VI.

Counterfeit and Illicit Labels, Counterfeit Documentation and Packaging—18 U.S.C. § 2318

VI.A. Distinguished from Trademark and Copyright Statutes

Creative works can be protected by criminal laws other than the Copyright Act. The most important of these is 18 U.S.C. § 2318, which criminalizes knowingly trafficking in counterfeit or illicit labels and counterfeit documentation and packaging for copyrighted works. Although § 2318 regulates items that accompany copyrighted works, it is not a pure copyright statute, and its protections differ in scope from those afforded by the Copyright Act.

Section 2318 also differs from civil and criminal trademark law. Although counterfeit and illicit labels, documentation, and packaging often bear counterfeit trademarks, the use of a counterfeit trademark is not necessarily an element of a § 2318 charge. And although the counterfeit marks statute, 18 U.S.C. § 2320, criminalizes the use of counterfeit labels that bear counterfeit trademarks, § 2320 covers counterfeit labels that accompany any kind of trademarked product or service, and not just the types of copyrighted works covered by § 2318.

Several important amendments to § 2318 went into effect on December 23, 2004 and March 16, 2006. See Sections VI.B.2, VI.B.3, and VI.E.5.a. of this Chapter. As a result of the 2004 amendments, § 2318 now covers counterfeit labels not only for movies, music, and software, but for other types of copyrighted works as well, namely, copies of literary, pictorial, graphic, or sculptural works, works of visual art, and

documentation and packaging for any of the enumerated classes of copyrighted works. 18 U.S.C. § 2318(a)(1). The 2004 amendments also expanded § 2318 to cover counterfeit documentation and packaging itself for the newly-added classes of works. 18 U.S.C. § 2318(a)(2). The section also now covers the new category of illicit labels, which are "genuine certificate[s], licensing document[s], registration card[s], or similar labeling component[s]" that the copyright owner would normally use to verify that a work is noninfringing (that is, legitimate), but which are distributed or intended for distribution without the owner's permission, presumably to facilitate infringement. 18 U.S.C. § 2318(b)(4). The 2006 amendments expanded the definition of "traffic" to include a wider variety of profit-oriented conduct, and directed the Sentencing Commission to study the guidelines concerning labels, with guideline amendments expected later in 2006. See Sections VI.B.2. and VI.E.5.a. of this Chapter.

Sample indictments and jury instructions are provided in Appendix F of this Manual.

VI.B. Elements

To obtain a conviction under 18 U.S.C. § 2318, the government must prove five elements:

1. The defendant acted knowingly
2. The defendant trafficked
3. In labels affixed to, enclosing, or accompanying (or designed to be affixed to, enclose, or accompany) a phonorecord, computer program, motion picture or other audiovisual work, literary, pictorial, graphic, or sculptural work, or work of visual art, or documentation or packaging for such works (i.e., trafficked either in documentation or packaging for such works itself, or in labels for such documentation or packaging)
4. The documentation or packaging were counterfeit, or the labels were counterfeit or illicit
5. Federal jurisdiction is satisfied because:
    a. the offense occurred in special maritime territories or other areas of special jurisdiction of the United States;
    b. the offense used or intended to use the mail or a facility of interstate or foreign commerce;

c. the counterfeit or illicit labels were affixed to, enclosed, or accompanied copyrighted materials (or were designed to); or

d. the documentation or packaging is copyrighted.

These elements are reviewed in detail in the following Sections.

VI.B.1. The Defendant Acted "Knowingly"

Section 2318 is a general intent crime. The government must prove first that the defendant acted "knowingly." This is less difficult than proving that the defendant acted willfully, as with criminal copyright cases, in which the government often must prove that the defendant knew that he acted illegally (see the discussion of the "willful" standard in criminal copyright infringement cases in Chapter II of this Manual). Proving knowledge under § 2318 only requires proof that the defendant knew that he was taking the actions described in the statute. *See Bryan v. United States*, 524 U.S. 184, 193 (1998) (firearms offense) ("'[K]nowingly' merely requires proof of knowledge of the facts that constitute the offense.").

