

**III.**

**Trafficking In  
Counterfeit Trademarks,  
Service Marks, and  
Certification Marks—  
18 U.S.C. § 2320**

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### **III.A. Introduction**

#### **III.A.1. Overview**

Trademarks and service marks are part of the fabric of American society. They are on our clothes, our cars, and nearly everything else we buy, and are advertised on the street, in magazines, on television and websites, and especially in stores. They are protected not only by civil law, but also by the criminal counterfeit marks statute, 18 U.S.C. § 2320.

A trademark is “any word, name, symbol, or device, or any combination thereof ... used by a person ... to identify and distinguish his or her goods ... from those manufactured or sold by others and to indicate the source of the goods.” 15 U.S.C. § 1127. A service mark, by contrast,

identifies the source of services rendered or offered, such as athletic events, television shows, restaurant services, telecommunications services, or retail business services, rather than goods. *Id.* Examples of well-known trademarks include Kodak®, Apple®, Microsoft®, Coca-Cola®, GE®, Life-Savers®, USA Today®, KLEENEX®, the color pink for Owens-Corning fiberglass, and the NBC chime. Well-known service marks include Merry Maids®, Greyhound®, Wal-Mart®, Taco Bell®, Burger King®, and McDonald's®.

Two other types of marks are protected by 18 U.S.C. § 2320: certification and collective marks. A certification mark is used to certify regional or other origin, material, mode of manufacture, quality, accuracy, or other characteristics of goods or services, or that the work or labor on the goods or services was performed by members of a union or other organization. 15 U.S.C. §1127. Examples of certification marks include Underwriters Laboratories' UL® mark, which certifies the safety standards of electrical cable equipment, and the Woolmark® symbol, which certifies that certain laundry products can wash and dry wool and wool-blend products without damage. These marks indicate that authorized persons will manufacture the products in accordance with the mark-holder's processes. A collective mark is a trademark or service mark used by an association, union, or other group either to identify the group's products or services, or to signify membership in the group. *Id.* PGA®, Realtor®, and AFL-CIO® are examples of collective marks.

As is discussed in more detail below, the law protects marks from infringement because they are important to businesses and for consumer protection. Americans rely on the brands these marks represent when deciding which goods and services to purchase and use. This gives companies a strong incentive to control the quality of their goods and services and invest heavily in their brands. One who infringes a mark often misleads consumers, steals businesses' sales, and misrepresents to the public the quality of the marked products and services. Criminal prosecution is appropriate for the most egregious infringers.

This Chapter first discusses the functions protected by trademarks, service marks, and certification marks, and then discusses the criminal counterfeiting statute and the elements of the crime, common defenses, issues unique to this crime, and related statutory penalties. Forms providing sample indictments and jury instructions are provided in Appendix C.

The criminal counterfeit marks statute, 18 U.S.C. § 2320, was amended effective March 16, 2006, pursuant to the Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, § 1, 120 Stat. 285, 285-88

(2006), and the Protecting American Goods and Services Act of 2005, Pub. L. No. 109-181, § 2, 120 Stat. 285, 288 (2006). Discussion of these amendments is integrated throughout this Chapter, sometimes—but not always—by means of bracketed text. Prosecutors should consult the text carefully to ensure that they are applying the law in effect at the time of the offense.

In addition to this Chapter, prosecutors may refer to the leading treatise on trademark law, J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* (2005), as well as other helpful law review articles such as Sylvia N. Albert et al., *Intellectual Property Crimes*, 42 Am. Crim. L. Rev. 631 (2005); Louis Altman, *Callmann on Unfair Competition, Trademarks and Monopolies*, 4 Callmann on Unfair Comp., T. & Mono. § 22:53 (2003); Debra D. Peterson, *Criminal Counterfeiting and Component Parts: Closing the Perceived “Label Loophole,”* 30 AIPLA Q.J. 457 (2002); Michael Coblenz, *Intellectual Property Crimes*, 9 Alb. L.J. Sci. & Tech. 235 (1999); and David J. Goldstone & Peter J. Toren, *The Criminalization of Trademark Counterfeiting*, 31 Conn. L. Rev. 1 (1998).

Although § 2320 criminalizes the infringement of trademarks, service marks, and certification marks, for ease of discussion this Manual often refers primarily to trademarks and sales of goods. The legal analysis should, however, apply equally to services, service marks, and certification marks as well.

### **III.A.2. Why Criminal Law Protects Trademarks, Service Marks, and Certification Marks**

Trademarks and service marks serve at least four functions:

1. They identify a particular seller's goods or services and distinguish them from those sold by others
2. They signify that all goods or services bearing the mark come from or are controlled by a single source
3. They signify that all goods or services bearing the same mark are of an equal level of quality
4. They serve as a primary method to advertise and sell goods and services

See 1 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 3.2 (2005). A trademark or service mark also serves as an important “objective symbol of the good will that a business has built up. Without the identification function performed by trademarks, buyers would have no

way of returning to buy products that they have used and liked.” *Id.* Certification marks are intended to “certify regional or other origin, material, mode of manufacture, quality, accuracy or other characteristics of such person's goods or services.” 15 U.S.C. § 1127.

Because “penalties under [the civil Lanham] Act have been too small, and too infrequently imposed, to deter counterfeiting significantly,” much of the conduct that formerly had been subject only to civil penalties was criminalized through the enactment of the Trademark Counterfeiting Act of 1984, Pub. L. No. 98-473, 98 Stat. 2178 (1984), (codified at 18 U.S.C. § 2320). *See* S. Rep. No. 98-526, at 5 (1984), *reprinted in* 1984 U.S.C.C.A.N. 3627, 3631.

The criminalization of trademark counterfeiting serves at least four important purposes:

- 1. Protecting a mark-holder's intellectual property from theft or dilution**

Stealing a company's name or brand name is a type of corporate identity theft. *See* H. Rep. 109-68, at 8 n.2 (“Congress was concerned ... that counterfeiters can earn enormous profits by capitalizing on the reputations, development costs, and advertising efforts of honest manufacturers at little expense to themselves.”) (alterations in original and internal quotation marks omitted) (legislative history to Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, § 1, 120 Stat. 285 (2006)) (citing *United States v. Hon*, 904 F.2d 803, 806 (2d Cir. 1990) and S. Rep. 98-526, at 4-5 (1984), *reprinted in* 1984 U.S.C.C.A.N. at 3630-31). A counterfeiter should no more be able to steal a company's good name (and the profits associated with its name) than the company's money or other assets. Diane Kiesel, *Battling the Boom in Bogus Goods*, 71-MAR A.B.A.J. 60 (1985). Also, by selling inferior products, the counterfeiter may devalue a mark-holder's good name even while profiting from it. *Id.*

- 2. Protecting consumers from fraud**

When consumers decide what goods to buy, they should be able to rely on individual goods' trademarks and the quality those marks purport to represent. *See* H. Rep. 109-68, at 8 n.2 (“Congress was concerned not only that trademark counterfeiting defrauds purchasers, who pay for brand-name quality and take home only a fake...”) (alterations in original and internal quotation marks omitted) (citing *United States v. Hon*, 904 F.2d 803, 806 (2d Cir. 1990) and S. Rep. 98-526, at 4-5, *reprinted in* 1984 U.S.C.C.A.N. at 3630-31); Note, *Badwill*, 116 Harv. L. Rev. 1845 (2003). Counterfeit marks can mislead consumers. They give the ring of authenticity to goods

of lower quality. They can even mask serious health or safety risks to consumers, as in the cases of counterfeit food products, batteries, prescription drugs, or automotive parts. S. Rep. No. 98-526, at 4-5 (1984), *reprinted in* 1984 U.S.C.C.A.N. 3627, 3630-31. Trademark counterfeiting can also be difficult to regulate civilly. With a large number of victims across a potentially large geographic region—especially in the case of goods offered online—and small losses per victim, a large-scale counterfeiter can often evade civil sanctions.

### **3. Protecting the safety of non-purchasing users**

Sales of counterfeit products can hurt not only the trademark holder and the initial purchaser, but also third parties who use the goods or services after the initial purchase. For example, airline passengers are victims of counterfeit airplane parts, coronary patients are victims of counterfeit heart pumps, and children are victims of counterfeit infant formula, even though in each case the counterfeit goods were purchased for those consumers' benefit by another person. These are the types of situations that Congress sought to eradicate by criminalizing trademark infringement. *See* H.R. Rep. No. 104-556, at 3 (1996), *reprinted in* 1996 U.S.C.C.A.N. 1074, 1076; S. Rep. No. 98-526, at 4 (1984), *reprinted in* 1984 U.S.C.C.A.N. 3627, 3630-31.

### **4. Enforcing market rules**

Just as counterfeiting money and forging financial instruments undermine fundamental rules of the marketplace, counterfeiting trademarks weakens modern commercial systems. David J. Goldstone & Peter J. Toren, *The Criminalization of Trademark Counterfeiting*, 31 Conn. L. Rev. 1, 17-19 (1998).

## **III.B. Elements**

### **III.B.1. The Trademark Counterfeiting Crime in General**

The Trademark Counterfeiting Act, 18 U.S.C. § 2320(a), states:

Whoever 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[, or intentionally traffics or attempts to traffic in labels, patches, stickers, wrappers, badges, emblems, medallions, charms, boxes, containers, cans, cases, hangtags, documentation, or packaging of any type or nature, knowing that a counterfeit mark has been applied thereto, the use of which is likely to

cause confusion, to cause mistake, or to deceive,] shall, if an individual, be fined not more than \$2,000,000 or imprisoned not more than 10 years, or both, and, if a person other than an individual, be fined not more than \$5,000,000.

The bracketed language was inserted by the Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, § 1(b)(1), 120 Stat. 285, 285 (Mar. 16, 2006), and thus applies only to offenses arising after its enactment.

Selling just one counterfeit item can be a felony. *United States v. Foote*, 413 F.3d 1240, 1246 (10th Cir. 2005). There is no misdemeanor provision.

To establish a criminal offense under 18 U.S.C. § 2320, the government must prove the following elements (presented here with sub-elements for clarity):

1. The defendant intentionally trafficked or attempted to traffic in goods or services [after March 16, 2006: or labels, documentation or packaging for goods or services]
2. The defendant used a counterfeit mark on or in connection with those goods or services [after March 16, 2006: or a counterfeit mark was applied to labels, documentation, or packaging for those goods or services]
  - a. The counterfeit mark was not genuine or authentic
  - b. The counterfeit mark was identical to or indistinguishable from a genuine mark owned by another
  - c. The genuine mark was registered on the principal register in the United States Patent and Trademark Office
  - d. The genuine mark had been in use by the mark-holder or its licensee
  - e. The counterfeit mark was used “on or in connection with” the defendant’s goods or services [after March 16, 2006: the counterfeit mark was “applied to or used in connection with” the goods or services or was “applied to or consist[ed] of” labels, documentation, or packaging “of any type or nature”]
  - f. The counterfeit mark was used “in connection with” the type of goods and services for which the protected mark was registered [after March 16, 2006: or the counterfeit labels, documentation, or packaging were “designed, marketed, or



otherwise intended to be used on or in connection with the goods or services for which the mark [was] registered”]

- g. The counterfeit mark was used in a manner “likely to cause confusion, to cause mistake, or to deceive”
3. The defendant knowingly used the mark and knew that the mark was counterfeit

The bracketed language was inserted or amended by the Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, § 1, 120 Stat. 285, 285-87 (Mar. 16, 2006). The government must also choose an appropriate venue. These elements are discussed in detail below.

### **III.B.2. Relevance of Civil Trademark Law in Criminal Cases**

Before discussing the elements, it is important to note that when Congress drafted § 2320, it relied on the “concepts and definitions of the Lanham Act,” the civil trademark statute codified at 15 U.S.C. §§ 1051-1127. *See* H.R. Rep. No. 98-997, at 4-5 (1984). The Lanham Act's defenses and limitations on remedies are specifically incorporated into § 2320. *See* 18 U.S.C. § 2320(c), (e)(3), and the discussion in Section III.C.4. of this Chapter. Moreover, Congress repeatedly indicated that the Lanham Act was the background against which § 2320 should be interpreted. *See, e.g., Joint Statement on Trademark Counterfeiting Legislation*, 130 Cong. Rec. 31,675-77 (1984) (hereinafter “*Joint Statement*”) (“No conduct will be criminalized by this act that does not constitute trademark infringement under the Lanham Act.”).

Given this legislative history, courts deciding criminal cases under § 2320 have often turned to civil opinions decided under the Lanham Act. For example, the Ninth Circuit affirmed one defendant's § 2320 conviction by relying not only on the criminal statute's legislative history, but also on two civil Lanham Act cases, noting that the “definition of the term 'counterfeit mark' in the Lanham Act is nearly identical to the definition [of counterfeit mark] under Section 2320, suggesting that Congress intended to criminalize all of the conduct for which an individual may be civilly liable.” *United States v. Petrosian*, 126 F.3d 1232, 1234 (9th Cir. 1997); *see also* 15 U.S.C. §§ 1116(d) (defining “counterfeit mark” in civil actions), 1127 (defining “counterfeit”). Similarly, the Eleventh Circuit held that the “likely to cause confusion, mistake or deceive” test within the definition of counterfeit mark at 18 U.S.C. § 2320(e)(1)(A)(iii) extends beyond direct purchasers to encompass the purchasing public and potential purchasers, based on the “identical language” in the Lanham Act and the legislative history. *United States v. Torkington*, 812 F.2d 1347, 1351-52 (11th Cir. 1987)

(“Congress ... manifested its intent that [§ 2320] be given the same interpretation as is given the identical language in [§ 1114(1)] of the Lanham Act”).

Despite the civil and criminal laws' many similarities, some courts have held that their differences sometimes merit distinction. *See United States v. Hanafi*, 302 F.3d 485, 488 (5th Cir. 2002) (holding that Lanham Act cases “should not be used as authoritative in interpreting a criminal statute”); *United States v. Giles*, 213 F.3d 1247, 1249-50 (10th Cir. 2000) (declining to follow a civil case in part because § 2320, as a criminal statute, must be construed more narrowly); *Torkington*, 812 F.2d at 1350 (noting that § 2320 is “narrower in scope” than the Lanham Act).

