 MEJ, 001 WL 1456654 at \*5 (N.D. Cal. Nov. 13 2001).

*Rolex Watch U.S.A., Inc. v. Zeotec Diamonds*, No. CV 02-01089 (C.D. Cal. Mar. 7, 2003) (awarding statutory damages to plaintiff in the amount of \$1,800,000).

### **D. Fines and Criminal Penalties.**

Level of crime, fines and imprisonment dependent on numbers of offenses and quantities involved. *See, e.g.*, RCW 9.16.035.

### **E. Effects of Counterfeiting.**

The scope of the problem (in terms of lost business revenue) is huge; estimated as exceeding \$600 billion worldwide, \$250 billion in the United States and increasing. IACC.