The government need not prove that the defendant acted with fraudulent intent in § 2318 cases involving counterfeit labels. Congress eliminated that element in 1982, believing that such proof was "superfluous" because the government must already prove that the defendant knew his labels were counterfeit. S. Rep. No. 97-274, at 9 (1981), *reprinted in* 1982 U.S.C.C.A.N. 127, 135 ("In other words, it would be difficult to conceive of a situation in which one could traffic in articles knowing that they are counterfeit without intending to defraud the purchaser.") It is less clear whether, and to what extent, a requirement of fraudulent intent may be assumed in cases involving illicit labels, but the statute does not expressly require such proof.

What, then, must the government prove that the defendant knew? Clearly, the government must prove the defendant knowingly trafficked in labels, documentation, or packaging, but this will generally be easy to show.

The crux is to prove that the defendant knew that the labels, documentation, or packaging in which he trafficked were counterfeit or illicit, as the case may be. *See, e.g., United States v. Dixon*, No. 84-5287, 1985 U.S. App. LEXIS 27076, at *9 (4th Cir. Aug. 12, 1985).

It may also suffice to prove that the defendant was willfully blind to the fact that the items trafficked were counterfeit or illicit. Although no published cases specify that the government may satisfy § 2318 through proof of willful blindness (also known as "conscious avoidance" or deliberate ignorance), courts have held that proving willful blindness

generally suffices to prove knowledge in criminal cases. *See United States v. Jewell*, 532 F.2d 697, 699-705 (9th Cir.) (discussing the history and use of "deliberate ignorance" instructions); *see also* Deborah Sprenger, *Propriety of Instruction of Jury on "Conscious Avoidance" of Knowledge of Nature of Substance or Transaction in Prosecution for Possession or Distribution of Drugs*, 109 A.L.R. Fed. 710 § 2[a] (2005). "The knowledge element of a crime such as the one charged here may be satisfied upon a showing beyond a reasonable doubt that a defendant had actual knowledge or deliberately closed his eyes to what otherwise would have been obvious to him concerning the fact in question." *See United States v. Brodie*, 403 F.3d 123, 148 (3d Cir. 2005) (internal quotation marks and citation omitted) (Trading with the Enemy Act of 1917 and Cuban Assets Control Regulations violations). Willful blindness goes beyond negligence: the defendant himself must have been "objectively aware of the high probability of the fact in question, and not merely that a reasonable man would have been aware of the probability." *Id.* (internal quotation marks and citation omitted).

The government need not prove that the defendant knew that the jurisdictional elements listed in § 2318(c) fit his conduct, such as that the computer program to which he had affixed his counterfeit labels was copyrighted. See Section VI.B.5. of this Chapter.

VI.B.2. The Defendant Trafficked

In the second element of a § 2318 offense, the government must prove that the defendant trafficked in labels, documentation, or packaging. This element was significantly changed on March 16, 2006 by the Protecting American Goods and Services Act of 2005, Pub. L. No. 109-181, § 2, 120 Stat. 285, 288 (March 16, 2006).

Before the March 16, 2006 amendments, "traffic" was statutorily defined within § 2318 to mean "to transport, transfer or otherwise dispose of, to another, as consideration for anything of value or to make or obtain control of with intent to so transport, transfer or dispose of." 18 U.S.C. § 2318(b)(2). Congress defined "traffic" specifically to exclude individuals who knowingly acquire counterfeit labels or other articles solely for personal use. *See* S. Rep. No. 97-274, at 9 (1981), *reprinted in* 1982 U.S.C.C.A.N. 127, 135. This definition was identical to the definition of "traffic" in 18 U.S.C. § 2320(e)(2) ("Trafficking in counterfeit goods or services")—before that definition was also changed in the 2006 act—with the same issues concerning what qualified as "consideration" and what did not, as well as the issues concerning possession with intent to traffic. See Section III.B.3.b. of this Manual.

The March 16, 2006 amendments made the parallels between the two statutes' definition of "traffic" more explicit. For cases arising from conduct on or after that date, the definition of "traffic" in § 2318(b)(2) has been amended to read, "the term 'traffic' has the same meaning as in section 2320(e) of this title [18]." Protecting American Goods and Services Act of 2005, § 2(c)(2), 120 Stat. at 288 (amending 18 U.S.C. § 2318(b)(2)). As is discussed in Section III.B.3.b. of this Manual, these amendments deal with the issues concerning consideration and possession with intent to traffic.