### **III.B.3. Intentionally Trafficked or Attempted to Traffic in Goods or Services [after March 16, 2006: or Labels, Documentation, or Packaging for Goods or Services]**

Section 2320(a) requires the government to prove that the defendant “intentionally” trafficked in goods or services [after March 16, 2006: or in “labels, patches, stickers, wrappers, badges, emblems, medallions, charms, boxes, containers, cans, cases, hangtags, documentation, or packaging of any type or nature”] or attempted to do so. 18 U.S.C. § 2320(a); *see* Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, § 1, 120 Stat. 285, 285-87 (Mar. 16, 2006).

#### **III.B.3.a. Intentionally**

The term “intentionally” modifies “traffics or attempts to traffic in goods or services.” *Id.*; *see United States v. Baker*, 807 F.2d 427, 429 (5th Cir. 1986) (quoting legislative history's breakdown of § 2320's two mens rea elements). It means “that the defendant trafficked in the goods or services in question deliberately, or 'on purpose.’” *See Joint Statement*, 130 Cong. Rec. 31,674 (1984).

The government need not prove that the defendant specifically intended to violate 18 U.S.C. § 2320 or even that he knew his conduct was illegal. *Baker*, 807 F.2d at 427-30; *United States v. Gantos*, 817 F.2d 41, 42-43 (8th Cir. 1987) (affirming district court's refusal to instruct jury that § 2320 required proof that defendant knew that his act violated the law).

### III.B.3.b. Trafficked or Attempted to Traffic

#### III.B.3.b.i. General Definition

Before March 16, 2006, “traffic” was defined in 18 U.S.C. § 2320(e)(2) to mean “transport, transfer, or otherwise dispose of, to another, as consideration for anything of value, or make or obtain control of with intent so to transport, transfer, or dispose of.”

That definition was broad, covering all aspects of commercial activity from initial manufacture to distribution and sale, but was not intended to cover purchases for personal use. *See Joint Statement*, 130 Cong. Rec. 31,675 (1984); S. Rep. 98-526 (1984), *reprinted in* 1984 U.S.C.C.A.N. 3627; David J. Goldstone et al., *The Criminalization of Trademark Counterfeiting*, 31 Conn. L. Rev. 1 (1998). A defendant who did not personally “transport[], transfer[], or otherwise dispose[]” of the goods but who aided and abetted a co-conspirator who did traffic could be convicted as an aider-and-abettor. *See United States v. Guerra*, 293 F.3d 1279, 1287 (11th Cir. 2002) (affirming § 2320 conspiracy and aiding-and-abetting convictions for defendants who made labels that a co-conspirator attached to fake Cuban cigars he sold).

Yet this broad definition arguably regulated too narrow a swath of commercially-motivated conduct, and it generally did not explain how to deal with cases in which the defendant was caught possessing counterfeits with the intent to traffic in them. See Sections III.B.3.b.ii.-iii. of this Chapter.

These problems were fixed by the Protecting American Goods and Services Act of 2005, enacted March 16, 2006. It defines “traffic” as follows:

(e)(2) the term “traffic” means to transport, transfer, or otherwise dispose of, to another, ~~as consideration for anything of value~~ [for purposes of commercial advantage or private financial gain], or [to make[, import, export,] ~~or~~ obtain control of[, or possess,] with intent to so transport, transfer, or otherwise dispose of;

for which

(e)(3) [the term 'financial gain' includes the receipt, or expected receipt, of anything of value].

Pub. L. No. 109-181, § 2, 120 Stat. 285, 288 (2006) (amending 18 U.S.C. § 2320(e)(2), (3) (adding brackets and strikethrough to show amendment from prior law). These issues are discussed below.

### III.B.3.b.ii. Consideration vs. Commercial Advantage and Private Financial Gain

Under the prior definition of “traffic,” the thing “of value” that a defendant had to receive as consideration did not need to be a financial payment, but rather could be anything that had value. *See United States v. Koebler*, 24 F.3d 867, 870-71 (6th Cir. 1994) (affirming § 2320 conviction based on acceptance of air conditioner compressors in lieu of financial payment). That rule survived the 2006 amendments, in which “consideration” was replaced with “for purposes of commercial advantage or private financial gain,” § 2320(e)(2) (as amended), with “financial gain” defined as including “the receipt, or expected receipt, *of anything of value,*” § 2320(e)(3) (as amended) (emphasis added).

The “consideration” requirement may have been too narrow to capture some types of commercially-motivated counterfeiting conduct: at least one court held that the term must be interpreted in the contractual sense as the product of a bargained-for exchange between parties. *See United States v. Habegger*, 370 F.3d 441, 444-45 (4th Cir. 2004). In *Habegger*, the Fourth Circuit held that a free sample of counterfeit goods sent to a potential customer did not constitute “trafficking” under § 2320(e)(2), even if the samples had been sent to maintain the customer's good will, because there had been no agreement to purchase goods. *Id.* at 445. The court might have decided differently, however, had there been “more than a mere hope on the part of the sender that the recipient [would] purchase goods in the future,” such as if the recipient had “promised to pay for the socks, to buy additional socks if he found the samples acceptable, or even to examine the socks and consider purchasing more.” *Id.*

To avoid problems like this, Congress replaced “consideration” with “for purposes of commercial advantage or financial gain,” a phrase which has a long-standing meaning within the copyright and criminal codes. It covers a wider variety of profit-related infringement, regardless of whether the defendant infringed for a direct quid pro quo or actually made a profit. For a detailed discussion of how to apply the commercial advantage or financial gain element, see Section II.B.4. of this Manual. The cases discussed there should be persuasive in counterfeit mark cases arising after the 2006 amendments.

One type of conduct that the term “traffic” does not include, however, is consumers' knowing acquisition of counterfeit items solely for personal use. This was true under the prior version of “traffic.” *See Joint Statement*, 130 Cong. Rec. 31,675 (1984). It is also true after the 2006 amendments, given that “commercial advantage and private financial gain” does not

include acquiring infringing items for personal use. See Section II.B.4. of this Manual.

### **III.B.3.b.iii. Making and Obtaining Counterfeits vs. Possession with Intent to Traffic**

At first glance, possession of contraband with intent to traffic—which the old definition did not explicitly cover—appears coextensive with making or obtaining control of contraband with intent to traffic—both of which the old and new definitions explicitly included. *See* 18 U.S.C. § 2320(e)(2) (“[T]he term 'traffic' means to transport, transfer, or otherwise dispose of, to another, [for purposes of commercial advantage or private financial gain], or [to] make[, import, export,] obtain control of[, or possess,] with intent to so transport, transfer, or otherwise dispose of [-]”) (showing 2006 amendments); *United States v. DeFreitas*, 92 F. Supp. 2d 272, 277 (S.D.N.Y. 2000) (holding that purchasing counterfeit items in China for transportation to and sale in the United States constituted an illegal act of “obtaining control” for purposes of § 2320).

Yet there is a subtle—but important—distinction between “obtaining control” with intent to traffic and “possession” with intent to traffic. Consider a warehouse full of counterfeits, with no records indicating when the counterfeits were made, obtained, or transported. Under the old definition of trafficking, the defendant might argue that although the government could show that he *possessed* counterfeits in commercial quantities, it could not prove when he *made* them or *obtained control* of them—the old definition's operative verbs. In the same vein, the defendant might argue that without records to prove when the defendant made or obtained control of the counterfeits, *a fortiori* the government could not prove that these events occurred within the statute of limitations. If, however, the government need only prove that the defendant *possessed* the contraband with the intent to traffic in it, then the government can establish that that action occurred on the date it found the warehouse full of counterfeits; it need not prove when the defendant acquired or produced the contraband. Thus, Congress amended the definition of trafficking explicitly to include possession with intent to traffic.

### **III.B.3.b.iv. Importing and Exporting Related to Transporting**

Congress added importing and exporting to the new definition of trafficking in 2006 to make clear that both acts violate § 2320. The prior definition of “traffic” covered both importing and exporting counterfeits: importing and exporting are forms of transporting goods, and the old

definition explicitly covered transportation. *See* 18 U.S.C. § 2320(e)(2) (“[T]he term 'traffic' means to *transport*, transfer, or otherwise dispose of, to another ...”) (emphasis added) (pre-2006 amendments); *United States v. DeFreitas*, 92 F. Supp. 2d 272, 276-77 (S.D.N.Y. 2000) (holding that importing counterfeit items from China into the United States for sale constituted trafficking under § 2320). The 2006 amendments make it even more clear that the acts of importing and exporting counterfeits violate § 2320.

### **III.B.3.c. Goods and Services [after March 16, 2006: and Labels, Patches, Stickers, Wrappers, Badges, Emblems, Medallions, Charms, Boxes, Containers, Cans, Cases, Hangtags, Documentation, or Packaging of Any Type or Nature]**

What may the defendant not traffic in? Before the March 16, 2006 amendments in the Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, § 1, 120 Stat. 285, 285-88 (2006), the list included only goods or services.

“Goods and services” are defined by neither § 2320 nor the Lanham Act. Section 2320's legislative history, however, provides some guidance regarding the meaning of “goods,” given Congress's focus there on the damage done by various types of counterfeit goods such as drugs, automobile parts, cosmetics, fertilizers, computer parts, and medical devices. H.R. Rep. No. 98-997, at 5 (1984). With regard to “services,” however, the legislative histories for § 2320 and the Lanham Act are silent. *See In re Advertising & Marketing Dev., Inc.*, 821 F.2d 614, 618 (Fed. Cir. 1987) (discussing Lanham Act's legislative history). Although courts have not defined “services” under § 2320, in Lanham Act cases the courts have defined the term broadly to include “the performance of labor for the benefit of another.” *In re Canadian Pac. Ltd.*, 754 F.2d 992, 995 (Fed. Cir. 1985); *Morningside Group Ltd. v. Morningside Capital Group, L.L.C.*, 182 F.3d 133, 137-38 (2d Cir. 1999).

The difficulty with punishing defendants for using counterfeit marks only in connection with goods and services for which the genuine mark was registered was that it created a potential loophole for trafficking in labels, documentation, and packaging with counterfeit marks. Labels, documentation, and packaging that bore counterfeit trademarks but which were unattached to other goods or services, ran the possibility of not being considered “goods” under § 2320 if the mark-holder had not registered the marks for use on labels, documentation, and packaging.

This was the holding of the Tenth Circuit in *United States v. Giles*, 213 F.3d 1247, 1253 (10th Cir. 2000) (“Section 2320 does not clearly penalize trafficking in counterfeit labels which are unattached to any goods.”). In *Giles*, the defendant sold patches bearing counterfeit Dooney & Burke trademarks. The patches could be attached to generic handbags and luggage to make them counterfeit, but Dooney & Burke had registered the marks for use on handbags and luggage, not on patches, and the defendant did not sell the fake handbags and luggage to which the patches were to be attached. The Tenth Circuit concluded that the patches were labels, not goods, and that the defendant could not be convicted under § 2320 for trafficking in unattached labels. The court indicated, however, that the case might have been decided differently had the marks been registered for use on patches, or if the defendant had been charged with aiding-and-abetting trafficking in counterfeit goods. *Id.* at 1251 n.6, 1252 & n.7. If the defendant used a counterfeit mark but did not provide the good or service himself, then he generally had to be charged under § 2320 in conjunction with conspiracy or aiding-and-abetting. *Id.* at 1251 n.6; *United States v. Guerra*, 293 F.3d 1279, 1286-87 & n.4 (11th Cir. 2002) (affirming conviction on these grounds). See Section III.B.4.f. of this Chapter.

Dissatisfied with the *Giles* decision, Congress amended § 2320 to criminalize trafficking in counterfeit labels, documentation, and packaging directly:

Whoever 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[, or intentionally traffics or attempts to traffic in labels, patches, stickers, wrappers, badges, emblems, medallions, charms, boxes, containers, cans, cases, hangtags, documentation, or packaging of any type or nature, knowing that a counterfeit mark has been applied thereto, the use of which is likely to cause confusion, to cause mistake, or to deceive,] shall, if an individual, be fined not more than \$2,000,000 or imprisoned not more than 10 years, or both, and, if a person other than an individual, be fined not more than \$5,000,000.

18 U.S.C. § 2320(a) (bracketed language inserted by the Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, § 1(b)(1), 120 Stat. 285, 285 (Mar. 16, 2006)); see H. Rep. No. 109-68, at 7 (“This modification is intended to overrule the holding in the case *United States v. Giles* ...”). Thus, after March 16, 2006, defendants can be charged with trafficking in labels, documentation, and packaging with counterfeit marks under § 2320 without resort to aiding-and-abetting or conspiracy charges.

Despite the focus on labels, documentation, or packaging that bear inauthentic marks, repackaging authentic goods with inauthentic labels is criminal only in a limited set of circumstances. See Sections III.C.E. and III.D.2.-3. of this Chapter.

A defendant can be convicted for trafficking in a single good, service, label, piece of documentation or packaging. *See United States v. Foote*, 413 F.3d 1240, 1246-47 (10th Cir. 2005) (holding that § 2320's use of “goods” in the plural does not preclude prosecution of a person who traffics in a single counterfeit good).

Whether the things that the defendant trafficked in consist of “goods” or “services”—or as labels, documentation, or packaging intended to be used with goods or services—is governed by the victim's certificate of registration with the United States Patent and Trademark Office. That certificate will indicate whether the mark in question had been registered for goods or for services, and also for what type of good or service. See Section III.B.4.c. of this Chapter.

#### **III.B.4. The Defendant Used a “Counterfeit Mark” On or In Connection With Those Goods or Services [after March 16, 2006: or a Counterfeit Mark Was Applied to Labels, Documentation, or Packaging for Those Goods or Services]**

The government must prove that the defendant knowingly used a counterfeit mark on or in connection with goods or services, or, after the 2006 amendments, that a counterfeit mark was applied to the labels, documentation, or packaging. 18 U.S.C. § 2320(a).

##### **III.B.4.a. Definition of Counterfeit Mark Generally: Not Genuine or Authentic**

“Counterfeit mark” is a term of art that is defined as follows:

(A) a spurious mark—

(i) that is used in connection with trafficking in [any] goods[,] services[, labels, patches, stickers, wrappers, badges, emblems, medallions, charms, boxes, containers, cans, cases, hangtags, documentation, or packaging of any type or nature];

(ii) that is identical with, or substantially indistinguishable from, a mark registered on the principal register in the United States Patent and Trademark Office and in use, whether or not the defendant knew such mark was so registered;



[(iii) that is applied to or used in connection with the goods or services for which the mark is registered with the United States Patent and Trademark Office, or is applied to or consists of a label, patch, sticker, wrapper, badge, emblem, medallion, charm, box, container, can, case, hangtag, documentation, or packaging of any type or nature that is designed, marketed, or otherwise intended to be used on or in connection with the goods or services for which the mark is registered in the United States Patent and Trademark office; and]

(iv) the use of which is likely to cause confusion, to cause mistake, or to deceive.

