

# CHAPTER 1

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## Conflicts

### *Causes, Prevention, and Controlling Counterfeiting*

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In the past decade, efficiently addressing brand protection issues within the corporate structure has evolved into a top priority for companies dedicated to protecting the goodwill associated with their brands. Counterfeit products are no longer seen as affecting only luxury brands on Canal Street in New York City. In fact, counterfeiting has grown to such an extent that it now operates as an entire industry, one that provides a constant stream of income to small-time infringers just the same as it does to members of organized crime and even terrorist groups.

While misappropriation of valuable company trademarks by counterfeiters has served as a means from which to realize this stream of income, the overall integrity associated with each brand subject to counterfeiting is now being put directly at stake. Controlling the consequences of this worldwide industry has become more challenging as technology and counterfeiters themselves have become more sophisticated. The Internet has grown into a major avenue of exploitation for counterfeiters,<sup>1</sup> without which many offenders would not have the refuge of anonymity and unaccountability. The corporate structure has quickly turned to online anti-counterfeiting enforcement strategies to supplement brick-and-mortar protections that have been utilized by brand owners seeking to protect their trademarks. By adapting to this anti-counterfeiting culture, companies provide a stronger barrier against notorious offenders operating in domestic and international spaces, and, in the same manner, recognize the relevancy of focusing on brand protection through a very modern approach.

The purpose of this chapter is to briefly discuss how the growth of counterfeiting as an industry has stimulated corporate responsibility to implement modern enforcement strategies needed to combat the problems that threaten the integrity of valuable brands. This chapter will address the importance of focusing on the burgeoning

problem of online counterfeiting and how the development of a strategic online anti-counterfeiting enforcement program serves as a critical supplement to traditional brick-and-mortar enforcement protections. This chapter will also provide a focus on the importance of partnering with efficient and effective outside counsel to achieve complete brand protection, as well as discuss the benefits and risks associated with civil and criminal enforcement strategies currently being used to protect the intellectual property (IP) rights of brand owners.

## In-House Enforcement Strategies on the Internet

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Some corporations affected by recurring counterfeiting issues opt to retain full- or part-time attorneys, paralegals, and investigators to work in-house. In-house enforcement teams can conduct broad Internet searches and utilize domain-based research services (e.g., WHOIS) to uncover information necessary to construct a basic profile for a seller of counterfeit merchandise. Online investigative firms also provide additional assistance in this respect by undertaking test purchases, making purchases of infringing products, running trace investigations, and even monitoring auctions to further enhance the target profile.

After choosing a web site or group of web sites that pose the most immediate threat to the overall integrity of a given brand, brand owners may select any number of enforcement avenues available to them when seeking to protect their rights against a counterfeiter. Some of these avenues may include sending cease-and-desist letters themselves to counterfeiters directly or even implementing various notice and takedown programs that have the effect of helping to reduce the visibility of counterfeit products being offered on the Internet.

## Reducing Counterfeit Visibility on Popular Search Engines

Depending on the magnitude of the counterfeiting problem relative to the particular brand, companies often begin their online anti-counterfeiting enforcement program by targeting counterfeit web sites that are most visible to the public. The volume of counterfeit sites operating on the Internet is overwhelming, and this fact is only complicated by the notion that most sellers of counterfeit goods have found it easier to perfect their trade by exploiting the anonymity that the Internet provides for them on a day-to-day basis. Counterfeiters expand the scope of their businesses to capture as many prospective customers as possible, even if that means operating a number of sites with different domain names and different content in order to increase product availability to the public. Counterfeiters also utilize the Internet to promote their merchandise through avenues such as sponsored links and comparison shopping sites found as listings on popular search engines to appeal to a substantially wider audience.

