

IX. Charging Decisions

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IX.A. Introduction

In determining whether to charge an intellectual property crime, federal prosecutors should generally weigh the same considerations that are weighed with respect to any other federal offense. The principal resource is Chapter 9-27.000 of the *United States Attorneys' Manual* (USAM) (“Principles of Federal Prosecution”). Ordinarily, the prosecutor “should commence or recommend Federal prosecution if he/she believes that the person's conduct constitutes a Federal offense and that the admissible evidence will probably be sufficient to obtain and sustain a conviction.” USAM 9-27.220.

This directive is not absolute. Even a provable case may be declined in three situations: when prosecution would serve no substantial federal interest; when the person is subject to effective prosecution in another jurisdiction; and when there exists an adequate non-criminal alternative to prosecution. *Id.* Broken down further, the relevant considerations include:

- The federal interest in intellectual property crimes, which includes:
 - Federal law enforcement priorities.
 - The nature and seriousness of the offense.
 - The deterrent effect of prosecution.
 - The individual's culpability in connection with the offense.
 - The individual's criminal history.
 - The individual's willingness to cooperate in the investigation or prosecution of others.
 - The probable sentence and other consequences of conviction.
- Whether the person is subject to prosecution in another jurisdiction
- The adequacy of alternative non-criminal remedies
- Special considerations for deciding whether to charge corporations

This chapter briefly discusses how some of these factors apply specifically to intellectual property crimes.

IX.B. The Federal Interest in Intellectual Property Crimes

In determining whether a particular prosecution would serve a substantial federal interest, the prosecutor should weigh all relevant factors. USAM 9-27.230. Several factors that have specific application to intellectual property crimes are discussed below.

IX.B.1. Federal Law Enforcement Priorities

“[F]rom time to time the Department establishes national investigative and prosecutorial priorities. These priorities are designed to focus Federal law enforcement efforts on those matters within the Federal jurisdiction that are most deserving of Federal attention and are most likely to be handled effectively at the Federal level.” USAM 9-27.230(B)(1) (comment).

Because of the importance of intellectual property to the national economy and the scale of intellectual property theft, intellectual property crime continues to be a law enforcement priority. Intellectual property theft worldwide reportedly costs American companies \$250 billion a year. U.S. Department of Justice, *Report of the Department of Justice's Task Force on Intellectual Property* 8 (Oct. 2004) (citing Office of the United States Trade Representative). As a consequence, “the American economy is losing hundreds of millions of dollars in tax revenues, wages, investment dollars, as well as hundreds of thousands of jobs.” *Id.* The Justice Department has therefore made the enforcement of intellectual property laws a high priority. *Id.* at 13.

To meet this priority, the Department has trained a national network of specialized prosecutors designated “Computer Hacking and Intellectual Property (CHIP) Coordinators,” at least one of whom is located in each of the nation's ninety-four United States Attorneys' Offices, with greater numbers in the twenty-five CHIP units located in districts that experience some of the highest concentrations of computer and intellectual property crimes. *See id.* at 13.

At the national and international level, intellectual property prosecutions are coordinated by the Department's Computer Crime and Intellectual Property Section (CCIPS) in Washington, D.C. CCIPS can help evaluate whether a particular intellectual property crime poses a matter of federal priority. CCIPS can be reached at (202) 514-1026.

IX.B.2. The Nature and Seriousness of the Offense

As with other offenses, intellectual property crimes vary in their nature and seriousness. It is therefore essential to consider each case on its own facts.

The offense's nature and seriousness are indicated by the usual factors, with special importance placed on threats to health or safety, the volume of infringement, the amount of revenue and profit, the number of participants, the involvement of organized crime, and the magnitude of the victim's loss or potential loss, all of which are factored into the sentencing guidelines. *See U.S. Sentencing Guidelines Manual* § 2B5.3(b)(1) & cmt. n.2(A) (2005) (volume of infringement and likelihood that defendant's sales displaced the victim's); *id.* cmt. 4(A) (substantial harm to victim's reputation); *id.* app. note 4(B) (involvement of organized crime).