18 U.S.C. § 2320(e)(1)(A), (as amended by the Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, § 1(b)(3), 120 Stat. 285, 286-87 (Mar. 16, 2006)) (brackets and strikethrough added to show amendments).

A “spurious” mark is one that is “not genuine or authentic.” *Joint Statement*, 130 Cong. Rec. 31,675 (1984).

Although this definition indicates that what must be counterfeit is the mark itself, not the goods or services [or, after March 16, 2006, the labels, documentation, or packaging], a genuine or authentic mark becomes counterfeit when it is used in connection with something else that is counterfeit. See 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 25:15 (4th ed. 2006). In *United States v. Petrosian*, 126 F.3d 1232 (9th Cir. 1997), the defendant, who filled genuine Coca-Cola bottles with a substitute carbonated beverage and sold it as Coca-Cola, contended that his Coca-Cola marks were not counterfeit because his genuine bottles bore genuine marks. The Ninth Circuit disagreed, holding that “[w]hen a genuine trademark is affixed to a counterfeit product, it becomes a spurious mark.... The Coca-Cola mark became spurious when [defendant] affixed it to the counterfeit cola because the mark falsely indicated that Coca-Cola was the source of the beverage in the bottles and falsely identified the beverage in the bottles as Coca-Cola.” *Id.* at 1234 (citations omitted). See also Section III.C.3. of this Chapter concerning the repackaging of authentic goods. This rule should apply equally to services, labels, documentation, and packaging.

The definition of “counterfeit mark” in § 2320(e)(1)(B) also includes designations protected by the Olympic Charter Act. See Section III.D.8. of this Chapter.

Separate laws punish the counterfeit use of emblems, insignias, and names of:

- military medals and designations.
- veterans' organizations.
- cremation urns for military use.
- the seals of the United States President, Vice President, Senate, House of Representatives, and Congress.
- federal agencies.
- the Department of Interior's golden eagle insignia.
- police badges.
- the Red Cross.
- the 4-H club.
- the Swiss Confederation.
- Smokey the Bear.
- Woodsy the Owl.

*See* 18 U.S.C. §§ 700-716.

#### **III.B.4.b. The Counterfeit Mark Must Be Identical to or Indistinguishable from a Genuine Mark Owned by Another**

Under 18 U.S.C. § 2320(e)(1)(A), a counterfeit mark is a spurious mark that is “identical with, or substantially indistinguishable from,” a federally registered mark. This standard is based on the same standard set forth in the Lanham Act, 15 U.S.C. § 1127. The legislative history suggests that the civil and criminal standards should be interpreted the same. *See Joint Statement*, 130 Cong. Rec. 31,675-76 (1984) (noting that the civil and criminal standards “differ slightly in their terms, but [] are identical in substance,” and citing civil cases to explain both standards' operation). If the criminal and civil standards diverge at all—and the legislative history suggests otherwise, notwithstanding a statement to the contrary in *United States v. Guerra*, 293 F.3d 1279, 1288 (11th Cir. 2002)—the criminal standard should be interpreted more narrowly only in cases at the outer margins, *Id.* (citing *Joint Statement*, 130 Cong. Rec. 31,675 (1984) (stating that § 2320 is not intended to criminalize what would have been “arguable” cases of civil trademark infringement before the criminal act's passage)).

Note, however, that the criminal and civil standards are the same or virtually identical with respect to what constitutes a “counterfeit.” Civil law also prohibits the unauthorized use of a “colorable imitation of a registered mark,” *see* 15 U.S.C. § 1114(1)(b), which by its terms falls short of being counterfeit.

The phrase “substantially indistinguishable from” is intended to prevent a counterfeiter from escaping liability by modifying a protected trademark in trivial ways; however, it is not intended to cover cases in which the infringement is arguable, less than clear, or merely “reminiscent of” protected trademarks. *Joint Statement*, 130 Cong. Rec. 31, 676 (1984).

[A] mark need not be absolutely identical to a genuine mark in order to be considered counterfeit. Such an interpretation would allow counterfeiters to escape liability by modifying the registered trademarks of their honest competitors in trivial ways. However, the sponsors do not intend to treat as counterfeiting what would formerly have been arguable, but not clear-cut, cases of trademark infringement.

*Guerra*, 293 F.3d at 1288 (quoting *Joint Statement*, 130 Cong. Rec. 31,676 (1984)). Thus, the use of the mark “Prastimol” for a medication that is the functional equivalent of the product sold under the trademark “Mostimol” would not be a crime. *Id.* Nor would a 'P' superimposed over a 'V' on a fleur-de-lis pattern be substantially indistinguishable from an 'L' superimposed over a 'V' over the same pattern, or using “Amazonas” rather than “Amazon,” or “Bolivia” rather than “Bulova.” *See Montres Rolex, S.A. v. Snyder*, 718 F.2d 524, 531-32 (2d Cir. 1983) (noting that these examples might create a likelihood of confusion without being substantially indistinguishable, in case interpreting Customs's power to seize counterfeits), *cited with approval in Joint Statement*, 130 Cong. Rec. at 31,675-76. However, a counterfeiter who sells a look-alike with an altered brand name can still be convicted if his look-alike reproduces other registered trademarks. *See United States v. Yi*, \_\_\_F.3d\_\_\_, 2006 WL 2294854, at \*1 n.1, \*3 n.4 (5th Cir. Aug. 10, 2006) (holding that even though defendant's batteries were named “Dinacell” rather than “Duracell,” the batteries were still counterfeit because they used Duracell's copper-top and black-body trademark).

In the end, what constitutes a “substantially indistinguishable” difference “will need to be elaborated on a case-by-case basis by the courts.” *Joint Statement*, 130 Cong. Rec. 31,675 (1984).

Prosecutors should pay special attention to word marks. A trademark can consist of a symbol, a picture, or a stylized depiction of a word (such as the distinctive Coca-Cola® cursive mark). A trademark can also consist

of a simple word. A word mark registered in a neutral font and all capital letters “covers all design features and is not limited to any special form or lettering.” *Sally Beauty Co. v. Beautyco, Inc.*, 304 F.3d 964, 970 (10th Cir. 2002) (emphasis added) (citations omitted); J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 19:58 (4th ed. & June 2002 database update) (“Registrations with typed drawings are not limited to any particular rendition of the mark and, in particular, are not limited to the mark as it is used in commerce.”) (quoting *Cunningham v. Laser Golf Corp.*, 222 F.3d 943, 950 (Fed. Cir. 2000)); *see also Cunningham*, 222 F.3d at 949-50; 37 C.F.R. § 2.52 (May 13, 2004). In other words, there is a strong argument that a mark registered in this manner is counterfeited by any infringing use of the mark, whether in the font used by the mark-holder or not, because the infringing word mark is substantially indistinguishable from the word mark itself.

When trying to determine which trademarks the defendant infringed, prosecutors and agents should consult with the victim. Although the government itself can search for trademarks on the United States Patent and Trademark Office's website, these searches can be cumbersome. Given the range of perceptible elements that can be registered as marks—witness the color pink for Owens-Corning fiberglass, the NBC chime, the Burberry plaid, and the shape of the Coca-Cola bottle (respectively U.S. Trademark Reg. Nos. 1439132 and 2380742, 0916522, 2022789, and 1057884)—the victim is best suited to identify which elements were registered as marks and which may have been counterfeited.

Section 2320 does not specify the procedure for establishing at trial that the counterfeit mark is identical with or substantially indistinguishable from a genuine registered mark. *See Guerra*, 293 F.3d at 1288. In *Guerra*, the Eleventh Circuit rejected the defendant's contention at trial that the government must 1) introduce genuine trademarks affixed to genuine goods, 2) introduce the testimony of a representative from the mark-holder, and 3) rely on investigative agents who are experts in the counterfeited product or service. *Id.* Instead, the court ruled that introducing registered trademark designs and labels produced by authorized licensees was sufficient. *Id.* Other courts have approved the government's use of expert testimony and a comparison between counterfeit and genuine goods. *See United States v. Yamin*, 868 F.2d 130, 135 (5th Cir. 1989); *United States v. McEvoy*, 820 F.2d 1170, 1172 (11th Cir. 1987) (same). In civil cases, courts have also allowed evidence of actual confusion, such as customers who were fooled, and trademark surveys. 3 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* §§ 23:2.1; :13, :63. Market surveys are often used in civil cases, but can raise

evidentiary issues. *See, e.g.*, 5 *McCarthy on Trademarks and Unfair Competition* §§ 32:158, :170; *Citizens Fin. Group v. Citizens Nat'l Bank of Evans City*, 383 F.3d 110 (3d Cir. 2004). As of the writing of this Manual, no reported cases address the admissibility of market surveys in criminal trademark prosecutions.

The procedures and analysis for comparing counterfeit and legitimate marks are also addressed in Section III.B.4.g. of this Chapter, which discusses how to prove likelihood of confusion.

Proving that two marks are likely to be confused is not always sufficient to prove that they are identical or substantially indistinguishable. Likelihood of confusion is a lower hurdle. *See Montres Rolex, S.A.*, 718 F.2d at 531-32 (noting examples of marks that were likely to cause confusion, but which were not substantially indistinguishable from the real thing: a 'P' superimposed over a 'V' on a fleur-de-lis pattern vs. an 'L' superimposed over a 'V' over the same pattern; “Amazonas” vs. “Amazon”; and “Bolivia” vs. “Bulova”). For actual comparisons of marks that were alleged to be confusingly similar, see 3 *McCarthy on Trademarks and Unfair Competition* §§ 23.21 - .40, keeping in mind the potential differences between civil and criminal cases (see Section III.B.2. of this Chapter), and the difference between likelihood of confusion and being substantially indistinguishable.

#### **III.B.4.c. The Genuine Mark Must Be Federally Registered on the U.S. Patent and Trademark Office's Principal Register**

The victim's mark must have been registered on the principal register in the United States Patent and Trademark Office (“USPTO”), 18 U.S.C. § 2320(e)(1)(A)(ii), unless the case involves the Olympic symbols; see Section III.D.8. of this Chapter.

Federal registration is a jurisdictional element. Thus, § 2320 cannot be charged if the victim's mark was only registered on the USPTO's supplemental register, recorded with Customs, registered with state agencies, or protected at common law. However, if a § 2320 charge is unavailable because the mark was not registered on USPTO's principal register, alternate charges such as mail fraud, wire fraud, or state or local trademark charges may still be available. See Section III.F. of this Chapter.

Proving the mark's registration is usually straightforward. Generally, the government will simply offer a certified copy of the certificate of registration. The court may take judicial notice of registration certificates. *See Fed. R. Evid.* 201(b); *Omega S.A. v. Omega Eng'g*, 228 F. Supp. 2d 112, 120 & n.26 (D. Conn. 2002); *Duluth News-Tribune v. Mesabi Publ'g Co.*, 84

F.3d 1093, 1096 n.2 (8th Cir. 1996); *cf. Island Software and Computer Serv. v. Microsoft Corp.*, 413 F.3d 257, 261 (2d Cir. 2005) (approving judicial notice of copyright registration certificates). Unofficial registration information can be searched on the USPTO's website: <http://www.uspto.gov/main/trademarks.htm>. Formal, certified copies of the registration certificates can be obtained directly from USPTO. The Department of Justice has no special method for expediting delivery of certificates from USPTO, beyond perhaps a grand jury or trial subpoena, which should be discouraged. The usual method is to obtain certified copies of certificates from the victims themselves.

Registration may also be proved through other means, such as testimony of the mark-holder and other circumstantial evidence. For example, in *United States v. DeFreitas*, 92 F. Supp. 2d 272, 278 (S.D.N.Y. 2000), the court allowed the jury to conclude that a mark was registered based on testimony of the mark-holder for Beanie Babies along with samples of genuine Beanie Babies with tags bearing registered tags, the mark-holder's catalogue containing a statement that the trademark was registered, and testimony of the mark-holder's CEO. In *United States v. Park*, 165 Fed. Appx 584,85-86 (9th Cir. 2006), the Ninth Circuit found that the government had proved registration by introducing a civil complaint against the defendant in a prior suit that she had settled, in which the complaint stated that the trademarks were registered; by introducing testimony of the defendant's civil attorney in that case, who testified that the victims were trademark owners at the time of the prior civil action; and by introducing testimony of an FBI agent who testified that the items seized at the defendant's business were identical to items registered as trademarks in the United States Patent Office.

Registration is *prima facie* evidence that the registrant owns the mark and that the registration is valid. 15 U.S.C. § 1057(b). In criminal prosecutions, the genuine mark is usually treated as “incontestable” if it has been registered on the principal register for more than five consecutive years. *See* 15 U.S.C. § 1065 (setting out conditions for “incontestability”). A federal trademark registration may, however, be canceled in whole or part in a civil judicial or administrative proceeding. *See* 15 U.S.C. § 1064.

The government need not prove that the defendant was aware that the mark was registered. 18 U.S.C. § 2320(e)(1)(A)(ii) (stating that a counterfeit mark is one that is “identical with, or substantially indistinguishable from” a registered mark “whether or not the defendant knew such mark was so registered”) (pre- and post-2006 amendments). *See also United States v. Sung*, 51 F.3d 92, 93-94 (7th Cir. 1995) (holding that § 2320(e)(1)(A)(ii) imposes

on defendants “the duty to inquire about the [registration] status of the mark”) (citations omitted).

#### **III.B.4.d. The Genuine Mark Must Have Been in Use by the Mark-Holder or Its Licensee**

The genuine mark must also be “in use,” presumably by the mark holder or his licensee, 18 U.S.C. § 2320(e)(1)(A)(ii) (both pre- and post-2006 amendments), except in cases involving protected Olympic symbols, as discussed in Section III.D.8. of this Chapter.