Prosecutors should therefore consult Section III.B.3.b., which covers the counterfeit marks crime in 18 U.S.C. § 2320, for a discussion of how the traffic element operated before and after the March 16, 2006 amendments. The only differences to be noted are that § 2320 punishes attempts whereas § 2318 does not, and therefore any discussion of attempted trafficking with regard to § 2320 may not apply to § 2318. On the other hand, the definition of "traffic" in both statutes now includes so many acts that are preparatory to distributing contraband—such as making it, obtaining it, and possessing it with intent to traffic—that the omission of an attempt provision in § 2318 should not prevent the government from otherwise pursuing deserving cases. Thus, labels seized during the search of a counterfeiting operation may constitute part of the indicted conduct, whether or not the labels had yet been affixed to the works or transferred to distributors or customers.

VI.B.3. Trafficking in Labels Affixed to, Enclosing, or Accompanying (or Designed to be Affixed to, Enclose, or Accompany) a Phonorecord, Computer Program, Motion Picture or Other Audiovisual Work, Literary, Pictorial, Graphic, or Sculptural Work, or Work of Visual Art, or Documentation or Packaging for Such Works (i.e., Trafficked Either in Documentation or Packaging for Such Works Itself, or in Labels for Such Documentation or Packaging)

Before 2004, § 2318 prohibited trafficking in counterfeit labels designed to be affixed to phonorecords, copies of computer programs, motion pictures and audiovisual works, and counterfeit documentation and packaging for computer programs. In 2004, Congress extended § 2318 substantially as part of the Intellectual Property Protection and Courts Amendment Act of 2004, Pub. L. No. 108-482, 118 Stat. 3912 (Dec. 23, 2004).

In the third element of a § 2318 offense, the government must prove that the labels in which the defendant trafficked were affixed to, enclosing, or accompanying—or designed to be affixed to, enclose, or accompany—phonorecords, motion pictures or other audiovisual works, computer software, literary, pictorial, graphic, or sculptural works, or works of visual art. *See* 18 U.S.C. § 2318(a)(1), (b)(3) (defining the classes of copyrighted works); 17 U.S.C. §§ 101, 102 (same). Alternatively, the government may show that the defendant trafficked in documentation or packaging for one of the enumerated class of works, or labels affixed or designed to be affixed to copyrighted documentation and packaging. *See* 18 U.S.C. § 2318(a)(1)-(2), (b)(5).

The types of copyrighted works covered by the statute has expanded significantly over the past several years. Before 2004, 18 U.S.C. § 2318 applied only to labels for movies, music, and software, and to documentation and packaging only for computer software. The provisions governing computer software had only been added in 1996. Amendments in 2004 now expressly include labels, documentation, and packaging for phonorecords, motion pictures or other audiovisual works, computer software, literary, pictorial, graphic, or sculptural works, and works of visual art. *See* 18 U.S.C. § 2318(a)(1), (b)(5).

The 2004 amendments also changed slightly the actual or intended physical proximity of the labels and the copyrighted works for which they are intended. Before the 2004 amendments, § 2318 covered labels that had been "affixed or designed to be affixed to" certain works. 18 U.S.C. § 2318(a) (2003). "[D]esigned to be affixed" was included to cover counterfeit labels that had not actually been attached to a work: it was added to the statute to close a "loophole" in which some counterfeiters had shipped only unattached labels. *See* S. Rep. No. 97-274, at 9 (1981), *reprinted in* 1982 U.S.C.C.A.N. 127, 135. The physical nexus grew even broader with the 2004 amendments, which expanded "affixed or designed to be affixed" to "affixed to, enclosing, or accompanying, or designed to be affixed to, enclose, or accompany." 18 U.S.C. § 2318(a)(1). Despite this expansion, some physical nexus between the labels and copyrighted works—whether actual or intended—is still required.