**SPONSORED LINKS** Sponsored links are links to web sites that pay for strategic placement on a particular search engine (e.g., Google, Yahoo!, etc.). These links not only function as a means from which to access a particular site with ease, but they also serve as an important search engine marketing service through which sellers have

the potential to purchase and maintain high levels of visibility for their businesses. Counterfeiters often bid on sponsored links offered by popular search engines in order to further promote their web sites and substantially increase the volume of their businesses. Consumers searching for particular terms or products on search engines encounter this advertising quite frequently—often featured on the border of the search engine itself—and counterfeiters exploit this avenue of promotion to target a particular customer base. Counterfeiters frequently bid on key terms for sponsored links promoting particular goods that best associate with the goods that they are in the business of selling. In addition to offering substandard goods and services to consumers, counterfeiters misappropriate company trademarks and diminish the goodwill associated with a particular brand by publicly advertising the sale of goods that are in no way authentic.

The growth of advertisements for counterfeit sites being promoted on popular search engine results pages has prompted many brand owners to focus more on protecting their rights on the Internet. In order to reduce the visibility of these advertisements, brand owners have the option of contacting search engine administrators and complaining about the infringing content being advertised as a sponsored link on the site. By requesting the removal of these links, brand owners take an important step toward implementing an enforcement strategy that aids in protecting the integrity of their valuable brands on the Internet.

**COMPARISON SHOPPING SITES** Counterfeiters also utilize the Internet to promote their merchandise by offering infringing products on comparison shopping sites provided by popular search engines (e.g., Google Product Search, Bing Shopping). Comparison shopping sites are uniquely equipped with product listings, consumer reviews, store ratings, and personal shopping lists that offer creative shopping options to consumers on the Internet. Similar to the model of purchasing sponsored links, counterfeiters often place product listings on comparison shopping sites in order to further promote their web sites and increase the volume of their businesses. In doing so, counterfeiters create a presence in another important consumer arena and, at the same time, threaten brand owners by selling goods that have the overall effect of diminishing the reputation of authentic goods.

The growth of counterfeit products being listed on comparison shopping sites has also made brand owners more attentive to protecting their rights on the Internet. As such, brand owners may formally contact search engine administrators and complain about infringing content being listed on a particular comparison shopping site. In requesting the removal of these listings, brand owners take another important step toward controlling the counterfeiting problem and protecting the value of their brands on the Internet.

**SEARCH ENGINE OPTIMIZATION** The goal of reducing counterfeit visibility on popular search engines has also led brand owners to participate in search engine optimization (SEO) strategies to give their web sites noticeable presence on the Internet. Brand owners interested in having their company web sites appear close to the top of “natural” or “organic” search results utilize SEO as a process to help increase the volume of web site traffic by means of inclusion in early search engine listings. In order to properly optimize a web site, companies edit content and coding to include

brand and product-specific keywords for recognition by a search engine. Optimization efforts, whether conducted by in-house employees or outside consultants, have the overall effect of improving public recognition and access to a particular brand on the Internet by way of increasing visibility in prominent search engine listings.

Counterfeiters often take advantage of SEO by creating a vast number of spam blogs, which are a series of web logs with affiliated, interconnected hyperlinks, utilized in order to increase search engine rankings. If tagged with enough infringing content, spam blogs can rise to the top of search engine listings and even override the legitimate company web sites of brand owners. Companies focused on improving SEO for their particular brand can sue these infringers and, if successful, take ownership of all infringing sites, thus helping to decrease the visibility of counterfeit products in prominent search engine listings.

### **Monitoring Online Auction Sites and Internet Trade Boards**

Companies have also begun to extend the reach of their online anti-counterfeiting enforcement program by monitoring online auction sites and Internet trade boards, as well as by contacting Web hosts and online service providers to take further action against counterfeiters. Counterfeiters utilize the Internet to promote their merchandise through avenues such as online auction sites (e.g., eBay and Yahoo! Auctions) and business-to-business (B2B) Internet trade boards (e.g., Tradekey, Ecplaza) in order to appeal to a wider audience. Though established legal precedent does not hold online marketplaces liable for trademark infringement on grounds of contributory liability,<sup>2</sup> business-to-consumer (B2C) online auctions and consumer-to-consumer (C2C) online auctions can be monitored quite effectively through the use of different online reporting programs. Since corporate trademark owners have the responsibility to protect their trademarks through individual acts of policing and enforcement, programs such as iOffer Reporting and the eBay VeRO (Verified Rights Owner) program enable brand owners to contact online auction sites directly and request the removal of individual infringing listings. Outside counsel may also provide creative options for auction monitoring and reporting services to brand owners seeking a more personalized and targeted campaign against wholesalers of counterfeit products operating on online auction sites and Internet trade boards.

