

The U.S. Trademark Counterfeiting Statute

by Paul D. Supnik

This is a portion of an article, an edited version of which was originally published in the Fall 1985 issue of the Entertainment and Sports Lawyer of the American Bar Association's Forum Committee on the Entertainment and Sports Industries. Since the paper was written, Congress passed the Anticounterfeiting Consumer Protection Act of 1996. The act establishes an elective statutory damage scheme similar to that for copyright, but from \$500 to \$100,000, and as much as \$1,000,000 for wilful infringement. 18 USC Section 2318 has been expanded to including the trafficking in computer software labels and packaging. Various acts of infringing and trafficking in counterfeit labels have been made predicate acts under RICO. Additional features of the statute will be discussed in a future site. **[Note: statutory damage amounts have doubled since article was written]**

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Counterfeiting laws in the trademark area have been enacted federally and in several states. Generally a prerequisite to enforcement of these laws is the registration of a mark -- either in the state in which the right is sought to be enforced, or federally. The impact of the trademark counterfeiting laws includes typically the availability of ex-parte seizure orders without actual notice, enhanced damages and profits, and mandatory attorneys fees. Criminal provisions, both federal and state, have been enacted.⁵⁴

More incentive is now provided for registering federal marks under the federal trademark registration statute. In the past, if one wanted to rely on Section 43(a) of the Lanham Act relating to generalized unfair competition or false designation of origin, it was not necessary even to have a federal registration in order to enforce rights under the Lanham Act.⁵⁵ Federal registration did provide procedural presumptions and covered geographical gaps resulting from limited usage of a mark. But it was possible to file suit in federal court based on Section 43(a) without any federal registration.

Under the trademark counterfeiting statute, federal trademark registration is a prerequisite.⁵⁶ Typically it may take six months to a year to have a federal trademark registration issued. Once obtained, it may be used in enforcing the rights against counterfeiting.

On the civil side, Section 35 of the Lanham Act⁵⁷ was amended to provide for judgment in the amount of three times the greater of profits or damages, and reasonable attorneys' fees. In the event that the court finds extenuating circumstances, the court need not impose treble damages and reasonable attorneys' fees. However, the burden of setting forth extenuating circumstance is placed on the defendant. Prejudgment interest is discretionary.

A significant aspect of the federal counterfeiting act is a plaintiff's ability to obtain ex parte seizure orders without notice, providing certain conditions are met, and subject to rather stringent penalties if

certain procedures are not followed. In order to utilize these remedies, the United States attorney must be notified.⁵⁸ The purpose of this is to give the U.S. Attorneys Office an opportunity to review the evidence to determine if it would be appropriate for a criminal action to be prosecuted, and the court may withhold granting of a seizure order if detrimental to a criminal prosecution.

The request for seizure must not be publicized. The plaintiff's attorney must present evidence showing the basis that the plaintiff is entitled to this remedy, and that nothing short of this remedy would be adequate. As with preliminary injunctions, a likelihood of success must be shown in proving that the goods offered for sale are counterfeit. However, the more lenient "reasonable grounds for litigation" alternate standard for preliminary injunctions does not appear to be available. Immediate and irreparable injury must be established.⁵⁹

The place where the seizure is to be taken place must be set out in the application, and the court must be shown that the goods to be seized will be present at that location. Harm to legitimate interests of the person against whom seizure is ordered must be weighed against the harm to the party applying for the order. Finally, it must be shown that the persons against whom seizure would be ordered would destroy the goods, or make them inaccessible to the court, if the motion were held on notice.

An order granted under the statute has specific requirements. Findings of fact and conclusions of law are required. The material to be seized must be described with particularity. Only seven (7) days is given at the most to complete the seizure from the date the order is issued, and that time period -- a maximum of seven days -- must be stated in the order.⁶⁰ A hearing is to be held between 10 to 15 days from the date of the seizure order.⁶¹

The order and any seizure under the order is to be carried out by "a United States marshal or other law enforcement officer". Provisions are made for protection of confidential information and trade secrets during the seizure.

The penalties for initiating a wrongful seizure order are substantial. Damages are available for lost profits, good will, cost of materials and punitive damages. Attorneys fees are mandatory, unless extenuating circumstances are shown. Prejudgment interest is discretionary.⁶²

Criminal remedies should be kept in mind as law enforcement efforts may help in investigation and prosecution.

Now that the federal counterfeiting statute is in place, it is not clear that the trend of enacting state anticounterfeiting statutes will continue. State marks are easier to obtain, but form the predicate for geographically limited rights. As a practical matter, it is generally relatively simple to obtain registrations in many states in the United States. In many states trademark registrations are granted after a cursory search. The filing cost is generally nominal.

Traditionally a state trademark registration did not carry much in the way of substantive rights for the owner of the mark. The state trademark registration had the effect of showing to a state court judge

that the owner was concerned enough to protect the plaintiff's rights in a mark. In some states, state registration provided a rebuttable presumption that the facts stated in the registration certificate are true; in other states, only a presumption of title was provided by having such a certificate. But otherwise it did little else in the face of a defendant who cared to present a case. State trademark counterfeiting statutes however, typically state that registration is a prerequisite of enforcing rights under the counterfeiting statute. Moreover, remedies accrue from the date of registration is made and not prior thereto.

Definitions of the term "counterfeit" limit the scope of the statutes. The California statute defines the term "counterfeit" as:

"... a spurious mark which is identical with, or substantially indistinguishable from, a registered mark and which is used on or in connection with goods or services for which the genuine mark is registered."⁶³

In the federal statute, the definition of a "counterfeit mark" is more circuitous:

"(B) As used in this subsection, the term "counterfeit mark" means --

(i) a counterfeit of a mark that is registered on the principal register in the United States Patent and Trademark Office for such goods or services sold, offered for sale, or distributed and that is in use, whether or not the person against whom relief is sought knew such mark was so registered; ..."⁶⁴

Thus, in connection with the merchandising, and far unlike the dilution laws, counterfeiting remedies are specifically restricted to the nature of the goods to which the mark is registered.

CONCLUSION

The new trademark laws are likely to provide beneficial remedies in the entertainment and merchandising areas. Prerequisites of registration for use of both the new California dilution statute and the state and federal counterfeiting statutes should make the entertainment attorney give greater thought to trademark registrations for merchandisable properties.