Other considerations that are more particular to intellectual property offenses include the following:

- **Federal criminal prosecution is most appropriate in the most egregious cases.** The criminal intellectual property statutes punish only a subset of the conduct that is punishable under civil intellectual property laws. Even then, the government must prove its case beyond a reasonable doubt, including a high state of mens rea.
- **Limited federal resources should not be diverted to prosecute an inconsequential case or a case in which the violation is only technical.** Even some branches of civil intellectual property law recognize the maxim, “de minimis non curat lex.”

- **Federal prosecution is most appropriate when the questions of intellectual property law are most settled.** Federal prosecutors should, however, not hesitate to apply settled intellectual property concepts in innovative ways to new schemes and new technology.
- **Victims have a broad range of civil remedies that include restitution, damages, punitive or quasi-punitive damages, injunctions, court costs, and attorneys' fees.** See Section IX.D. of this Chapter.
- **The more strongly an intellectual property owner acts to protect its rights, the stronger the interest in prosecution.** *Id.*
- **Many intellectual property offenses include multiple victims: not only the owners of the intellectual property that was infringed, but also customers who were defrauded.** Both classes of victim deserve protection, and one class's lack of interest in prosecution should not countermand prosecution when the other class's interest is strong.
- **The sources or manufacturers of infringing goods and services are generally more worthy of prosecution than distributors.** *Cf.* U.S.S.G. § 2B5.3(b)(3).
- **Counterfeit goods or services that endanger the public's health or safety deserve the highest consideration for prosecution.** *See* United States Department of Justice, *Report of the Department of Justice's Task Force on Intellectual Property* 7-9 (Oct. 2004); *cf.* U.S.S.G. § 2B5.3(b)(5) (adjusting offense level for infringement offenses involving “conscious or reckless risk of serious bodily injury or possession of a dangerous weapon in connection with the offense” by 2 levels, with a minimum offense level of 13).

IX.B.3. The Deterrent Effect of Prosecution

Some infringers are undeterred by civil liability. They treat civil remedies as a cost of doing business and continue their infringement after civil sanctions, albeit with different products or under a different corporate guise. Criminal prosecution can better deter a persistent violator from repeating his or her crime.

Criminal prosecution may also further general deterrence. Individuals may commit intellectual property crimes not only because some are relatively easy to commit, such as copying music, but also because they do not fear prosecution. But one person's relatively small-scale violations, if permitted to take place openly and notoriously, can lead others to believe that such conduct is tolerated. While some counterfeiting or piracy offenses may not result in provable direct loss to a victim, the widespread commission of such crimes can devastate the value of intellectual property rights in general.

Criminal prosecution plays an important role in establishing the public's understanding of what conduct is acceptable and what is not. Vigorous prosecution changes the public's calculus. Put simply, more individuals will be deterred from committing intellectual property offenses if they believe they will be investigated and prosecuted.

IX.B.4. The Individual's History of Criminal Offenses and Civil Intellectual Property Violations

Repeat criminal offenders are especially worthy of prosecution. *See* USAM 9-27.230(B)(5) (comment). The repeat-offender provisions in the intellectual property crime statutes and the United States Sentencing Guidelines ensure that repeat offenders receive stiffer sentences.

In addition to the defendant's criminal history, it is also appropriate to consider his or her history of civil intellectual property violations. When infringers consider civil penalties merely a cost of doing business, criminal enforcement is particularly appropriate. Sources for determining the defendant's history of civil intellectual property offenses include civil litigation records (which are often searchable online), the victim's legal department and private investigators, and any state consumer protection agencies to which consumers might have complained.

IX.B.5. The Individual's Willingness to Cooperate in the Investigation or Prosecution of Others

As discussed in Section IX.B.2. of this Chapter, the sources of counterfeit or pirated goods or services are especially worthy of prosecution. Special consideration should be given to targets who are willing to cooperate in an investigation that leads to a source's prosecution.

This includes the prosecution of foreign sources. In recent years, the Department of Justice has worked extensively with foreign law enforcement agencies to investigate and prosecute foreign violators, both by extraditing foreign violators to the United States and by coordinating searches and prosecutions simultaneously in the United States and abroad. CCIPS has regular contact with foreign prosecutors and law enforcement agencies with an interest in intellectual property crime. Therefore, for assistance in investigating or prosecuting offenses with an international dimension, contact CCIPS at (202) 514-1026.