What “in use” means cannot be found in the statute, its legislative history, or case law. The Lanham Act, however, defines a trademark's “use in commerce” as “the bona fide use of a mark in the ordinary course of trade, and not made merely to reserve a right in a mark.” 15 U.S.C. § 1127. *See also ConAgra, Inc. v. George A. Hormel, & Co.*, 990 F.2d 368, 371-72 (8th Cir. 1993) (affirming district court's finding that the trademark application was based on actual sales and not a “sham use”). Civil cases have held that “in use” means use in the United States, not in other nations. *See Marshak v. Treadwell*, 240 F.3d 184 (3d Cir. 2001); *Rivard v. Linville*, 133 F.3d 1446, 1448-49 (Fed. Cir. 1998).

To prove that the genuine mark was in use during the offense, the government may not rely solely on a certification of registration that shows that the victim registered the trademark before the date of the offense. Registration merely requires a mark-holder to have a bona fide *intent* to use the mark, which does not translate into actual use. *United States v. Foote*, 238 F. Supp. 2d 1271, 1278 (D. Kan. 2002), *aff'd*, 413 F.3d 1240, 1248 (10th Cir. 2005); *United States v. Guerra*, 293 F.3d 1279, 1290 (11th Cir. 2002). Nor may the government establish use by relying on the jurors' probable experience with the trademark at issue, since the jurors' experience is not legal evidence. *Foote*, 238 F. Supp. 2d at 1279 n.11.

What will suffice, however, is proof of registration in conjunction with evidence of the first use by the mark-holder and testimony by a representative of the mark-holder that the mark appears on every good produced. *Foote*, 413 F.3d at 1248, *aff'g* 238 F. Supp. 2d at 1279; a magazine showing the genuine trademarked goods for sale at the time of offense, *Guerra*, 293 F.3d at 1291; or a civil complaint from a civil action alleging that the victim used the mark before the criminal offense in conjunction with testimony that the trademark owners had protected their marks during the criminal offense, *United States v. Park*, 164 Fed. Appx. 584, 585-86 (9th Cir. 2006).

Although § 2320(e)(1)(A)(ii) does not specify when the registered mark must have been “in use,” courts have held that it must have been in use during the defendant's alleged offense. *See Park*, 164 Fed. Appx. at 585 (stating that “registration and use at the time of [a trademark] conspiracy can be indirectly established if the government provides evidence that trademarks for the relevant items were registered and used prior to and after the conspiracy was formed, as long as the evidence of preceding and subsequent registration and use is reasonably close to the time of the actual conspiracy”); *Footte*, 238 F. Supp. 2d at 1278 n.8 (holding that without a temporal limit “the statute would allow a prosecution for trafficking in products with trademarks that the trademark owner did not begin to use until trial”), *aff'd*, 413 F.3d at 1248; *Guerra*, 293 F.3d at 1290-91. The government should prove that the victim used his genuine mark as early as when the defendant first used his counterfeit mark, if not earlier, and that the victim continued using the genuine mark throughout the offense. *Footte*, 238 F. Supp. 2d at 1274 n.4, 1277-79. Proving that the mark was in use at the time of trial may not suffice to prove that it was in use during the offense. *Id.* at 1278.

#### **III.B.4.e. Use of the Counterfeit Mark “On or In Connection With” Goods or Services**

Before the March 16, 2006 amendments, the government had to prove that the defendant used the counterfeit mark “on or in connection with” goods or services. 18 U.S.C. § 2320(a). After March 16, 2006, the government must similarly prove that the defendant used the counterfeit mark “on or in connection with” goods or services (just as before), or, in the case of labels, documentation, packaging, and the like, that the counterfeit mark was “applied thereto.” 18 U.S.C. § 2320(a) (as amended by the Stop Counterfeiting in Manufactured Goods Act, Pub L. No. 109-181, § 1, 120 Stat. 285 (Mar. 16, 2006)). In addition, the government must prove that the counterfeit mark “is applied to or used in connection with the goods or services” or “is applied to or consists of” a label, documentation, packaging, or the like—in which case the label, documentation, or packaging must be “designed, marketed, or otherwise intended to be used *on or in connection with* the goods or services for which the mark is registered.” § 2320(e)(1)(A)(iii) (as amended Mar. 16, 2006) (emphasis added). The changes will largely be insignificant, except in cases involving labels, documentation, or packaging.

The new term from the 2006 amendments, “applied to,” is presumably synonymous with “on,” but was included because § 2320 was expanded to



cover things like labels, documentation, and packaging, which can either be applied to goods and services or have a counterfeit mark applied to them.

The 2006 amendments also recognize that the counterfeit mark might not just be applied to or used in connection with labels, documentation, and packaging, but might even “consist[] of” a label, documentation, or packaging component, as was discussed in *United States v. Giles*, 213 F.3d 1247, 1252 n.7 (10th Cir. 2000). See Section III.B.3.c. of this Chapter.

Presumably, “in connection with” has a broader meaning than “on.” For example, a defendant who uses a counterfeit mark to advertise a name-brand good or service and then provides an unmarked, off-brand or no-brand good or service can be said to have used a counterfeit mark “in connection with” the good or service, even if he did not use it “on” the good or service. This conduct should therefore be covered by § 2320.

Even before the 2006 amendments, a person who trafficked in labels, documentation, or packaging—unattached to the underlying goods—may have been prosecuted, albeit only under a theory of conspiracy or aiding-and-abetting. See Section III.B.3.c. of this Chapter. The 2006 amendments, however, allow such a defendant to be charged under § 2320 directly, without resort to theories of secondary liability and in cases where the defendant acted alone. Now, the government need only show that the labels, documentation, or packaging were “designed, marketed, or otherwise intended to be used on or in connection with the goods or services.” § 2320(e)(1)(A)(iii) (as amended Mar. 16, 2006).

#### **III.B.4.f. The Counterfeit Mark Must Have Been Used for the Same Type of Goods or Services for Which the Genuine Mark Was Registered**

Before the March 16, 2006 amendments, § 2320's definition of a “counterfeit mark” allowed prosecution only if the defendant's mark was “used in connection with trafficking in goods or services [and was] identical with, or substantially indistinguishable from, a mark *registered for those goods and services* on the principal register in the United States Patent and Trademark Office.” 18 U.S.C. § 2320(e)(1)(A)(i)-(ii) (emphasis added) (but see Section III.D.8. of this Chapter concerning cases involving Olympic symbols). Congress intended this requirement as an important and explicit distinction between criminal and civil trademark infringement cases. “[A] plaintiff with a Federal registration for ... [a mark] on typewriters might have a [civil] Lanham Act remedy against a defendant who used that mark to identify typing paper, even though the plaintiff had not registered that mark for use in connection with typing paper. Under

[§ 2320], however, the use of the mark ... on typing paper would not count as the use of a 'counterfeit mark.'" *Joint Statement*, 130 Cong. Rec. 31,676 (1984). Prosecutors therefore should be careful to ensure that the goods and services the defendant trafficked in match the goods and services for which the victim's mark was registered.

But what about when the defendant uses the mark on *labels, documentation, or packaging* that are for—but unattached to—the goods or services indicated on the registration certificate, and not directly on the underlying goods or services themselves? Before the 2006 amendments, this scenario exposed a loophole in the law. In *United States v. Giles*, 213 F.3d 1247, 1251 (10th Cir. 2000), the Tenth Circuit reversed a § 2320 conviction because, among other reasons, the victim had registered its trademark for use on purses and handbags, but not for use on patches—which the defendant sold with counterfeit marks for customers to attach to purses and handbags. See the discussion in Section III.B.3.c. of this Chapter, and also compare *Playboy Enters., Inc. v. Universal Tel-A-Talk, Inc.*, No. CIV. A. 96-CV-6961, 1998 WL 288423 (E.D. Pa. June 3, 1998) (holding that Playboy failed to state an actionable civil claim because its marks had not been registered for use on Internet Web sites). Such conduct could have been prosecuted under § 2320 in certain circumstances—perhaps on the theory that the marks were used “in connection with” the goods and services for which the mark was registered, or under conspiracy or aiding-and-abetting charges (see Section III.B.4.e. of this Chapter)—but a potential loophole complicated such prosecutions.

The 2006 amendments addressed this issue by amending § 2320 to allow the prosecution of traffickers in counterfeit labels, documentation, and packaging directly under § 2320. *See* Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, § 1, 120 Stat. 285 (Mar. 16, 2006). See also Section III.B.3.c. of this Chapter. In doing so, Congress did not relax the requirement of matching the defendant's goods and services to those on the registration certificate. Instead, Congress adapted the requirement for labels, documentation, and packaging cases so that the government must prove that those items were “designed, marketed, or otherwise intended to be used on or in connection with the goods or services for which the mark is registered in the United States Patent and Trademark Office.” § 2320(e)(1)(A)(iii) (as amended by the Stop Counterfeiting in Manufactured Goods Act, Pub L. No. 109-181, § 1, 120 Stat. 285, 287 (Mar. 16, 2006)). Note that the 2006 amendments moved this requirement from § 2320(e)(1)(A)(ii) to (e)(1)(A)(iii). *Id.*

The class of goods or services for which a particular mark was registered can be found on the mark's registration certificate. For information on obtaining these certificates, see Section III.B.4.c. of this Chapter.

#### III.B.4.g. Likelihood of Confusion, Mistake, or Deception

The government must prove that the counterfeit mark is “likely to cause confusion, to cause mistake, or to deceive.” 18 U.S.C. § 2320(e)(1)(A)(iii) (pre-2006 amendments); § 2320(e)(1)(A)(iv) (as amended by the Stop Counterfeiting in Manufactured Goods Act, Pub L. No. 109-181, § 1, 120 Stat. 285, 286-87 (Mar. 16, 2006).) (For the standards in cases involving protected Olympic symbols, see Section III.D.8. of this Chapter.) Although courts and commentators routinely focus only on the counterfeit mark's propensity to confuse, the statute also allows for proof of mistake or deception, and all three should be charged in the indictment.

The government does not have to prove that the defendant's conduct resulted in actual confusion, because “[t]he statute expressly requires only *likelihood* of confusion.” *United States v. Yamin*, 868 F.2d 130, 133 (5th Cir. 1989) (emphasis added).

Defendants often argue that their conduct raised no likelihood of confusion because the purchaser knew that the goods were counterfeit, because the fake goods were priced comparatively low, or because the defendant specifically told the purchaser that the goods were counterfeit. Courts have uniformly rejected these arguments. *See, e.g., United States v. Foote*, 413 F.3d 1240, 1246 (10th Cir. 2005); *United States v. Hon*, 904 F.2d 803, 808 (2d Cir. 1990); *Yamin*, 868 F.2d at 133; *United States v. Torkington*, 812 F.2d 1347, 1352 (11th Cir. 1987); *United States v. Gantos*, 817 F.2d 41, 43 (8th Cir. 1987). For example, in *Foote*, because the defendant “openly advertised that he sold counterfeit merchandise” and “informed each customer that his merchandise was fake,” he argued that his actions did not meet the confusion requirement in § 2320. *Foote*, 413 F.3d at 1245. The Tenth Circuit rejected this argument because the confusion requirement is “not restricted to instances in which direct purchasers are confused or deceived by the counterfeit goods.” *Id.* (internal quotation marks omitted) (citing *Yamin*, 868 F.2d at 132). Rather, the plain language of the statute indicates that it is “the defendant's use of the product in commerce (i.e., the sale of the counterfeit product) that is likely to cause confusion, mistake, or deception in the public in general.” *Foote*, 413 F.3d at 1246.

The doctrine that supports a finding of confusion in such cases is that of “secondary” or “post-sale” confusion, i.e., the confusion of the direct

purchaser's downstream customers or even of non-purchasers who could be confused by seeing the counterfeit merchandise on the street. *See, e.g., Foote*, 413 F.3d at 1245; *Yamin*, 868 F.2d at 133. “A trademark holder's ability to use its mark to symbolize its reputation is harmed when *potential* purchasers of its goods see unauthentic goods and identify these goods with the trademark holder.” *Torkington*, 812 F.2d at 1353 (emphasis added) (citations omitted). *See also* S. Rep. No. 98-526 (1984), *reprinted in* 1984 U.S.C.C.A.N. 3627. This doctrine was originally developed by courts in interpreting the identical confusion provision in the Lanham Act. *See* 3 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 23:7 (4th ed. 2005).

Courts adopted the post-sale confusion doctrine in criminal cases because to hold otherwise would undermine the goals of trademark protection. Section 2320 was “not just designed for the protection of consumers,” but also for “the protection of trademarks themselves and for the prevention of the cheapening and dilution of the genuine product.” *Hon*, 904 F.2d at 806; *see also Torkington*, 812 F.2d at 1352-53; *see also* H. Rep. 109-68, at 8 n.2 (“Congress was concerned not only that trademark counterfeiting defrauds purchasers, ... but also that counterfeiters can earn enormous profits by capitalizing on the ... efforts of honest manufacturers at little expense to themselves.”) (citations, alterations in original, and internal quotation marks omitted) (legislative history to Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, § 1, 120 Stat. 285 (2006)). Interpreting “section 2320's confusion requirement to include the non-purchasing public advances the important purpose underlying the trademark laws of protecting the trademark owner's investment in the quality of the mark and his product's reputation, one that is independent of the goal of preventing consumer deception.” *Hon*, 904 F.2d at 806. This is the same reason why the government need not demonstrate that the counterfeit product is of lesser quality than the genuine product. Even if the consumer is not defrauded, the counterfeiter is still trading off another's name without his authorization. *See* Section III.D.1. of this Chapter.

Because the government need only prove the likelihood of confusion, it need not prove that the defendant intended to defraud or mislead purchasers. *See United States v. Brooks*, 111 F.3d 365, 372 (4th Cir. 1997) (rejecting defense that defendants did not use counterfeit marks “for the purpose of deception or to cause confusion or mistake”); *Yamin*, 868 F.2d at 132 (holding that the statute's application is not restricted to instances in which direct purchasers are confused or deceived by the counterfeit goods); *Gantos*, 817 F.2d at 42-43 (affirming conviction even though

defendant disclosed to his immediate customers that Rolex watches were copies); *Torkington*, 812 F.2d at 1353 n.7 (noting that Congress eliminated from § 2320 a *mens rea* element consisting of an intent to deceive or defraud).