### **Contacting Web Hosts and Online Service Providers**

Though utilized by most web site owners in good faith, Web hosting services have also been the subject of exploitation by many counterfeiters looking for an avenue to sell their goods and promote their services. Web hosting services sell access to and provide web site owners and administrators with space on a server to position their web sites on the Internet. While host services may send takedown notices based on request, disable the IP addresses of infringing sites, or even block servers to prevent infringing conduct from occurring, counterfeiters will often change IP addresses and shift between host providers without notification. This activity makes it difficult at times for Web hosts to pinpoint the identity of counterfeiters and take appropriate action against them to protect the rights of frustrated brand owners.

While not traditionally subject to legal liability for infringing activity springing from counterfeit web sites operating on their servers, Web hosts recently have been found responsible for not terminating infringing uses when notified that web site owners in the business of operating counterfeit sites were residing on their servers. In *Louis Vuitton Malletier v. Akanoc Solutions Inc.*,<sup>3</sup> which was filed in the U.S. District Court for the Northern District of California, a jury found the defendants liable for contributory trademark and copyright infringement and awarded substantial statutory damages to the plaintiff in recovery, even despite arguments made by defendant that counterfeiters often changed IP addresses and shifted between host providers. The decision assigns new liability to Internet service providers for not acting—or failing to act—when notified by a brand owner that counterfeit or infringing merchandise is being offered by web sites hosted on their servers. This decision has had the effect of putting the entire online hosting community on notice that willful blindness will not be tolerated when counterfeit sites are reported as infringing and requested for removal by a brand owner.

This development in the law places companies in a better position to prohibit action, as well as nonaction, by Web hosting services not in the habit of combating counterfeiters that misappropriate IP rights after being notified by brand owners. The change in law affects corporate behavior substantially, in that takedown notices issued to Web hosting services by companies protecting their brands have much more command than they may have once possessed. It also provides a pathway for potentially extending the reach of liability onto services such as domain name registrars, Domain Name Service (DNS) name servers, and other online service providers that disregard counterfeiters in the business of abusing their services.

### Monitoring Social Media and Networking Sites

In seeking compliance from online auction sites and Internet trade boards, as well as from Web hosts and online service providers, many companies have also begun to monitor social media and networking sites for ongoing counterfeit activities. Web-based social networking services provide a new, dynamic platform by which counterfeiters are positioned to reach across the expanse of the Internet and target potential consumers of their goods. Social networking sites often manifest in different forms, but, fundamentally, each platform attempts to serve the essential purpose of building an online community in order to better expand and refine relationships among people (e.g., Facebook, MySpace, Twitter, LinkedIn).

Most sites follow a similar model that provides users with the option of uploading a profile photo, listing personal information, and building a larger social network by inviting other members to join their networks. In order to join a particular network, the invited member must accept the networking request in order to bridge the gap between the two members. Once the request is accepted, both members are provided access to each respective profile, which often includes a list of contacts on each profile that can be utilized to build an even larger social network. Individual users are not the only parties that use social networking sites to expand their networks. Different industries and businesses alike also take advantage of social networking sites to market and promote their products and services, and they are uniquely equipped with their own networks

to share their ideas and interests across other networks. This increased exposure not only allows established brands to build upon their reputation, but also provides an avenue for smaller brands to introduce their products and services to a large, available community of online consumers.