Documentation and packaging still need only be "for" the enumerated classes of copyrighted works. 18 U.S.C. § 2318(b)(5). Given the context, the word "for" appears to have roughly the same meaning for documentation and packaging that "affixed to, enclosing, or accompanying, or designed to be affixed to, enclose, or accompany" has for labels. Thus, some physical nexus with copyrighted works—whether actual or intended—is required for documentation and packaging as well.

For a discussion of whether § 2318 applies to labels, documentation, and packaging in electronic form, see Section VI.D.1. of this Chapter.

VI.B.4. The Labels, Documentation, or Packaging Materials Are Counterfeit or Illicit

In the fourth element, the government must prove that the packaging or documentation are "counterfeit" or that the labels are "counterfeit" or "illicit." *See* 18 U.S.C. § 2318(a)(1)-(2).

"Counterfeit" is defined as something "that appears to be genuine, but is not." 18 U.S.C. § 2318(b)(1), (b)(6). Counterfeit is distinct from "bootlegged" or "pirated": counterfeits are unauthorized copies of works that are made to appear legitimate, whereas bootlegged recordings or pirated items do not pretend to be legitimate. *See United States v. Shultz*, 482 F.2d 1179, 1180 (6th Cir. 1973) ("Counterfeit tapes are tapes which are represented to be genuine articles of particular record companies when, in truth, they are not. The process includes reproducing the tape itself and also the recognized label of another record company. A bootleg tape is a reproduction of someone else's recording or recordings marketed under a different label."). *See also* 18 U.S.C. § 2319A (addressing the unauthorized recording and trafficking of live musical performances, also known as "bootlegging"), and Chapter II of this Manual.

Counterfeit labels include those made when "counterfeiters have simulated 'genuine' labels that have not previously existed," insofar as these simulated labels share the same basic criminal purpose as any counterfeit product—to defraud the consumer, the manufacturer, and society by trading off the product's apparent authenticity. *See* S. Rep. No. 97-274, at 9 (1981), *reprinted in* 1982 U.S.C.C.A.N. 127, 135. "For example, cases have arisen where a counterfeiter has produced packages and distributed videotapes of a film which have never been released in that form to the public. The term 'counterfeit label' includes such simulated labels." *Id.* Except for the *Shultz* case, *supra*, the extent to which such simulated labels are counterfeit for purposes of § 2318 has rarely been addressed in the courts. Prosecutors handling cases involving simulated labels may find it helpful to consult with the Computer Crime and Intellectual Property Section at (202) 514-1026.

An "illicit" label, generally speaking, is a "genuine certificate, licensing document, registration card, or similar labeling component" intended for use with one of the enumerated classes of copyrighted works, that a defendant distributed or used without the work it was intended to accompany or falsely altered to indicate broader rights than originally

intended. 18 U.S.C. § 2318(b)(4). Although § 2318 was amended to cover "illicit" labels on December 23, 2004, as of this writing there are no reported cases that involve illicit labels. For now, therefore, we must rely solely on the statute. Specifically, an "illicit" label is one that is:

> (A) used by the copyright owner to verify that [a copyrighted work of the type enumerated above] is not counterfeit or infringing of any copyright; and
>
> (B) that is, without the authorization of the copyright owner [either]
>
> > (i) distributed or intended for distribution not in connection with the copy, phonorecord, or work of visual art to which such labeling component was intended to be affixed by the respective copyright owner; or
> >
> > (ii) in connection with a genuine certificate or licensing document, knowingly falsified in order to designate a higher number of licensed users or copies than authorized by the copyright owner, unless that certificate or document is used by the copyright owner solely for the purpose of monitoring or tracking the copyright owner's distribution channel and not for the purpose of verifying that a copy or phonorecord is noninfringing.

18 U.S.C. § 2318(b)(4). Under subsection (A), an illicit label may include any of a broad category of labeling components, such as most types of identifying labels, particularly those that include trademarks, seals, holograms, watermarks, or other marks intended to show that a product is genuine. Although it is not clear from the statute's text and legislative history, presumably the definition does not include generic labels, such as packing slips, that merely identify a particular work, but which the copyright holder did not intend to certify the work's authenticity.