Likelihood of confusion can be proved with a variety of evidence, such as the testimony of customers who mistakenly bought fakes, experts on market confusion, or victim representatives who can discuss the fake and real goods' similarities. *See, e.g.*, 3 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* §§ 23:2.1, :13, :17, :63. Although evidence of actual confusion is not necessary, it can often be very persuasive. *See United States v. McEvoy*, 820 F.2d 1170, 1172 (11th Cir. 1987) (affirming conviction based on, *inter alia*, expert testimony that customers often confuse fake and genuine watches and on a defense witness's inability to distinguish between fake and genuine watches).

To determine likelihood of confusion in criminal cases, the Eleventh Circuit has applied a test that was developed in civil cases. *See Torkington*, 812 F.2d at 1354. The relevant factors are:

1. Type of trademark
2. Similarity of design
3. Similarity of product
4. Identity of retail outlets and purchasers
5. Similarity of advertising media used
6. Defendant's intent
7. Actual confusion

*Id.* No one factor is essential; all seven are weighed in an equitable determination by the fact finder. *Id.* This test was originally developed under civil law to determine whether infringement had occurred when the underlying goods are different. *Hon*, 904 F.2d at 808. But when the goods are “identical and the jury has concluded that the [government] has met the two-pronged *mens rea* standard of section 2320, a requirement that confusion among actual or potential purchasers be shown is unnecessary.” *Id.* *See also Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961) (test often used in civil cases, unless goods are identical and directly competitive). *See generally* 3 *McCarthy on Trademarks and Unfair Competition* § 23.19 (discussing multi-factor tests for likelihood of confusion). In any event, criminal jury instructions need not set forth this seven-factor test, because it is not contained in the statute. *See McEvoy*, 820 F.2d at 1172.

As to how the comparison should be made between the counterfeit and legitimate products at trial, civil law suggests three principles. First, counterfeit and genuine marks should “be compared in their entireties” and “should not be dissected or split up into [] component parts [with] each part then compared with corresponding parts,” because “[i]t is the impression that the mark as a whole creates on the average reasonably prudent buyer and not the parts thereof, that is important.” 3 *McCarthy on Trademarks* § 23:41 (4th ed. 2005) (footnote omitted); see also *id.* § 23:42. Second, because the average purchaser focuses on two marks' similarities rather than their differences, the fact finder should do the same. 3 *McCarthy on Trademarks* § 23:41. Third, whether the counterfeit and genuine marks should be compared side by side or serially depends on how the average consumer would encounter them in the market: “Where products in the relevant market are not typically displayed in the same locations, centering on whether they are likely to be distinguished when viewed simultaneously is incorrect, and will result in a faulty likelihood-of-confusion analysis.” *Louis Vuitton Malletier v. Burlington Coat Factory Warehouse Corp.*, 426 F.3d 532, 534 (2d Cir. 2005) (Calabresi, J.) (discussing likelihood of confusing handbags); see also 3 *McCarthy on Trademarks* §§ 23:58-:59. But see *Louis Vuitton Malletier v. Dooney & Bourke, Inc.*, 454 F.3d 108, 112 (2d Cir. 2006) (suggesting that side-by-side comparison may be acceptable to determine whether goods are identical). Finally, in a criminal case, even if some of the markings on the defendant’s goods deviate from those on the original and his goods are of noticeably poor quality, they are counterfeit so long as his goods bear at least one trademark identical to or substantially indistinguishable from the original. See *United States v. Yi*, \_\_\_ F.3d \_\_\_, 2006 WL 2294854, at \*1 n.1, \*3 n.4, 9 & n.14 (5th Cir. Aug. 10, 2006).

### **III.B.5. The Defendant Used the Counterfeit Mark “Knowingly”**

The final element required for a § 2320 offense is that the defendant “knowingly” used the counterfeit mark on or in connection with the trafficked goods or services. After the 2006 amendments, in cases involving counterfeit marks on labels, documentation, or packaging, the government must prove that the defendant trafficked in such items “knowing that a counterfeit mark has been applied thereto, the use of which is likely to cause confusion, to cause mistake, or to deceive.” § 2320(a) (as amended by the Stop Counterfeiting in Manufactured Goods Act, Pub L. No. 109-181, § 1, 120 Stat. 285 (Mar. 16, 2006)).

To prove this element, the government must present evidence that the defendant had “an awareness or a firm belief” that the mark used was counterfeit. *See Joint Statement*, 130 Cong. Rec. 31,674 (1984).

Knowledge can also be proved with evidence that the defendant acted with willful blindness, conscious avoidance, or deliberate ignorance, which means the defendant “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) (quotations and citation omitted). “[I]f the prosecution proves that the defendant was 'willfully blind' to the counterfeit nature of the mark, it will have met its burden of showing 'knowledge.'" *Joint Statement*, 130 Cong. Rec. 31,674 (1984) (citing *United States v. Jewell*, 532 F.2d 697 (9th Cir. 1976) (other citations omitted). *See also United States v. Hiltz*, 14 Fed. Appx. 17, 19 (1st Cir. 2001); *United States v. Hamamoto*, 2000 WL 1036199, at \*2 (9th Cir. July 27, 2000); *cf.* Tal S. Benschar et al., *Proving Willfulness in Trademark Counterfeiting Cases*, 27 Colum. J.L. & Arts 121, 125 (2003). Although certain circuits may be generally reticent to allow proof of willful blindness to satisfy actual knowledge in criminal cases, Congress's specific intent with respect to § 2320(a) should trump that reluctance in these cases.

On the other hand, “a manufacturer who believes in good faith that he or she has a prior right to use a particular mark, or that a mark does not infringe a registered mark, could not be said to 'know' that the mark is counterfeit.” *Joint Statement*, 130 Cong. Rec. 31,674 (1984).

The government may prove the defendant's knowledge or willful blindness of a counterfeit mark through direct or circumstantial evidence. Circumstantial evidence could include evidence that:

- the defendant purchased or sold goods after notice of potential infringement.
- the defendant knew that the victim distributed its goods only through authorized dealers, when the defendant and his supplier were not authorized dealers.
- the goods came from a questionable supplier.
- the defendant or his source used coded invoices for branded merchandise.
- the goods were of inferior quality.
- the goods were bought or sold for an unusually low price.

Cf. Tal S. Benschar et al., *Proving Willfulness in Trademark Counterfeiting Cases*, 27 Colum. J.L. & Arts 121, 130-35 (2003) (discussing civil cases).

For more case examples, see *United States v. Jewell*, 532 F.2d 697, 699-702 (9th Cir. 1976) (cited in § 2320's legislative history) (upholding willful blindness instruction when defendant had declined to buy drugs from a stranger but then agreed to drive the stranger's car from Mexico to the United States for \$100, while he suspected there was something wrong or illegal with the car and examined the car but avoided investigating an apparently hidden compartment in the trunk that was later found to contain drugs); *United States v. Hamamoto*, No. 99-10019, 2000 WL 1036199, at \*1 (9th Cir. July 27, 2000) (bribes to defendant, a customs agent in Guam, to clear airway bills for goods imported from Korea, a primary source of counterfeit goods to Guam); *United States v. Rodriguez*, Nos. 88-1125, 88-1127, 1989 WL 69934, at \*2 (9th Cir. June 23, 1989) (citing defendant's own distinction between "phony" and "real" Rolex watches, defendant's inability to sell the counterfeits at work, and defendant's admission that she had to be quiet about selling them); *United States v. McEvoy*, 820 F.2d 1170, 1172-73 (11th Cir. 1987) (rejecting defendants' contention that § 2320 was unconstitutionally vague, because defendants appeared to know "that their actions in selling the watches violated the law," particularly when defendants admitted that the watches seized by the government contained trademarks virtually identical to registered trademarks for Rolex, Piaget, and Gucci); *United States v. Guerra*, 293 F.3d 1279, 1288 (11th Cir. 2002) (citing defendant's knowledge that the counterfeit labels he produced were not all being sold to authorized dealers of Cuban cigars and that the purchasers of defendant's counterfeit labels did not purport to be authorized dealers themselves); *United States v. Sung*, 51 F.3d 92, 93-94 (7th Cir. 1995) (holding that although the victim's genuine mark was not always identified with the ® symbol, defendant's knowledge that the "marks were on the bottles, caps, and boxes" of the counterfeit shampoo he sold sufficed because § 2320(e)(1)(A)(ii) imposes on the defendant "the duty to inquire about the status of the mark"); *United States v. Park*, 164 Fed. Appx. 584, 585-86 (9th Cir. 2006) (holding that government demonstrated knowing use of a counterfeit mark by introducing settlement agreement from an earlier civil action between defendant and victim in which she had agreed not to sell identical merchandise with which she was caught in criminal case) (unpublished); *United States v. Yi*, \_\_\_F.3d\_\_\_, 2006 WL 2294854, at \*3-\*4 (5th Cir. Aug. 10, 2006) (holding that jury could conclude that defendant knew the marks were counterfeit, notwithstanding his numerous factual counterarguments, in light of the defendant's admissions, attempt to bribe a Customs agent, receipt of cease-and-desist letters, and the counterfeit goods' poor quality).



For a case in which circumstantial evidence was insufficient, consider *United States v. Sultan*, 115 F.3d 321 (5th Cir. 1997). In *Sultan*, the defendant shared a warehouse with an auto parts dealer who obtained re-manufactured auto parts and altered them to make them look new. *Id.* at 323-24. Although the two businesses were kept separate, the defendant purchased a large amount of merchandise from the auto parts dealer. *Id.* at 324. In holding that the government failed to show that the defendant knew that he was selling counterfeit parts, the Fifth Circuit largely rejected the government's circumstantial evidence of knowledge, including:

- the defendant's penchant for thriftiness and knowledge of market prices. *Id.* at 326.
- the defendant's inconsistent statements to investigators (because he may have made these statements for non-criminal reasons). *Id.*
- the defendant shared the warehouse space with the auto parts dealer (which alone was not sufficient because the defendant's mere presence in a climate of criminal activity could not serve as a basis for conviction). *Id.* at 328.
- the counterfeit parts' low prices (which alone were not sufficient evidence of knowledge when there were legal ways to obtain goods at this price range and the defendant was paying 80% to 90% of the market price for legitimate distributors). *Id.* at 329.
- evidence of the defendant's knowledge regarding legitimate packaging (because there was no evidence that the defendant was aware that the packaging materials stored by the auto parts dealer were counterfeit, particularly when one witness never saw the defendant in the counterfeit room and another witness testified that the defendant kept his inventory separate from the auto parts dealer). *Id.* at 329-30.

Holding that this circumstantial evidence required the jury to go “beyond making reasonable inferences” by “making unreasonable leaps,” the court reversed the conviction on the ground that there was insufficient evidence to support the jury's finding that the defendant knowingly used a counterfeit mark beyond a reasonable doubt. *Id.* at 330.

The government need not prove that the defendant knew that the mark he counterfeited was registered with the United States Patent and Trademark Office. See Section III.B.4.c. of this Chapter. Nor must the government prove that the defendant knew that his conduct constituted a crime. *Hamling v. United States*, 418 U.S. 87, 123 (1974); *United States v. Baker*, 807 F.2d 427, 428-30 (5th Cir. 1986).

### III.B.6. Venue

An interesting case involving venue and foreign purchases of counterfeit trademarked goods is *United States v. DeFreitas*, 92 F. Supp. 2d 272 (S.D.N.Y. 2000). In *DeFreitas*, the defendant imported counterfeit Beanie Babies from China to New Jersey via New York for eventual sale in New Jersey. *Id.* at 276. The defendant challenged his conviction under §§ 2320 and 371 (conspiracy) on the basis of improper venue in New York, arguing that the substantive offense under § 2320 did not begin until he received the counterfeit goods in New Jersey. The court rejected his argument by holding that trafficking is a continuing offense beginning with obtaining control over the counterfeit goods, continuing with transport, and ending with the transfer or disposal of the goods. *Id.* at 277. Because the offense began when the defendant purchased the counterfeit goods in China and directed that they be shipped to New Jersey, venue was proper at any point through which the goods traveled after they entered the United States, including the Southern District of New York. *Id.*

## III.C. Defenses

Many general defenses, such as the absence of proper venue or jurisdiction, are available in every criminal case and their application needs no further elaboration here. The following discussion addresses defenses specific to § 2320.

### III.C.1. Authorized-Use Defense: Overrun Goods

The authorized-use defense excludes from the definition of counterfeit mark any mark that is

used in connection with goods or services[, or a mark or designation applied to labels, patches, stickers, wrappers, badges, emblems, medallions, charms, boxes, containers, cans, cases, hangtags, documentation, or packaging of any type or nature used in connection with such goods or services,] of which the manufacturer or producer was, at the time of the manufacture or production in question[, ] authorized to use the mark or designation for the type of goods or services so manufactured or produced, by the holder of the right to use such mark or designation.

18 U.S.C. § 2320(e)(1)(B). The bracketed language was inserted by the Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, § 1(b)(3),

120 Stat. 285, 287 (Mar. 16, 2006), and thus applies only to offenses arising after that time.

The authorized-use defense applies to “overrun” goods or services, that is, goods or services that an authorized manufacturer or producer makes and sells on the side without the mark-holder or licensor's knowledge or approval. For instance, consider a trademark licensee who is authorized to make 500,000 umbrellas bearing the licensor's trademark but who manufactures without authorization an additional 500,000 umbrellas bearing that mark during the course of the license. Because the trademark owner in this situation can protect himself through “contractual and other civil remedies,” Congress felt that it was “inappropriate to criminalize such practices.” *Joint Statement*, 130 Cong. Rec. 31,676 (1984) (internal quotation marks and citation omitted). Thus, “[i]f a licensee manufactures overruns during the course of the valid license, the marks on those goods will remain noncounterfeit for the purposes of this act.” *Id.*

The overrun goods defense attaches to the overrun goods themselves, not just to the party who produced them. This follows from § 2320(e)(1)(B)'s specification that overrun goods are not counterfeit. Consequently, any overrun goods that are produced and completed during the course of the license remain noncounterfeit even after the license runs out, *Joint Statement*, 130 Cong. Rec. 31,676 (1984), and the defense is available to any party who traffics in overrun goods downstream of the manufacturer.