As social networking sites have started to become an essential part of the overall structure of the Internet, counterfeiters have also shifted their business strategy to begin promoting their goods in a unique and original manner through these sites. If available by the site, some counterfeiters utilize private groups to promote and sell their products. Members create groups in order to provide a venue for other members to meet and share interests and affiliations. Though some groups are not capable of being accessed unless approved by the group administrator, many groups are publicly accessible and any member of the site can access the contents of the group at will. With groups being so easily searchable and neatly organized according to subject matter, counterfeiters create groups and use them not only as a means to widely promote their products, but also to drive online traffic to any number of their counterfeit sites existing online. This can be accomplished by simply listing the URL for the counterfeit web site in the group page itself or by providing an actual link to the web site that contains the infringing merchandise. These groups are often utilized by counterfeiters to advertise purse parties as well, which are gatherings held at a host's or hostess's designated location to sell, distribute, and purchase counterfeit merchandise. With such avenues being exploited, it becomes crucial for brand owners to monitor this behavior and control counterfeiting in new and creative ways.

Though social networking sites can provide an innovative platform for brand owners to use in starting or continuing to promote goods or services, it is certainly in the best interest of a company to focus on the potential problems they pose. Corporate behavior has been adapting to the issues posed by social networking and taking charge of monitoring activity on sites where counterfeit sellers have been advertising or offering counterfeit products. Companies have started to exercise their right to draft weekly—or even daily—takedown notices to sites listing publicly available groups or profiles that advertise or sell counterfeit goods, in order to better protect their valuable IP rights. When subject to compliance by social networking service providers, these programs can be very effective at controlling the problem of counterfeiting and helping to reduce the overall visibility of infringing products on popular online platforms.

## Partnering with Outside Legal Counsel

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Along with the implementation of a strategic online anti-counterfeiting program, brand owners frequently partner with outside counsel to achieve comprehensive brand protection by assessing the benefits and risks of engaging in various enforcement strategies to protect their IP rights. In the United States, brand owners are often confronted with a recurring dilemma when choosing how to deal with specific counterfeiters who have been identified: whether to initiate civil litigation against the counterfeiter at the brand owner's own expense, or to attempt to secure law enforcement interest in pursuing the case at the public's

expense. Each form of brand protection has its own benefits and drawbacks, and each case must be evaluated independently on its own facts and merits.

In recent years, brand owners have lobbied successfully for statutory mechanisms that permit the civil litigant to exercise a fair degree of control over potentially harsh remedies, including a form of “search and seizure” activity known as the “*ex parte* seizure” power. This power enables a brand owner to put counterfeiting at an immediate halt. However, while on paper these legislative enactments seem to impose heavy penalties on counterfeiters, in practice, they are often underutilized, misunderstood, or simply ignored by brand owners, in many cases because of expense and risk.

One of the key roles of outside legal counsel is to advise a brand owner by evaluating which targets are appropriate for civil litigation and which are most amenable to criminal prosecution. Experienced outside counsel can work with prosecutors and law enforcement officials to help prepare the case against the counterfeiter both before and after indictment.

### Civil Action

The Lanham Act is the key federal statute governing civil trademark counterfeiting.<sup>4</sup> Sections 32 and 43 of the Lanham Trademark Act allow brand owners to pursue civil actions against trademark infringers and counterfeiters.<sup>5</sup> The Lanham Act provides several remedies to brand owners. These remedies include actual or statutory damages, preliminary and/or permanent injunctions, seizure and destruction of the counterfeit goods, as well as potential reimbursement for litigation costs and, in exceptional cases, reimbursement of attorneys’ fees.<sup>6</sup> Additionally, federal courts may order the seizure of infringing goods and records relating to such goods through a proceeding initiated by the brand owner, without the adversary being given advance notice or warning.<sup>7</sup>

**BENEFITS OF CIVIL ACTION** One of the primary benefits of initiating a civil action is that brand owners are able to exert a high degree of control over the course of the proceedings. Brand owners choose which counterfeiters to target in a civil action and can focus their resources on higher-priority targets. Brand owners also decide where and when to litigate, and also choose whether to settle once litigation has commenced.

Once a potential target is identified, before a civil action can be filed, brand owners and their investigators are responsible for investigating and collecting evidence.<sup>8,9</sup> In many cases, a private investigation may reveal additional targets as well as third parties that may be liable to the brand owner. Relevant third parties may include independent Internet sites trafficking in counterfeit goods, Internet service providers (ISPs), landlords, and/or flea markets that knowingly facilitate the sale of counterfeits or are “willfully blind” to such sales.<sup>10</sup> In cases where the real party responsible for the nefarious activity cannot be found or where the same third party repeatedly is involved, third-party claims may be appropriate and effective.