Subsection (B) identifies two situations in which a labeling component is "illicit." First, a labeling component is illicit when it is distributed, without the copyright holder's permission, apart from the original copyrighted item that the copyright owner intended the labeling component to accompany. For example, individual "licensing packs" for software that contain various labels, certificates of authenticity, and documentation and packaging would be deemed illicit if they were sold without the original media they were intended to accompany, or were sold with a pirated copy of the media.

Second, a genuine labeling component is illicit when a genuine certificate of authenticity or similar licensing document has been knowingly falsified to indicate a higher number of authorized users or copies. For

example, business software often comes in multi-user license packs that contain a single copy of the software itself on CD-ROM and a license that permits the software to be run for a certain number of users. If the licensing document for a ten-user license pack were knowingly falsified to indicate authorization for 100 users, the falsified licensing document would be illicit.

VI.B.5. Federal Jurisdiction

The final element of § 2318 requires the government to establish federal jurisdiction over the offense by proving any one of the following circumstances:

- The offense occurred in a special maritime, territorial, or aircraft jurisdiction of the United States, § 2318(c)(1)
- Use of or intent to use the mail or facilities of interstate or foreign commerce in the commission of the offense, § 2318(c)(2)
- In the case of a counterfeit or illicit label, the label was affixed, enclosed or accompanying or designed to be affixed, enclosed or to accompany certain copyrighted works or a copy of these works: a phonorecord of a copyrighted sound recording or musical work; a computer program; a literary work; a pictorial, graphic or sculptural work; a work of visual art; or copyrighted documentation or packaging, § 2318(c)(3)
- In the case of counterfeit documentation or packaging, the documentation or packaging itself was copyrighted, § 2318(c)(4)

In practice, the most likely basis for jurisdiction will be copyright. However, even when the works are copyrighted, prosecutors may nevertheless find it easier to establish another basis for jurisdiction: a copyright may be more burdensome to prove or an alternative basis may be relatively clear. See Chapter II of this Manual, which discusses how to prove the existence of a copyright.

The jurisdictional element in § 2318(c)(3) for counterfeit or illicit labels that accompany certain classes of works is worded unusually. It allows jurisdiction if the labels were affixed or designed to be affixed to copies of sound recordings, musical works, computer programs, motion pictures, audiovisual works, or documentation and packaging, if those items were "copyrighted." It also allows jurisdiction if the labels were affixed or designed to be affixed to literary works, pictorial, graphic or sculptural works, or works or visual art, but does not indicate that these items must have been "copyrighted." *Compare* § 2318(c)(3)(A)-(C), (G), *with*

§ 2318(c)(3)(D)-(F). However, these latter classes of works are subject to copyright protection, and § 2318 intends these terms to have the same meaning as in the copyright code. *See* 17 U.S.C. § 102; 18 U.S.C. § 2318(b)(3). Therefore, Congress's omission of the word "copyrighted" from § 2318(c)(3)(D)-(F) was probably unintended, and copyright should be read as an element of these jurisdictional bases.

The government need not prove the defendant knew that his actions fell within the federal jurisdiction elements set forth in 18 U.S.C. § 2318(c). Thus, it is unnecessary to prove, for example, that the defendant knew that the copy of the computer program to which his counterfeit labels were affixed was copyrighted (see Section VI.B.1. of this Chapter). *Cf. United States v. Feola*, 420 U.S. 671, 676 n.9 (1975) ("[T]he existence of the fact that confers federal jurisdiction need not be one in the mind of the actor at the time he perpetrates the act made criminal by the federal statute."); *United States v. X-Citement Video, Inc.*, 513 U.S. 64, 73 n.3 (1994) (affirming *Feola* as applied to strictly jurisdictional facts); *United States v. Yermain*, 468 U.S. 63, 68-70 (1984) (holding that the plain language of 18 U.S.C. § 1001, which is worded similarly to § 2318(a), indicates that Congress did not intend "knowingly and willingly" to apply to jurisdictional element).

VI.B.6. Venue

The proper venue for a § 2318 prosecution is addressed by general principles governing venue in criminal cases. Particular attention should be paid to offenses that involve the use of the mail or transportation in interstate or foreign commerce, which will occur in most § 2318 offenses.