The overrun goods defense does not, however, allow counterfeiters to escape criminal liability by attaching real or overrun labels to counterfeits. As discussed in Section III.B.4.a. of this Chapter (citing 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 25:15 (4th ed. 2006) and *United States v. Petrosian*, 126 F.3d 1232, 1234 (9th Cir. 1997)), it is standard trademark law—both civilly and criminally—that a genuine or authentic mark becomes counterfeit when it is used in connection with something else that is counterfeit. As revised, the authorized-use exception provides that a counterfeit mark “does not include any mark or designation *used in connection with goods or services*, or a mark or designation applied to labels, ... documentation, or packaging of any type or nature *used in connection with such goods or services*, of which the manufacturer or producer was, at the time of the manufacture or production in question, authorized to use the mark or designation for the type of goods or services so manufactured or produced, by the holder of the right to use such mark or designation.” § 2320(e)(1)(B) (emphasis added). The 2006 amendments reworded the authorized-use exception to retain its focus on whether the goods and services are overrun, rather than whether the labels,

documentation, or packaging themselves are overrun. As before, the text focuses on the authorization of the manufacturer or producer *of the goods and services*, not the manufacturer or producer *of the labels, documentation, or packaging*. Interpreting the amendment differently would cause a major change in trademark law, one which Congress would have signaled in much clearer terms had the change been intended. Given that the 2006 amendments were intended to strengthen the government's ability to prosecute cases concerning counterfeit labels, documentation, and packaging, and the legislative history indicates nothing to the contrary, the authorized-use exception should still allow the government to prosecute those who use or traffic in real or overrun labels, documentation, or packaging to turn inauthentic goods into counterfeits.

The overrun defense does, however, have a few limits. First, “the overrun exemption does not apply if a licensee produces a type of goods in connection with which he or she was not authorized to use the trademark in question.” *Id.* at 31,676-77. For example, “if a licensee is authorized to produce 'Zephyr' trench coats, but without permission manufactures 'Zephyr' wallets, the overrun exception would not apply.” *Id.* at 31,677. In this example, the licensee could be prosecuted for producing the wallets only if the 'Zephyr' mark was registered for use on wallets as well as trench coats. See also Section III.B.4.f. of this Chapter.

Second, the overrun goods defense is limited to goods or services for which authorization existed “during the *entire* period of production or manufacture.” *United States v. Bobai Trading Co.*, 45 F.3d 577, 580 (1st Cir. 1995). In *Bobai*, Stride Rite authorized the defendant to arrange for the manufacture of 200,000 pairs of its KEDS trademarked sneakers in China in 1987 and 1988. *Id.* at 578. Stride Rite terminated the defendant's license in the spring of 1989, after which the defendant arranged for the Chinese factory to manufacture an additional 100,000 pairs of KEDS and to backdate the shoes as being produced in 1988. *Id.* at 578-79. The defendant then imported the shoes to the United States and sold them as genuine KEDS. *Id.* at 579. On appeal from its conviction, the defendant argued that § 2320 was unconstitutionally vague because it did not define the meaning of “production” within the authorized-use exception, and thus the defendant could not discern whether its conduct was illegal. The First Circuit disagreed, holding that the statute's plain language clearly indicates that the licensee must have a valid trademark license at all stages of manufacture or production. *Id.* at 580-81. Stride Rite's permission to assemble materials and train Chinese factory workers in 1988 (which the defendant argued was “production” within the meaning of § 2320) did not

authorize him to apply the KEDS trademark to shoes in 1989 after his license was terminated. *Id.*

The use of a licensee's rejected irregular goods was addressed in *United States v. Farmer*, 370 F.3d 435 (4th Cir.), *cert. denied*, 125 S. Ct. 676 (2004). In *Farmer*, the defendant purchased irregular garments without trademarks from legitimate manufacturers' authorized factories, and had different companies sew or silk-screen on the manufacturers' trademarks. *Id.* at 437-38. On appeal, the defendant argued that he had not “confuse[d] customers about the source of his goods” because the garments had been manufactured to the trademark holders' specifications by factories from which the trademark holders themselves purchased. *Id.* at 440. The First Circuit disagreed, reasoning that § 2320 focuses not on the quality of the counterfeit goods but on the counterfeit trademark attached to those goods and the right of trademark holders to control the manufacturing and sale of goods with their trademarks. *Id.* Although the decision did not specifically discuss the overrun goods defense, that defense likely would have been rejected because the garments had not been fully manufactured or produced until the marks were placed on them by the companies the defendant hired, which were not authorized by the trademark holders. Had the defendant instead purchased garments from authorized factories with the trademarks already on them, the overrun goods defense might have prevailed.

The defendant bears the burden of proving “that the goods or services in question fall within the overrun exclusion, under both the criminal and civil provisions” by a preponderance of the evidence. *Joint Statement*, 130 Cong. Rec. 31,676 (1984).

### **III.C.2. Authorized-Use Defense: Gray Market Goods**

“Gray market goods,” also known as “parallel imports,” are “trademarked goods legitimately manufactured and sold overseas, and then imported into the United States” through channels outside the trademark owner's traditional distribution channels. *Joint Statement*, 130 Cong. Rec. 31,676 (1984) (citing *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 719 F.2d 42 (2d Cir. 1983)). As with overrun goods, the marks on gray market goods are placed there with the mark-holder's authorization. What the mark-holder has not authorized is the sale of those foreign goods within the United States.

Just as with overrun goods (discussed in Section III.C.1 of this Chapter), the authorized-use defense excludes parallel imports and gray market goods from the definition of a counterfeit mark because such a

mark is “placed there with the consent of the trademark owner.” *Joint Statement*, 130 Cong. Rec. 31,676 (1984). Congress carefully considered “gray market” goods and intended that those who traffic in them not be prosecuted. *Id.*; S. Rep. No. 98-526, at 11 (1984), *reprinted in* 1984 U.S.C.C.A.N. 3627, 3637.

Additionally, as with the overrun goods defense, the gray market goods defense is available not just to the party who produced the goods, but also to any party who traffics in them downstream, because § 2320(e)(1) declares that such goods are not counterfeit. The burden of proof on this issue, as with overrun goods, is placed on the defendant.

This defense does not apply if the gray market goods were subsequently modified or remarked in a manner that made the new mark counterfeit. See Section III.C.3. of this Chapter.

### **III.C.3. Repackaging Genuine Goods**

When the defendant's goods themselves are genuine and bear the trademark of the rights-holder but have been repackaged by the defendant, whether the defendant's repackaging is criminal depends on whether he deceived the public or damaged the mark-owner's good will. This rule ran through the cases, and was written into § 2320 by the Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, § 1, 120 Stat. 285 (Mar. 16, 2006).

The case of *United States v. Hanafy*, 302 F.3d 485 (5th Cir. 2002), established the first half of the rule, that a defendant cannot be prosecuted under 18 U.S.C. § 2320 for repackaging genuine goods with reproduced trademarks if the defendant did so without deceiving or confusing others. In *Hanafy*, the defendants purchased individual cans of infant formula from various convenience stores and other sources and then repackaged the cans into trays for resale. *Id.* at 486. The defendants marked the shipping trays with reproductions of the can manufacturers' trademarks and resold the trays to other wholesalers. *Id.* Although the cans had not been packaged by the original manufacturers for resale in this form, the defendants' goods were genuine, unadulterated, and were sold within the “sell by” date. *Id.* The district court ruled that the unauthorized use of a reproduction of a mark in connection with genuine goods (that is, what the mark represents the goods to be) does not violate § 2320. *Id.* at 487-88. In so ruling, the court concluded that the repackaging rule of *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368-69 (1924), which applies to actions brought under the Lanham Act, does not apply to criminal prosecutions under § 2320. *Hanafy*, 302 F.3d at 488.

Affirming the district court, the Fifth Circuit held that the shipping trays did not qualify as counterfeit under § 2320. *Id.* at 488-89. Although repackaging the goods without the manufacturer's approval or control might violate civil trademark law, attaching a mark to trays containing the “genuine unadulterated, unexpired products associated with that mark does not give rise to criminal liability under section 2320.” *Id.* at 489. The court distinguished *Petrosian*, which involved fake Coca-Cola in real Coke bottles, because the infant formula in this case was genuine. *Id.*; see also the discussion of *Petrosian* in Section III.B.4.a. of this Chapter. Thus, under *Hanafy*, a person usually cannot be prosecuted under § 2320 for repackaging goods with reproductions of the original trademark if the goods themselves are genuine and in the same condition that they would have been had the rights-holder distributed them itself.

The case of *United States v. Milstein*, 401 F.3d 53, 62-63 (2d Cir. 2005), confirmed the second half of the rule, that the defendant can be prosecuted under § 2320 if he repackages genuine goods to defraud consumers, such as by presenting fraudulent information. In *Milstein*, the defendant obtained drugs manufactured for foreign markets and repackaged them with false lot numbers and other markings to make the drugs appear as if they had been approved by the FDA for sale in the United States. *Milstein*, 401 F.3d at 59-60. The repackaged drugs were not identical to the drugs manufactured for U.S. markets. *Id.* On appeal, the defendant cited *Hanafy* to argue that his repackaging did not violate § 2320. *Id.* at 62. The Second Circuit distinguished *Hanafy* because “[w]hile the cans in *Hanafy* were ‘merely being repackaged, such that consumers could be sure of the goods’ quality and source,’ ... the drugs here were repackaged so that consumers would believe foreign versions of the drug were in fact domestic, FDA-approved versions.” *Id.* (quoting *Hanafy*, 302 F.3d at 486). The critical distinction was that *Hanafy*’s false marks “contained no more information than that which was carried on the cans themselves,” whereas “Milstein sold [drugs] in forged packaging bearing false lot numbers.” *Id.* (internal quotation marks and alterations omitted). See also *United States v. Lexington Wholesale Co.*, 71 Fed. Appx. 507, 508 (6th Cir. 2003) (affirming restitution for a § 2320 conviction based on repackaging of loose cans of infant formula into cases that did not accurately reflect the “use by” date).

In amending § 2320 in 2006, Congress essentially wrote *Hanafy* and *Milstein* into the newly-enacted § 2320(f): “Nothing in this section shall entitle the United States to bring a criminal cause of action under this section for the repackaging of genuine goods or services not intended to deceive or confuse.” § 2320(f) (as amended Mar. 16, 2006)). The legislative history confirms that Congress intended to codify *Hanafy*. See H. Rep. No.

109-68, at 8 & n.1 (2005). “Because the bill amends the definition of a counterfeit trademark to include packaging and labeling formats, which can be used lawfully by a variety of businesses, this language is intended to clarify that repackaging activities such as combining single genuine products into gift sets, separating combination sets of genuine goods into individual items for resale, inserting coupons into original packaging or repackaged items, affixing labels to track or otherwise identify genuine products, [and] removing genuine goods from original packaging for customized retail displays are not intended to be prosecuted as counterfeiting activities under the amended title 18 U.S.C. § 2320.” *Id.* at 8.

The newly-enacted language also, however, codifies the rule set in *Milstein* of allowing prosecution of those who repackage genuine goods in a manner that defrauds consumers. In determining whether to prosecute such a case, the government is expected to “consider evidence tending to show an intent to deceive or confuse such as altering, concealing, or obliterating expiration dates, or information important to the consumer[']s use of the product such as safety and health information about the quality, performance, or use of the product or service; statements or other markings that a used, discarded, or refurbished product is new; or statements or other markings that the product meets testing and certification requirements.” *Id.* “Also relevant ... would be a meaningful variance from product testing and certification requirements, placing seals on product containers that have been opened and the original manufacturer's seal has been broken, or altering or otherwise adulterating the genuine product.” *Id.* at 9.

Although the above cases concern consumables such as food and drugs, similar issues arise in other industries. *See, e.g.*, United States Attorney's Office, Eastern District of New York, *New York Electronic Crimes Task Force Arrests Two Individuals on Charges of Trafficking in Counterfeit Computer Chips and Software* (June 22, 2000) (computer chips remarked to indicate ability to operate at a higher speed than the manufacturer's rating), available at <http://www.cybercrime.gov/platinum.htm>; *Intel Corp. v. Terabyte Int'l, Inc.*, 6 F.3d 614, 616, 620 (9th Cir. 1993) (holding defendants liable for infringement for purchasing and later distributing computer chips from a distributor who had relabeled the chips with a model number signifying a higher processing speed).

Section 2320(f) does not preempt the prosecution of deceptionless repackaging under statutes other than § 2320: “Nothing in this section shall entitle the United States to bring a criminal cause of action *under this section* for the repackaging of genuine goods or services not intended to deceive



or confuse.” § 2320(f) (as amended) (emphasis added). For instance, repackaging cases that involve consumer products such as food, drugs, medical devices, cosmetics, and other items designed for consumers to use in the household, might be prosecuted under the product tampering statute, 18 U.S.C. § 1365, which addresses tampering with labels and communicating false information that a consumer product was tainted, or under the Food, Drug, and Cosmetics Act, 21 U.S.C. §§ 331(a), 333, 343, 352, 362, which punishes trafficking in misbranded food, drugs and cosmetics. See Section III.F. of this Chapter.

#### **III.C.4. Lanham Act Defenses**

The Lanham Act's civil defenses have been incorporated as defenses against criminal charges brought under § 2320. “All defenses, affirmative defenses, and limitations on remedies that would be applicable in an action under the Lanham Act [for trademark infringement] shall be applicable in a prosecution under this section.” 18 U.S.C. § 2320(c). However, “only those defenses, affirmative defenses, and limitations on relief [in the Lanham Act] that are relevant under the circumstances will be applicable.” *Joint Statement*, 130 Cong. Rec. 31,675 (1984). In addition, “any affirmative defense under the Lanham Act will remain an affirmative defense under this [section], which a defendant must prove by a preponderance of the evidence.” *Id.*

Statutory defenses under the Lanham Act primarily address the incontestability of a mark once it has been registered for five years. 15 U.S.C. § 1115(b). The defenses to incontestability include: 1) fraud by the mark-holder in obtaining the registration; 2) abandonment of the mark by its owner; 3) the registered mark's use by or with the registrant to misrepresent the source of the goods or services on or in connection with which the mark is used; 4) use of the name, term, or device charged to be an infringement is a use of the defendant's individual name in his own business, or of someone in privity with that party, or a term that is used in good faith to describe the goods or services of such party or their geographic origin; 5) innocent and continuous prior use of the mark without registration by the defendant; 6) the defendant's innocent prior use of the mark with registration; 7) use by the mark-holder of a trademark in violation of the antitrust laws; 8) the mark is functional; and 9) equitable defenses, such as laches, estoppel, and acquiescence. 15 U.S.C. § 1115 (b). Other Lanham Act defenses or limitations mentioned prominently in the legislative history are those limitations on actions against printers and newspapers in 15 U.S.C. § 1114(2). For instance, the owner of an infringed mark is limited to an injunction against future printing under 15 U.S.C.