Initiating civil litigation also gives brand owners flexibility on the substantive merits of the claims that is unavailable in criminal proceedings. For example, a criminal complaint can be filed only against a counterfeiter who is imitating a registered

trademark. However, to file a civil action, brand owners need not have a registered mark to claim trademark infringement under Section 43(a) of the Lanham Act.<sup>11</sup> Brand owners may also take action against two types of targets: (1) those who produce and sell *counterfeits*; and (2) those who produce and sell *knockoffs*. Counterfeit goods are those that bear a mark that is identical to, or substantially indistinguishable from, a registered trademark.<sup>12</sup> Knockoffs, however, are goods that are likely to cause confusion with the brand owner's goods when used in commerce, but either do not contain an identical mark or infringe unregistered "trade dress."<sup>13</sup> A brand owner, therefore, could take civil legal action against targets who infringe its registered trademarks or the trade dress of a product in a manner that is likely to cause confusion, whereas criminal laws are more circumscribed.

In civil actions, brand owners enjoy two benefits that may facilitate successful claims. First, a brand owner need not prove that a defendant intended to counterfeit goods or otherwise infringe on its IP rights in order to bring a successful claim.<sup>14</sup> Proving intent, however, entitles a brand owner to additional remedies such as treble damages, attorneys' fees, destruction of infringing articles, and elevated statutory damages (as discussed later).<sup>15</sup> Second, in civil actions, the evidentiary burden of proof is lower—brand owners must prove infringement by preponderance of the evidence, rather than beyond a reasonable doubt.<sup>16</sup>

Civil actions also afford brand owners numerous and flexible remedies that are unavailable in criminal proceedings. One major advantage of civil actions is that defendants pay monetary damage awards directly to the brand owner. In comparison, criminal defendants typically pay punitive fines directly to the government.<sup>17</sup> While recovery of restitution damages is available, it is not always the norm.

Under the Lanham Act, brand owners may claim either actual or statutory damages. Actual damages include the defendant's profits, any damages sustained by the brand owner, and the costs of the action.<sup>18</sup> If infringement is intentional, brand owners also may be entitled to treble profits or treble damages, whichever is greater, as well as attorney's fees.<sup>19</sup> The statutory damages provisions of the Lanham Act relieve the plaintiff of the burden of proving actual damages. Statutory damages range up to a maximum of \$100,000 per mark infringed and, in cases of willful violation, up to \$1 million per mark.<sup>20</sup> However, because so many counterfeiters are judgment-proof or have assets that are very well hidden, the most important remedy often may be injunctive relief.<sup>21</sup>

For defendants who are large-scale distributors, among the most potent remedies is the right to seize counterfeit goods and records documenting the manufacture, sale, or receipt of such goods and to impound devices that are used solely to make counterfeit goods. Seizure can sometimes be obtained on an *ex parte* basis, before the counterfeiter has a chance to destroy or hide helpful evidence.<sup>22</sup> Because *ex parte* seizure is an extraordinary remedy, there are stringent requirements for obtaining such relief. Seizure and other expedited remedies (such as asset freezes) are powerful weapons because they disrupt the offender's activities and make it more difficult for the counterfeiter to resume the activities elsewhere under a new name. Such *ex parte* seizures often involve federal law enforcement officials and may have a deterrent effect on targets.

Brand owners also can opt to use expedited civil remedies such as temporary restraining orders and preliminary injunctions. These remedies allow brand owners

to take quick and decisive action against counterfeiters, whereas criminal investigations often may be protracted and slow moving.

Finally, a permanent injunction is a highly effective remedy against counterfeiting. If brand owners who have permanently enjoined a target from counterfeiting their goods discover that the target continues its activities, they can obtain fines and jail time for contempt of court. In a criminal action, brand owners would have to initiate additional, separate criminal proceedings to stop targets that have been found criminally liable from engaging in future counterfeit activities.