VI.C. Defenses: Statute of Limitations

Because § 2318 does not contain a specific statute of limitations, the general five-year statute of limitations for non-capital offenses applies. *See* 18 U.S.C. § 3282.

VI.D. Special Issues

VI.D.1. Electronic Copies of Labels, Documentation, or Packaging

Although a typical case under § 2318 generally involves labels, documentation, or packaging in some sort of physical form, such as an adhesive decal, a cardboard box, or a manual printed on paper, § 2318

might also be applied in certain cases when either the "original" or "legitimate" items, or the "counterfeit" or "illicit" copies, or both, are in electronic or digital form. However, such circumstances are limited. Section 2318(b)(5) defines documentation and packaging as items which are "in physical form," which would not prohibit trafficking in unauthorized copies of electronic documentation or manuals, when the original or legitimate versions are only available in electronic form, e.g., for download over the Internet. It is unclear whether the term "in physical form" would include a digitally-formatted manual tangibly embodied on a CD-ROM. Conduct involving unauthorized electronic copies of a physical version of a documentation or packaging (such as image files scanned from a paper manual or box), or of documentation that is legitimately distributed on a CD-ROM, nevertheless may implicate § 2318, either as evidence of a substantive violation of the trafficking provision, or as an act that aids or abets such trafficking or furthers a conspiracy to traffic.

The House Report to the 2004 amendments also makes clear that § 2318's criminal provisions do not apply to "electronic transmission" of "genuine" licensing components, documentation, or packaging. *See* H.R. Rep. No. 108-600, at 4 (2004) (stating that the amendments "shall not be construed to apply ... in any case, to the electronic transmission of a genuine certificate, licensing document, registration card, similar labeling component, or documentation or packaging."). This language suggests that the unauthorized electronic distribution of labeling components that are purely electronic in their original or legitimate form, such as electronic signatures or watermarks, does not constitute criminal trafficking under § 2318 (although such conduct may violate other criminal statutes). However, the statute is silent as to whether § 2318 applies to the electronic transmission of labeling components that are *not* "genuine," suggesting that it would be a criminal violation of § 2318 to traffic in electronic files that contain unauthorized copies of labeling components, where the original or legitimate labeling components were in physical form (e.g., trafficking in digital image files that contain a convincing reproduction of label decals or product packaging, such as would be suitable for printing additional counterfeit copies of the labels or packaging). Nevertheless, as of this writing, there is little case law in this area, and the extent to which § 2318 may be applied in situations involving electronic labeling components remains somewhat unclear.

VI.D.2. Advantages of Charging a § 2318 Offense

A § 2318 charge may be an appropriate adjunct or alternative charge when the situation involves copyright or trademark infringement. In many

cases, the § 2318 charge may even be preferable. The mens rea (knowledge) and minimum threshold of illegal conduct (none) are both lower than the mens rea required in criminal copyright charges (willfulness) and the monetary and numerical thresholds for many criminal copyright charges. See Chapter II of this Manual. The standard of proof may also be lower than for criminal trademark charges, which require proof that any trademarks used on the counterfeit or illicit labeling are identical to or substantially indistinguishable from one registered with the U.S. Patent and Trademark Office. *See* Chapter III.

VI.E. Penalties

Section 2318(a) provides for a fine or imprisonment or both, as well as forfeiture. Restitution is also available.

VI.E.1. Fines

Under § 2318(a), a defendant may be "fined under this title [18]," which is an indirect reference to 18 U.S.C. § 3571 ("Sentence of fine"). Under 18 U.S.C. § 3571, an individual can be fined up to $250,000 and an organization can be fined up to $500,000, or either can be fined twice the offense's pecuniary gain or loss, without limit. 18 U.S.C. § 3571(a)-(d).

VI.E.2. Imprisonment

The maximum term of imprisonment is five years. 18 U.S.C. § 2318(a).