§ 1125(a). See *Joint Statement*, 130 Cong. Rec. 31,675 (1984). For an extensive discussion of these defenses, see David J. Goldstone & Peter J. Toren, *The Criminalization of Trademark Counterfeiting*, 31 Conn. L. Rev. 1, 43-65 (1998).

The applicability of the Lanham Act's statute of limitations (or lack thereof) is discussed in Section III.C.5. of this Chapter.

Civil cases decided under the Lanham Act may prove instructive when applying the Lanham Act defenses in criminal cases, but those defenses should not be applied mechanically in a criminal case. For example, although an “unclean hands” defense may deny relief to a plaintiff mark-holder in a civil case, 15 U.S.C. § 1115(b)(3), (9); 37 C.F.R. § 2.114(b)(1) (Oct. 6, 2005), the mark-holder's unclean hands are less relevant in a criminal case, where the mark-holder is not a party and the prosecutors act in the public's interest rather than exclusively the mark-holder's interest. Thus, application of this Lanham Act defense in a criminal case might not serve the public interest.

At this writing, few criminal cases address the Lanham Act defenses. See, e.g., *United States v. Milstein*, 401 F.3d 53, 63-64 (2d Cir. 2005) (holding laches defense unavailable in § 2320 prosecutions); *United States v. Sung*, 51 F.3d 92, 94 (7th Cir. 1995) (discussing how 15 U.S.C. § 1111's limitations on remedies in civil cases applies to criminal cases); *United States v. Sheng*, 26 F.3d 135 (9th Cir. 1994) (unpublished) (affirming denial of defendant's motion for discovery concerning antitrust defense, due to defendant's failure to make a *prima facie* case for discovery); *United States v. Shinyder*, 888 F.2d 1387 (4th Cir. 1989) (per curiam) (unpublished) (holding that defendant failed to demonstrate ineffective assistance of counsel because defendant gave his attorney no information regarding purported invalidity of victim's mark due to its prior use by defendant); *United States v. Almany*, 872 F.2d 924 (9th Cir. 1989) (appeal based on evidentiary issues related to Lanham Act defenses).

### III.C.5. Statute of Limitations

Under 18 U.S.C. § 3282(a), the statute of limitations for almost all non-capital federal crimes is five years unless otherwise expressly provided by law. Because § 2320 does not specify a limitations period itself, violations of § 2320 are subject to the general five-year limitations period. See *United States v. Foote*, 413 F.3d 1240, 1247 (10th Cir. 2005); *United States v. Milstein*, No. CR 96-899 (RJD), 2000 WL 516784, at \*1 (E.D.N.Y. 2000).

Defendants, however, sometimes seek a shorter statute of limitations by arguing that the courts should apply the limitations period applicable to civil trademark violations. In *Foote*, for instance, the defendant argued that

the statute of limitations should be determined by state law because § 2320(c) incorporates “[a]ll defenses, affirmative defenses, and limitations on remedies that would be applicable under the Lanham Act,” and courts apply state statutes of limitations to Lanham Act cases since the federal civil statute does not contain an express limitation period. *Footte*, 413 F.3d at 1247. The Tenth Circuit disagreed, holding that the lack of an “express statute of limitations in either the Counterfeit Trademark Act or the Lanham Act” means that the general criminal limitations period in § 3282(a) applies. *Id.* See also *United States v. Footte*, 238 F. Supp. 2d 1271, 1276-77 (D. Kan. 2002) (containing an extended policy discussion of this issue).

### III.D. Special Issues

#### III.D.1. High-Quality and Low-Quality Counterfeits

Defense counsel often argue that it is inappropriate to charge a § 2320 offense if the counterfeit goods are of very low or, conversely, very high quality, arguing that nobody is fooled by low-quality counterfeits and that nobody is harmed or deceived by high-quality counterfeits. Both arguments are misguided. See, e.g., *United States v. Farmer*, 370 F.3d 435 (4th Cir.) (affirming conviction under § 2320 for irregular garments purchased from factories that manufactured garments to trademark holder's specifications), *cert. denied*, 125 S. Ct. 676 (2004); *United States v. Gonzalez*, 630 F. Supp. 894, 896 (S.D. Fla.1986) (denying motion to dismiss § 2320 indictment because the counterfeits' low price did not preclude finding that they could cause confusion, mistake or deception).

The government's response lies in the plain language of the statute: Subsection 2320(a) and (e) focus on whether the counterfeit mark is likely to cause confusion, cause mistake, or to deceive, and make no mention of the counterfeit item's quality. See *United States v. Footte*, 413 F.3d 1240, 1246 (10th Cir. 2005) (“[T]he correct test is whether the defendant's use of the mark was likely to cause confusion, mistake or deception in the public in general.”). As discussed in Section III.B.4.g. of this Chapter, § 2320 was “not just designed for the protection of consumers,” but also for “the protection of trademarks themselves and for the prevention of the cheapening and dilution of the genuine product.” *United States v. Hon*, 904 F.2d 803, 806 (2d Cir. 1990) (internal quotation marks and citations omitted). In this vein, “[o]ne of the rights that a trademark confers upon its owner is the 'right to control the quality of the goods manufactured and sold' under that trademark. *For this purpose the actual quality of the goods is*

*irrelevant; it is the control of quality that a trademark holder is entitled to maintain.”* *Farmer*, 370 F.3d at 441 (internal quotation marks and citations omitted) (emphasis added).

Because both high-quality and low-quality counterfeit goods affect the intellectual property rights of the trademark holder, a § 2320 charge can be appropriate in either circumstance. See also Section III.B.4.g. of this Chapter.

### **III.D.2. Counterfeit Goods with Genuine Trademarks**

Although the definition of “counterfeit mark” in § 2320(e) indicates that the mark itself must be counterfeit, not the good to which it is attached, a genuine or authentic mark becomes counterfeit when it is applied to counterfeit goods. See the discussion of *United States v. Petrosian*, 126 F.3d 1232 (9th Cir. 1997), in Section III.B.4.a. of this Chapter.

Genuine trademarks can also become counterfeit when they are applied to genuine product in a manner that misrepresents the genuine product's quality. See Section III.C.3 of this Chapter.

### **III.D.3. Selling Fakes While Admitting That They Are Fakes**

Defendants who disclose to consumers that their merchandise is counterfeit may not argue that no criminal liability should attach because their customers were not deceived into thinking they were purchasing genuine goods. See Section III.B.4.g. of this Chapter.

### **III.D.4. Selling Another's Trademarked Goods As One's Own (Reverse Passing-Off)**

Agents sometimes inquire whether a target can be prosecuted for criminal trademark infringement if he sells another's goods as his own under his own trademark, such as selling stolen Marlboro cigarettes as his own Acme brand cigarettes. This conduct, called “reverse passing-off,” is civilly actionable under the Lanham Act. See, e.g., *Dastar Corp. v. 20th Century Fox Film Corp.*, 539 U.S. 23, 32-37 (2003); *Web Printing Controls Co. v. Oxy-Dry Corp.*, 906 F.2d 1202 (7th Cir. 1990); *Arrow United Indus., Inc. v. Hugh Richards, Inc.*, 678 F.2d 410, 416 (2d Cir. 1982); *Smith v. Montoro*, 648 F.2d 602, 606 & n.5 (9th Cir. 1981). Reverse passing-off is not a crime under § 2320, however, because it does not involve the use of a counterfeit mark as defined in § 2320(e). The defendant's own Acme mark is, in fact, a genuine mark.

### III.D.5. Mark-Holder's Failure to Use ® Symbol

The trademark code requires the holder of a federally registered mark to give others notice of registration by displaying the mark with the words “Registered in U.S. Patent and Trademark Office”, “Re. U.S. Pat. & Tm. Off.”, or the familiar ® symbol. Without this notice next to its mark on its goods and services, the mark-holder cannot recover its profits or damages against an infringer unless the infringer had actual notice of the registration. 15 U.S.C. § 1111. The commonly-seen <sup>TM</sup> and <sup>SM</sup> symbols do *not* give notice of federal registration; they can be used with unregistered marks. 3 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 19:148 (4th ed. 2005).

The victim's intentional or inadvertent failure to use the statutory means of notice mentioned above does not preclude the defendant's prosecution under § 2320. *U.S. v. Sung*, 51 F.3d 92, 93-94 (7th Cir. 1995). Section 2320 criminalizes counterfeiting “whether or not the defendant knew [the victim's] mark was so registered.” 18 U.S.C. § 2320(e)(1)(A)(ii); *Sung*, 51 F.3d at 93-94. Moreover, the notice provisions in 15 U.S.C. § 1111 do not create a defense that excuses infringement, but rather they only limit the mark-holder's remedies. *Sung*, 51 F.3d at 94; *see also* 3 *McCarthy on Trademarks and Unfair Competition* § 19:144 (“Failure to use the statutory symbol does not create a defense: it is merely a limitation on remedies.”) (footnote omitted). For a discussion of how these remedies are limited in criminal cases, see Section III.E.3. of this Chapter.

### III.D.6. Storage Costs and Destruction

Unlike many other intellectual property crimes, criminal trademark infringement frequently generates a substantial quantity of physical evidence. Although large intellectual property seizures can be a problem to store, storage is the safest option. (Chapter X of this Manual discusses whether victims may assist with storage.) If storage is not feasible, part of the evidence probably can be destroyed after a hearing if the seized property is counterfeit. Destruction of the evidence, however, carries its own complications with respect to making evidence available for defendants and jurors to inspect, and employing sound procedures for taking representative samples.

The decision to allege all or only a part of the seized intellectual property in the indictment and at trial must be made on a case-by-case basis. In most cases, it should be possible either to indict for all seized goods and present evidence of a representative sample to prove the whole at trial, or to indict and present evidence of only some of the goods, using

evidence of the full quantity as relevant conduct only at sentencing. (Chapter VIII's discussion of determining the infringement amount considers the justification for and methods of estimation.) Charging a subset for trial and proving the remainder at sentencing may also have some tactical advantages, such as streamlining the trial and deferring loss calculations to the sentencing phase.

Because these issues can become quite complex, prosecutors should consider them early on, even before the search is conducted. If the prosecutor wants all the evidence to be available for trial, it is important to coordinate with the seizing agency to ensure that any forfeited material is not destroyed or is at least destroyed only after a sound procedure for taking representative samples is completed. (Of course, destruction is not permissible until the items have been forfeited.)

Prosecutors can discuss these issues with the Computer Crime and Intellectual Property Section at (202) 514-1026.

#### **III.D.7. Units of Prosecution**

Because a defendant often traffics in numerous counterfeit trademarks, drafting an indictment that reflects the defendant's actions is not always easy. The United States Department of Justice's *Criminal Resource Manual* 215, available at [http://www.usdoj.gov/usao/eousa/foia\\_reading\\_room/usam/title9/crm00215.htm](http://www.usdoj.gov/usao/eousa/foia_reading_room/usam/title9/crm00215.htm), advises that “all U.S. Attorneys should charge in indictments and informations as few separate counts as are reasonably necessary to prosecute fully and successfully and to provide for a fair sentence on conviction”, and generally recommends charging no more than fifteen counts. But trademark counterfeiters of any significant size will often have infringed numerous trademarks in numerous transactions.

The charging determination is subject to the rule of reason, and generally the best approach is to organize charges around specific courses of conduct in order to keep the case as straightforward as possible for the jury. Counts may be organized by the mark infringed, the identity of the mark-holder, or the date upon which the infringing goods were obtained, manufactured, distributed, or seized. Indictments charging counterfeiting schemes can be unified through a conspiracy count under 18 U.S.C. § 371.

If the defendant infringed only one trademark, the defendant can be charged with a single count. However, separate sales of goods bearing the same counterfeit mark have sometimes been charged in separate counts. See, e.g., *United States v. Gantos*, 817 F.2d 41, 42 (8th Cir. 1987) (defendant

charged and convicted on four counts, each for separate sales of counterfeit Rolex watches).

If the defendant counterfeited multiple marks, the indictment may also contain separate counts for each separate genuine mark. For example, in *United States v. Song*, 934 F.2d 105 (7th Cir. 1991), the court upheld the defendant's conviction on five separate counts “because she was trafficking in goods bearing five different counterfeit marks.” *Id.* at 109. The court relied on the plain language of § 2320, which punishes someone who “intentionally traffics or attempts to traffic in goods or services *and knowingly uses a counterfeit mark*’ on such goods or services.” *Id.* at 108 (quoting 18 U.S.C. § 2320(a)) (emphasis in original) (footnote omitted).

The courts have not yet addressed several sentencing issues that will continue to arise in trademark prosecutions:

- Whether a single sale of multiple items that infringe multiple trademarks may be charged in a single counterfeiting count. The issue is whether such a charge would be duplicitous—i.e., charging two or more distinct offenses in a single count—or rather just an allegation that multiple means were used to commit a single offense. Prosecutors who confront this issue should consult the Department's manual, *Federal Grand Jury Practice* § 11.29 (2000) (“Duplicitous indictments”).
- How multiple counterfeit trademarks on a single good should be charged in a criminal indictment: as one count, using the counterfeit good as the unit of prosecution, or as multiple counts, using each mark as a unit of prosecution.
- Whether a defendant who traffics in a counterfeit sneaker wrapped in counterfeit packaging may be charged in one count that covers both the sneaker and packaging, and/or whether charging the sneaker and packaging separately in multiple counts is necessary or permissible, now that § 2320 (as amended Mar. 16, 2006) criminalizes trafficking in counterfeit labels, documentation, and packaging in addition to counterfeit goods and services.

#### **III.D.8. Olympic Symbols**

The definition of “counterfeit mark” in § 2320(e)(1)(B) includes designations protected by the Olympic Charter Act, such as the five interlocking rings of the Olympic games. *See also* 36 U.S.C. § 220506(a)(2) (giving the United States Olympic Committee exclusive rights to the symbol of the International Olympic Committee, consisting of 5

interlocking rings, the symbol of the International Paralympic Committee, consisting of 3 TaiGeuks, and the symbol of the Pan-American Sports Organization, consisting of a torch surrounded by concentric rings).