IX.C. Whether the Person is Subject to Prosecution in Another Jurisdiction

The second situation in which a prosecutor may decline prosecution despite having a provable case occurs when the putative defendant is subject to effective prosecution in another jurisdiction. USAM 9-27.240. Relevant to this inquiry is the strength of the other jurisdiction's interest in prosecution; the other jurisdiction's ability and willingness to prosecute effectively; the probable sentence or other consequences of conviction in the other jurisdiction; and any other pertinent factors. *Id.*

The primary question will often not be whether the case could be prosecuted by another U.S. Attorney's Office, but rather whether it could be prosecuted by state or local authorities. USAM 9-27.240 (comment). State or local law enforcement may be a viable alternative to federal prosecution. Federal intellectual property laws generally do not preempt state and local intellectual property laws. The only relevant area of intellectual property in which there is broad federal preemption is copyright

infringement, but even in that area states have passed some creative laws that indirectly criminalize traffic in some pirated works. *Compare* 17 U.S.C. § 301 (copyright preemption), *State v. Perry*, 697 N.E.2d 624 (Ohio 1998) (holding that federal copyright law preempted prosecution in case involving defendant's use of computer software on his bulletin board), *Kodadek v. MTV Networks, Inc.*, 152 F.3d 1209, 1212-13 (9th Cir. 1998) (holding state law unfair competition claim preempted where complaint expressly based the claim on rights granted by the Copyright Act), and *Kregos v. Associated Press*, 3 F.3d 656, 666 (2d Cir. 1993) (holding state law unfair competition and misappropriation claims preempted when based solely on the copying of protected expression in forms), with *Anderson v. Nidorf*, 26 F.3d 100, 102 (9th Cir. 1994) (holding California anti-piracy statute not preempted by federal copyright laws in illegal sound recording case), *State v. Awawdeh*, 864 P.2d 965, 968 (Wash. Ct. App. 1994) (holding Washington statute not preempted by federal copyright law in illegal sound recording case), and *People v. Borriello*, 588 N.Y.S.2d 991, 996 (N.Y. App. Div. 1992) (holding New York statute not preempted by Copyright Revision Act in illegal video recording case).

IX.D. The Adequacy of Alternative Non-Criminal Remedies

Department of Justice policy allows a prosecutor to decline criminal prosecution in a situation that could be adequately addressed by non-criminal remedies. USAM 9-27.220. Almost every federal intellectual property crime has an analogue in civil law—be it state or federal—and those laws generally offer victims generous relief, such as injunctions, restitution, damages, punitive and quasi-punitive damages, court costs, attorneys' fees, and even ex parte seizure of a defendant's infringing products. *See* 15 U.S.C. §§ 1114, 1116-1117 (trademark); 17 U.S.C. §§ 501-505 (copyright). Imported infringing merchandise can also be subject to civil forfeiture and fines by United States Customs and Border Protection. *See, e.g.*, 19 U.S.C. § 1526(f) (trademark). The availability and adequacy of these remedies should be carefully considered when evaluating an intellectual property case.

The prosecutor should also consider whether existing civil remedies have been or are likely to deter a particular defendant. For those undeterred by civil suits and remedies, criminal prosecution may be more appropriate. When the defendant has violated an earlier civil order, however, civil or criminal penalties for contempt of court may be an acceptable alternative to prosecution for criminal intellectual property violations.

Finally, when the violator's conduct is persistent, unsafe, profit-oriented, fraudulent, or physically invasive, civil remedies may not fully capture the wrongfulness of the defendant's conduct. In such cases, criminal prosecution may be preferred.

Although the government may prosecute even if the victim has not exhausted its civil and administrative remedies, the government should consider the victim's pursuit of alternative remedies. The putative defendant's conduct in response should also be examined.

IX.E. Special Considerations in Deciding Whether to Charge Corporations and Other Business Organizations

Corporations and other business organizations are often used to commit intellectual property crimes. The decision whether to charge a business organization involves numerous considerations. Department of Justice policy on such charging decisions is generally set forth in Criminal Resource Manual 162, *available at* http://www.usdoj.gov/usao/eousa/foia_reading_room/usam/title9/crm00162.htm (also known as the “Thompson memo”). This memorandum's analysis applies to intellectual property crimes in the same manner as to other crimes.