VI.E.3. Restitution

Although § 2318 does not mention restitution, 18 U.S.C. § 3663A provides for mandatory restitution to victims of certain crimes, including crimes against property in Title 18, of which § 2318 is one. 18 U.S.C. § 3663A(c)(1)(A)(ii). Section 5E1.1 of the U.S. Sentencing Guidelines Manual also provides for restitution in cases where there is an identifiable victim and restitution is authorized under 18 U.S.C. § 3663A. Courts have affirmed restitution orders for convictions under § 2318. *See United States v. Chay*, 281 F.3d 682, 686 (7th Cir. 2002) (holding that an 18 U.S.C. § 2318(a) offense is "a crime against property covered by the Mandatory Victim Restitution Act (MVRA), 18 U.S.C. § 3663A" and affirming an order of $49,941.02 in restitution); *United States v. Elouri*, 62 Fed. Appx. 556 (5th Cir. 2003) (affirming an order on procedural grounds of $136,050 in restitution for a violation of § 2318). For more on restitution, see Chapter VIII of this Manual.

VI.E.4. Forfeiture

When a person is convicted under § 2318, the court must order the forfeiture and destruction or other disposition of all counterfeit or illicit labels, any items that these labels were affixed to or intended to be affixed to, and any equipment, device, or material used to create these labels. *See* 18 U.S.C. § 2318(d). For more on forfeiture, see Chapter VIII of this Manual.

VI.E.5. Sentencing Guidelines

Section 2B5.3 is the applicable sentencing guideline. See Chapter VIII of this Manual. Section 2318 offenses in particular often raise issues about how to evaluate the retail value and the number of infringing items on which to base the infringement amount.

VI.E.5.a. Retail Value of Copyrighted Goods vs. Counterfeit Labels, Documentation, and Packaging

The retail value may depend on whether the defendant's labels, documentation, and packaging were enclosed, affixed to, or accompanied the materials for which they were intended. If so, the infringement amount is calculated as usual, based on the retail value of the infringed (genuine) or infringing (counterfeit) copyrighted material as Application Note 2 to U.S.S.G. § 2B5.2 directs. See Chapter VIII of this Manual. If not, then determining an infringement amount for unattached labels, packaging, or documentation—standing alone—may be more complicated.

On March 16, 2006, the Stop Counterfeiting in Manufactured Goods Act directed the Sentencing Commission to address how the infringement amount should be calculated for offenses involving labels, documentation, and packaging, such as 18 U.S.C. § 2318, that are not attached to or accompanying copyrighted works. *See* Pub. L. No. 109-181, § 1, 120 Stat. 285 (March 16, 2006). Guideline clarifications pursuant to this directive are expected later in 2006, after this Manual goes to print.

Until the guidelines are clarified, at least one past decision indicates that unattached labels, documentation, and packaging be based on the retail value of the labels, documentation, or packaging themselves. In *United States v. Bao*, 189 F.3d 860, 862-63 (9th Cir. 1999), the government seized 5,000 counterfeit manuals for software and counterfeit packaging materials such as CD-ROM inserts and product registration cards in Bao's print shop. After Bao's conviction under § 2318 for trafficking in counterfeit software manuals, the district court sentenced him based on a retail value of $50 per manual, the black market value of the software plus a manual.

The court's theory was that the manual had no value apart from the software. *Id.* at 862-63, 867. The Ninth Circuit vacated the sentence, holding that the manuals' retail value should have been $12 apiece, the retail value of other comparable genuine manuals the victim sold separate from software. *Id.* at 866-67. In other words, the appropriate retail value was that of the counterfeit documentation, not the thing the documentation was to accompany.

The court might have used the $50 value of the software plus a manual had there been evidence that Bao understood the conspiracy to extend beyond counterfeit manuals to counterfeit software. *Id.* at 867 n.3. This logic may therefore apply in future cases when the counterfeit or illicit labels, documentation, or packaging have no retail value separate from the infringing copyrighted material, such as labels of Microsoft trademark that could be applied to Microsoft software. *Cf. U.S. v. Guerra*, 293 F.3d 1279, 1292 (11th Cir. 2002) (§ 2320 case holding that "[t]he value of the bands and labels is inextricably intertwined with that of the completed product, as the value of the counterfeit cigars derives primarily from the degree to which the bands and labels bear marks that are indistinguishable from the genuine marks. Thus, the district court did not err by considering 'infringing items' to be cigars rather than labels.").