**DRAWBACKS OF CIVIL ACTION** The primary drawback of taking civil action against counterfeiters is that it is usually more costly to a brand owner than merely cooperating with a criminal proceeding. Because brand owners are responsible for the entire proceeding, they must pay for private investigators and outside legal counsel. Furthermore, the remedies available to brand owners in civil actions arguably have less of a deterrent effect on would-be counterfeiters than the criminal penalties they might otherwise face. That being said, in civil actions, monetary damage awards may be extremely high, and the potential effects on a target's pocketbook may be as great a deterrent as criminal penalties.

Brand owners should also be aware that when they bring civil actions, defendants may respond with counterclaims. In civil trademark actions, these counterclaims often include claims for declaratory judgment to cancel the brand owner's mark on grounds that the mark was procured by fraud or is invalid because it is generic or merely descriptive of the brand owner's goods.<sup>23</sup> Defendants may also allege that the brand owner is using the mark to violate antitrust laws. Antitrust counterclaims can be onerous and expensive to defend, and can open the brand owner up to far-reaching and intrusive discovery.

### Criminal Action

With the Lanham Act functioning as the key federal statute governing trademark counterfeiting in the civil context, there are also various federal and state statutes governing anti-counterfeiting in the criminal context. The Trademark Counterfeiting Act of 1984<sup>24</sup> criminally punishes anyone who "intentionally traffics or attempts to traffic in goods or services and knowingly uses a counterfeit mark on or in connection with such goods or services."<sup>25</sup> Also noteworthy is the Anti-Counterfeiting Consumer Protection Act of 1996, which amended the Racketeer Influenced and Corrupt Organizations Act (RICO) to include criminal infringement of a copyright, trafficking in goods or services bearing counterfeit marks, and trafficking in counterfeit labels for phonorecords, computer programs, computer program documentation, or packaging and copies of motion pictures or other audiovisual works.<sup>26</sup> Additionally, each state has its own anti-counterfeiting criminal statutes. For example, New York has three criminal statutes ranging from third- to first-degree liability for trademark counterfeiting. First-degree counterfeiting is considered a class C felony.<sup>27</sup>

**BENEFITS OF CRIMINAL ACTION** Criminal prosecution of counterfeiters affords the brand owners numerous advantages. Unlike in civil actions, a defendant can be sentenced to prison if found guilty, in addition to being fined for his or her

actions. The Trademark Counterfeiting Act of 1984, for example, carries with it a maximum term of imprisonment of 10 years for a given violation.<sup>28</sup> Imprisonment is a particularly effective deterrent to other counterfeiters or persons contemplating a similar violation, especially considering the possibility of such harsh sentencing if apprehended.

Further, criminal prosecutions require a relatively lower expenditure of time and resources on the part of the brand owner. In a criminal prosecution, the brand owner is a witness and not a party to the action. Therefore, pleadings, motion practice, and discovery efforts are all but eliminated in this context. Further, evidence gathering cannot be achieved via discovery, but instead through various investigative mechanisms accessible only to law enforcement (e.g., arrest, interrogation, search warrants). As such, criminal prosecution is largely within the hands of law enforcement officials, which substantially lessens the burden on the part of the brand owner.

Similar to a drug trade investigation, the less sophisticated counterfeiters often are only small players in large, heavily resourced counterfeiting operations. Prosecuting the small-scale offender, who often is easier to apprehend, puts pressure on the more sophisticated parties involved, and on their operation as a whole by interrupting cash flow and eroding isolated components of the greater counterfeiting mechanism. This process may lead to the identification and prosecution of those with greater power and authority within the criminal organization.

**DRAWBACKS OF CRIMINAL ACTION** Notwithstanding its benefits, however, criminal counterfeiting prosecution presents a myriad of disadvantages from the brand owner's perspective. While having less control over criminal proceedings can eliminate the brand owner's burden significantly, by relinquishing control a brand owner also relinquishes its power to affect the prosecution's outcome. The U.S. attorney wields enormous power and authority over the result of a criminal investigation, as ultimately he or she decides whether to accept a defendant's plea. Further, the U.S. attorney decides whether to even proceed with a prosecution. Any lack of interest on the U.S. attorney's part may relegate a brand owner's concerns to little more than a filed complaint. This lack of control may also translate to an unwanted delay in criminal actions taken against an identified counterfeiter. Law enforcement and federal agencies may lack the requisite resources or interest necessary to pursue an investigation.

Further, it can be more difficult for a brand owner to obtain protection of its marks via criminal proceedings. The burden of proof is extremely high. To prevail, the government must demonstrate beyond a reasonable doubt that the defendant violated the governing statute. This is much greater than the preponderance of evidence standard adhered to in civil cases. What is more, some criminal statutes require a showing of criminal intent, also a greater burden than that required by the Lanham Act.<sup>29</sup> Finally, while a favorable ruling in civil court would effectively enjoin the infringer from future violations against the brand owner, a favorable outcome in criminal court usually will not result in an injunction. Instead, in the event that a previously convicted counterfeiter violates the statute, he or she must be prosecuted anew, as the prior conviction does not afford the brand owner any protection.

Pursuing a criminal conviction may present various obstacles that are not present in a civil context. For instance, law enforcement officials can prosecute counterfeit goods, but not goods that rise only to the level of infringement.<sup>30</sup> Therefore, despite the injury that these infringing items can cause a brand owner, the criminal justice system provides no protection and no recourse. Civil proceedings also may be substantially delayed by ongoing and concurrent criminal proceedings. For example, in the interests of justice, courts often will stay civil actions pending resolution of a criminal action.<sup>31</sup> Civil suits also may be hindered if defendants in a parallel criminal action invoke Fifth Amendment rights with respect to discovery demands made in the civil action.

While imprisonment is certainly an advantage unique to criminal prosecution, it also may have negative implications. Criminal lawsuits leading to convictions and/or imprisonment tend to generate an enormous amount of publicity for the brand owner. Although favorable publicity describing and promoting a brand is always welcome, numerous criminal prosecutions may shift focus from the product(s) itself, creating instead a public association of the brand with criminal prosecutions and/or convictions.

Finally, unlike in civil actions, a brand owner cannot collect damages or attorney's fees if an alleged counterfeiter is convicted in criminal court. While a convicted counterfeiter may be fined for his actions, fines are paid directly to the government and not to the brand owner. A brand owner may be entitled to restitution, but such recovery usually is limited to a brand owner's investigation costs (usually minimal since investigative tasks are primarily conducted by law enforcement) and any actual lost sales. Though recovery of lost sales may appear promising initially, it is extremely difficult to prove actual lost sales—particularly when dealing with a counterfeiter who more than likely did not maintain the comprehensive bookkeeping procedures of a legitimate, established business operation.

## Conclusion

This chapter has reflected on the recent changes in corporate behavior as they apply to controlling counterfeiting, as well as the modern enforcement strategies being utilized by brand owners in the pursuit of protecting their trademarks on the Internet and beyond. The growth of counterfeiting as an industry has truly stimulated corporate responsibility to place emphasis on regulating the conduct of infringers by means of in-house enforcement and partnering with experienced outside legal counsel to combat the problems that threaten the integrity of their valuable brands. By incorporating and following a comprehensive enforcement program, brand owners provide insulation for their brands against the growth of counterfeiting throughout the world. The rapid development of the Internet has provided tremendous opportunities for counterfeiters to perfect their trade and expand their businesses far beyond the scope of what may have been intended originally. With corporate decision makers now recognizing the detrimental effects that these businesses have on the overall integrity of their brands, new and creative ways to control the problem of counterfeiting are becoming more necessary in order to successfully achieve the goal of complete brand protection.

## Notes

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<sup>1</sup>See also Dennis S. Pahl & Elliot Lipins, "Domain Names," Chap. 5.