The December 2004 amendments to § 2318 prohibiting traffic in "illicit" labels may also present some novel sentencing issues. Because "illicit" labels are genuine labels that are used beyond the authorized scope of the copyright holder, it may be difficult to determine the infringement value of illicit labels that have not actually been affixed to, enclosed with, or accompanied the copyrighted material. Since illicit labels are genuine and not counterfeit, should the retail value of the genuine label always be used to determine the infringement amount for sentencing purposes? It is not clear, particularly because there are no reported cases addressing trafficking in illicit labels. But the addition of illicit labels to § 2318 does blur the distinction between infringing (fake) and infringed (genuine) retail value for sentencing purposes.

VI.E.5.b. Number of Infringing Copyrighted Goods vs. Number of Labels, Documents, or Packaging Items

Just as the retail value might depend on how many products the defendant had completed or could have completed readily, so might the *number* of infringing items. Two appellate courts have ruled that "the number of infringing items should correspond to the number of completed or nearly completed counterfeit goods." *U.S. v. Guerra*, 293 F.3d 1279, 1293 (11th Cir. 2002) (citing *United States v. Sung*, 51 F.3d 92 (7th Cir. 1995),

appeal after remand, 87 F.3d 194 (7th Cir. 1996), *on remand to*, 940 F. Supp. 172 (N.D. Ill. 1996), *rev'g trial court on other grounds*, 114 F.3d 1192 (1997)). In both these cases, the number of infringing items was held to be not the number of infringing labels or packaging items, but rather the lower number of goods to which the labels or packaging had been or could readily have been attached. *See id.* However, both these cases concerned sentencing under the counterfeit trademark crime, 18 U.S.C. § 2320, not the counterfeit label crime in § 2318. It is difficult to predict how these issues will be resolved in § 2318 prosecutions, in which the focus is not the completed counterfeit product—as in § 2320 cases—but rather the counterfeit label, documentation, or packaging.

VI.F. Other Charges to Consider

When confronted with a case that implicates counterfeit or illicit labels or counterfeit documentation or packaging, prosecutors may want to consider the following crimes for charges in addition to 18 U.S.C. § 2318 or in lieu of such charges if § 2318's elements cannot be met:

- **Copyright infringement, 17 U.S.C. § 506, 18 U.S.C. § 2319**, for any infringement of the underlying copyrighted goods. *See, e.g., United States v. Cohen*, 946 F.2d 430, 433-34 (6th Cir. 1991) (affirming conviction under 18 U.S.C. §§ 2318-2319 for duplicating and distributing copyrighted movies). A conspiracy or aiding-and-abetting theory will sometimes be necessary. See Chapter II of this Manual.

- **Trademark counterfeiting**, **18 U.S.C. § 2320**, because labels, documentation, and packaging for copyrighted works often carry counterfeit reproductions of federally registered trademarks. *See, e.g.*, *United States v. Hernandez,* 952 F.2d 1110, 1113-14 (9th Cir. 1991) (affirming conviction under 18 U.S.C. §§ 2318-2320 for counterfeit audio cassettes and audio cassette labels). See Chapter III of this Manual.

- **Mail or wire fraud, 18 U.S.C. §§ 1341, 1343**, for schemes that involve the use of the mails or wire, as long as there is a scheme to defraud. *Cf. United States v. Shultz,* 482 F.2d 1179, 1180 (6th Cir. 1973) (upholding convictions for mail fraud and counterfeit labels under an earlier version of § 2318, for causing the transportation of a counterfeit stereo tape cartridge recording in interstate commerce with forged or counterfeit label). The theory of fraud cannot be merely that the media was copyrighted, but rather that

the defendant must have intended to defraud either his immediate purchaser or other downstream purchasers. See Section II.F. of this Manual.

- **Racketeer Influenced and Corrupt Organizations (RICO), 18 U.S.C. §§ 1961-1968**, because § 2318 violations serve as RICO predicate acts. *See* § 1961(1)(B). RICO charges must be approved by the Department's Organized Crime and Racketeering Section, which can be reached at (202) 514-3594.
- **Bootleg sound recordings and music videos of live musical performances, 18 U.S.C. § 2319A**. See Section II.F. of this Manual.