<sup>2</sup>See *Tiffany and Company v. eBay, Inc.*, 2008 U.S. Dist. (S.D.N.Y., July 14, 2008) (holding that the online marketplace could not be held liable vicariously for trademark infringement based solely on the generalized knowledge that infringement is occurring as a result of sales made through that marketplace).

<sup>3</sup>See *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc. and Managed Solutions Group, Inc.* (N.D. Cal. 2007) (holding web site hosting companies liable for contributory and vicarious trademark infringement and contributory and vicarious copyright infringement for failing to disable or limit web site hosting services that customers were using to sell counterfeit goods).

<sup>4</sup>There are many state and local laws that address trademark counterfeiting.

<sup>5</sup>15 U.S.C. §§ 1114, 1125.

<sup>6</sup>15 U.S.C. §§ 1114, 1116–1118.

<sup>7</sup>15 U.S.C. § 1116.

<sup>8</sup>See also Jeremiah A. Pastrick, "Investigations: Considerations for Selecting and Directing Outside Investigators," Chap. 13.

<sup>9</sup>Outside counsel frequently retain private investigators and supervise their investigation.

<sup>10</sup>See, for example, N.Y. Real Prop. § 231 (holding a landlord liable for knowingly leasing real property that is used for any unlawful trade, manufacture, or business).

<sup>11</sup>15 U.S.C. § 1125.

<sup>12</sup>15 U.S.C. § 1116(d).

<sup>13</sup>15 U.S.C. § 1125(a).

<sup>14</sup>15 U.S.C. § 1117, 1125.

<sup>15</sup>15 U.S.C. § 1117(b).

<sup>16</sup>See, for example, *Thane Int'l, Inc. v. Trek Bicycle Corp.*, 305 F.3d 894, 901 (9th Cir. 2002) (stating that a trademark owner bringing a claim under Section 43(a) of the Lanham Act must prove on a preponderance of the evidence that the alleged infringer's mark is likely to cause confusion, to cause mistake, or to deceive).

<sup>17</sup>Criminal proceedings may provide brand owners with restitution, which is generally limited to the costs of investigation and lost sales. Lost sales are difficult to prove. See discussion, *infra*.

<sup>18</sup>15 U.S.C. § 1117(a).

<sup>19</sup>15 U.S.C. § 1117(b).

<sup>20</sup>15 U.S.C. § 1117(c).

<sup>21</sup>15 U.S.C. § 1116.

<sup>22</sup>15 U.S.C. § 1117(d).

<sup>23</sup>15 U.S.C. § 1115(b).

<sup>24</sup>18 U.S.C. § 2320.

<sup>25</sup>18 U.S.C. § 2320(a).

<sup>26</sup>18 U.S.C.A. § 1961.

<sup>27</sup>N.Y. Penal Law §§ 165.71–165.73.

<sup>28</sup>See *U.S. v. Hanna*, 2003 WL 22705133, at \*2 (S.D.N.Y., November 17, 2003).

<sup>29</sup>See *U.S. v. Hon*, 904 F.2d 803, 806 (2d Cir. 1990).

<sup>30</sup>For example, the Second Circuit noted in *U.S. v. Hon* that the Trademark Counterfeiting Act of 1984 is “‘narrower’ than the Lanham Act provision [and] . . . proscribes only the use of counterfeits—marks ‘identical with, or substantially indistinguishable from’ a registered trademark—while Lanham Act liability may rest upon not only a ‘counterfeit’ but also a ‘reproduction,’ ‘copy’ or ‘colorable imitation.’” 904 F.2d 803, 806 (2d Cir. 1990).

<sup>31</sup>“When a defendant in a civil case is facing criminal charges, a district court may, in its discretion, stay the civil action.” *U.S. ex rel. Gonzalez v. Fresenius Medical Care North America*, 571 F.Supp.2d 758, 761(W.D. Tex. 2008), citing *United States v. Kordel*, 397 U.S. 1 (1970); see also *In re Ramu Corp.*, 903 F.2d 312, 318 (5th Cir. 1990) (“The stay of a pending matter is ordinarily within the trial court’s wide discretion to control the course of litigation, which includes authority to control the scope and pace of discovery.”).