Some of the rules that apply to prosecutions involving other marks do not apply to cases involving the Olympic symbols:

- The mark need not have been registered on the principal register in the United States Patent and Trademark Office (“USPTO”). Section 2320(e)(1)(A)'s registration requirements do not apply to cases dealing with criminal trademark infringement of Olympic symbols. *Compare* 18 U.S.C. § 2320(e)(1)(A)(ii) *with* § 2320(e)(1)(B); *see also* 36 U.S.C. § 220506; *Joint Statement*, 130 Cong. Rec. 31,675 (1984) (explicitly exempting cases involving Olympic symbols from the registration requirement). See also the discussion of registration in Section III.B.4.c. of this Chapter.
- Section 2320(e)(1)(A)(ii)'s use requirement does not apply to cases involving protected Olympic symbols. See also the discussion of use in Section III.B.4.d. of this Chapter.
- The requirement that the defendant have used the counterfeit mark in connection with the goods or services for which the mark had been registered does not apply to cases involving protected Olympic symbols. See also Section III.B.4.f. of this Chapter.
- In cases involving protected Olympic symbols, the mark is counterfeit under 18 U.S.C. § 2320(e)(1)(B) if the defendant's counterfeit symbols are “identical with or substantially indistinguishable” from the genuine symbols. No further proof of likely confusion, mistake, or deception is required. See also Section III.B.4.g. of this Chapter.

The other rules discussed in this Chapter apply equally to cases involving Olympic symbols.

## III.E. Penalties

### III.E.1. Fines

An individual defendant can be fined a maximum of \$2,000,000 for a first offense or \$5,000,000 for subsequent convictions, or twice the monetary loss or gain. *See* 18 U.S.C. §§ 2320(a) (trademark fines), 3571(b), (d). A corporate defendant can be fined a maximum fine of \$5,000,000 for



a first offense or \$15,000,000 for subsequent convictions, or twice the monetary gain or loss. *See* 18 U.S.C. §§ 2320(a), 3571(c), (d).

### **III.E.2. Imprisonment**

The maximum term of imprisonment is 10 years for a first offense and 20 years for subsequent convictions. A defendant can be fined and/or imprisoned. 18 U.S.C. § 2320(a). A challenge to incarceration, probation, and supervised release, on the ground that these remedies are not present in the civil Lanham Act, was rejected in *United States v. Foote*, No. CR.A. 00-20091-01KHV, 2003 WL 22466158, at \*2-3 (D. Kan. 2003), *aff'd in part on other grounds*, 413 F.3d 1240 (10th Cir. 2005).

### **III.E.3. Restitution**

Before the 2006 amendments, § 2320 contained no express provision for restitution, but restitution was properly awarded in § 2320 cases under 18 U.S.C. § 3663A(c)(1)(A)(ii), which provides mandatory restitution to victims of crimes against property in Title 18, and under Section 5E1.1 of the Sentencing Guidelines, which provides restitution when there is an identifiable victim and restitution is authorized under 18 U.S.C. § 3663A. *See, e.g., United States v. Lexington*, 71 Fed. Appx. 507, 508 (6th Cir. 2003) (affirming contested restitution order under 18 U.S.C. § 3663 and U.S.S.G. § 5E1.1 following a § 2320 conviction); *United States v. Hanna*, No. 02 CR.1364-01 (RWS), 2003 WL 22705133, at \*3 (S.D.N.Y. Nov. 17, 2003) (including restitution in sentence for § 2320 conviction). *See also* Chapter VIII of this Manual.

The 2006 amendments made the right to restitution explicit. Newly-amended § 2320(b)(4) now provides that “[w]hen a person is convicted of an offense under this section, the court, pursuant to sections 3556, 3663A, and 3664, shall order the person to pay restitution to the owner of the mark and any other victim of the offense as an offense against property referred to in section 3663A(c)(1)(A)(ii).” 18 U.S.C. § 2320(b)(4) (as amended Mar. 16, 2006). This provision does not mean that restitution will be proper in every § 2320 case, but rather that restitution shall be ordered under 18 U.S.C. § 3663A(c)(1)(A)(ii) if there is a victim who was harmed in a manner that would entitle him to restitution as the victim of a property crime. A “victim” is defined in newly-enacted § 2320(b)(5) as having “the meaning given that term in section 3663A(a)(2),” which defines a victim as “a person directly and proximately harmed as a result of the commission of an offense for which restitution may be ordered.” There is some question whether a mark-holder qualifies for restitution if the defendant's

conduct did not diminish the mark-holder's sales. See also Chapter VIII of this Manual.

In § 2320 cases, the victim's right to restitution may be subject to an important qualification: the Lanham Act's limitation on remedies in 15 U.S.C. § 1111. In civil cases, 15 U.S.C. § 1111 prohibits a plaintiff from recovering monetary damages from a defendant who lacked actual notice that the plaintiff's mark was registered. One court has ruled that 15 U.S.C. § 1111 limits restitution in a § 2320 prosecution because § 2320(c) incorporates civil Lanham Act defenses: “[R]estitution in a criminal case is the counterpart to damages in civil litigation,” and thus “restitution payable to the trademark owner is proper only if the goods contained the proper notice or the infringer had actual knowledge of the registration.” *United States v. Sung*, 51 F.3d 92, 94 (7th Cir. 1995). In *Sung*, the Seventh Circuit held that specific findings on these points—proper notice or actual knowledge of the registration—must be made by the sentencing court on the record before ordering restitution. *Id.* See the discussion of what constitutes proper notice in Section III.D.5. of this Chapter. For cases addressing how to prove notice or the defendant's actual knowledge of registration, see *United Srvs. Auto. Ass'n v. National Car Rental Sys.*, No. Civ. A.SA00CA1370G, 2001 WL 1910543, at \*4 (W.D. Tex. Sept. 26, 2001) (holding that “actual notice requirement is met when a party receives information portraying a registered trademark bearing a ® symbol,” including a letter asking the defendant to cease and desist); *Schweitzer Dist. Co. v. P & K Trading*, No. 93 CV 4785, 1998 WL 472505 (E.D.N.Y. July 16, 1998) (holding that defendant's testimony that it was aware of plaintiff's use of the ® symbol on the open market sufficed to prove notice).

Even if other courts follow the Seventh Circuit's holding in *Sung*, two points are worth noting. First, the defendant's knowledge or notice of the registration is not a defense to a criminal conviction; it is only a limitation on remedies. See *Sung*, 51 F.3d at 93-94. See also Section III.D.5. of this Chapter. Second, the rule should not limit restitution to any consumers whom the defendant defrauded. *Sung*'s holding was stated only in terms of restitution to the mark-holder, and its rationale should not be extended to consumers, who have no say in whether the mark-holder gave the defendant notice. See *Sung*, 51 F.3d at 94 (“First, as a form of money damages, restitution payable to the trademark owner is proper only if ...”) (emphasis added); cf. *United States v. Foote*, 413 F.3d 1240, 1252 (10th Cir. 2005) (holding *Sung* inapplicable to criminal fines, because “[t]he court's conclusion in *Sung* was based on its reasoning that restitution is a form of money damages payable to the trademark owner. Unlike restitution [to the trademark owner], fines are a form of criminal punishment rather than a

form of damages, and are payable to the government rather than to the trademark owner.”)

For a more in-depth discussion of restitution in intellectual property crimes, such as whether a trademark-holder can be awarded restitution even if the defendant did not cost the trademark-holder any sales, see Chapter VIII of this Manual.

#### **III.E.4. Forfeiture**

Forfeiture is covered in Chapter VIII of this Manual.

#### **III.E.5. Sentencing Guidelines**

The applicable sentencing guideline is *U.S. Sentencing Guidelines Manual* § 2B5.3. It is covered in Chapter VIII of this Manual.

One of the most difficult issues in sentencing § 2320 offenses concerns how to compute the infringement amount of goods in the defendant's possession to which he had not yet applied a counterfeit mark. If the defendant had not completed applying the counterfeit mark to the goods at issue (such as in cases of attempt or aiding-and-abetting where the defendants produced counterfeit labels or packaging), and the prosecution wants to obtain a sentence based on those uncompleted goods, the government must establish with a “reasonable certainty” that the defendant intended to complete and traffic in those goods. *See United States v. Guerra*, 293 F.3d 1279, 1293-94 (11th Cir. 2002) (“There is no support for the proposition that the number of 'infringing items' may be based on the number of seized articles that have the mere *potential* of ultimately forming a component of a finished counterfeit article, without a determination as to the extent to which defendants had a reasonable likelihood of actually completing the goods.”); *United States v. Sung*, 51 F.3d 92, 94-95 (7th Cir. 1995) (remanding for resentencing because the district court did not find with reasonable certainty that Sung intended to sell 240,000 counterfeit shampoo bottles where the only evidence of intent was the possession of counterfeit trademarked shipping cartons that could hold 240,000 bottles, and defendant had liquid to fill only 17,600 bottles). Further, if the counterfeit label was not attached to the good, the counterfeit item's value might be determined by whether the counterfeit label itself has a market value separate from the value of the infringing item for which it was intended. *Compare United States v. Bao*, 189 F.3d 860, 862-63 (9th Cir. 1999) (holding that the most appropriate retail value to use in sentencing under 18 U.S.C. § 2318 for trafficking in counterfeit computer software manuals was that of the genuine computer manual, not the total software package)

*with Guerra*, 293 F.3d at 1292 (distinguishing *Bao* in § 2320 conviction because the cigar labels had no retail value apart from being attached to the cigars).

Nevertheless, when the government can show with reasonable certainty that the defendant would likely have attached the unattached counterfeit labels or packaging to actual product, it should include these items in the infringement amount. Thus, for a defendant caught with counterfeit purses along with generic, no-name purses and labels intended to turn the generic items into counterfeits, the infringement amount may include the number of generic purses or counterfeit labels—whichever is lower. And the infringement amount may also include the excess generic purses (purses for which there was no corresponding counterfeit label) or excess counterfeit labels (labels for which there was no corresponding generic purse) if the evidence of past or potential future sales suggests that the defendant would have acquired the missing elements, completed the manufacture, and attempted to sell these wares.

All these issues are likely to be settled more definitely in the second half of 2006, during the next round of amendments to the Sentencing Guidelines. On March 16, 2006, Congress directed the Sentencing Commission to determine whether the guidelines are “adequate to address situations in which the defendant has been convicted of [a § 2320 offense] and the item in which the defendant trafficked was not an infringing item but rather was intended to facilitate infringement, ... or the item in which the defendant trafficked was infringing and also was intended to facilitate infringement in another good or service, such as a counterfeit label, documentation, or packaging, taking into account cases such as *U.S. v. Sung*, 87 F.3d 194 (7th Cir. 1996).” Stop Counterfeiting in Manufactured Goods Act, Pub. L. No. 109-181, § 1, 120 Stat. 285, 287 (Mar. 16, 2006). This review of the guidelines will hopefully help resolve how to value uncompleted goods and how to value counterfeit labels, documentation, and packaging.

In the meantime, one principle to bear in mind is that before the Stop Counterfeiting in Manufactured Goods Act was awarded, the appropriate guideline for addressing an uncompleted good to which a counterfeit mark had yet to apply counterfeit labels, documentation, or packaging might have been U.S.S.G. § 2B5.3 in conjunction with U.S.S.G. § 2X1.1 (Conspiracies, Attempts, Solicitations), *see Sung*, 51 F.3d at 94-95, but only because trafficking in counterfeit labels, documentation, and packaging was not a completed crime. Now that the Stop Counterfeiting in Manufactured Goods Act has made trafficking in unattached counterfeit labels,

documentation, and packaging a crime on its own, there is some question whether U.S.S.G. § 2X1.1 will apply to such cases.

### III.F. Other Charges to Consider

When confronted with a case that implicates counterfeit trademarks, service marks, or certification marks, prosecutors may consider the following crimes in addition to or in lieu of § 2320 charges if § 2320's elements cannot be met:

- **Conspiracy and aiding-and-abetting, 18 U.S.C. §§ 2, 371**

Consider these charges if the defendant only supplied counterfeit labels or packaging that were attached by another person. See Section III.B.3.c. of this Chapter.

- **Mail and wire fraud, 18 U.S.C. §§ 1341, 1343**

These charges can be filed if the defendant used the mail (or other interstate carrier) or wires (including the Internet) in a scheme to defraud purchasers, whether direct or indirect purchasers. Mail and wire fraud may be especially appropriate when there are foreign victims and domestic jurisdiction under § 2320 is difficult to establish. See *Pasquantino v. United States*, 544 U.S. 349, 125 S. Ct. 1766 (2005) (affirming wire fraud conviction where victim was the Canadian government); *United States v. Trapilo*, 130 F.3d 547, 552 (2d Cir. 1997) (“The [wire fraud] statute reaches *any* scheme to defraud involving money or property, whether the scheme seeks to undermine a sovereign's right to impose taxes, or involves foreign victims and governments.”) (emphasis in original) (citations omitted).

Mail and wire fraud charges may be available if the defendant told his direct purchasers that his goods were counterfeit, so long as he and his direct purchasers intended to defraud the direct purchasers' customers. If, however, all the participants intended that the goods be sold to the ultimate customers as admitted “replicas,” then mail and wire fraud charges will likely be unavailable.

- **Copyright infringement, 17 U.S.C. § 506, 18 U.S.C. § 2319**

Consider these charges if the underlying goods are not only trademarked or service marked, but also contain copyrighted contents, such as books, movies, music, or software. See Chapter II of this Manual.

- **Trafficking in counterfeit labels, illicit labels, or counterfeit documentation or packaging, 18 U.S.C. § 2318**

Consider charging § 2318 if the labels, documentation, or packaging were intended to be used with copyrighted works. See Chapter VI of this Manual.

- **Trafficking in misbranded food, drugs and cosmetics**

See Food, Drug, and Cosmetics Act and Title 21 provisions, including 21 U.S.C. §§ 331(a) (prohibitions on misbranding), 333 (criminal penalties), 343 (misbranded food), 352 (misbranded drugs and devices), 362 (misbranded cosmetics) and, 841(a)(2) (prohibiting distribution of counterfeit controlled substances).

- **Tampering with consumer products, 18 U.S.C. § 1365**

Tampering with labels and communicating false information that a consumer product has been tainted.

- **Trafficking in mislabeled wool, fur and textile fiber products**

Title 15 U.S.C. §§ 68a, 68h (prohibiting commercial dealing in misbranded wool products), 69a, 69i (prohibiting commercial dealing in misbranded fur products); 70a, 70i (prohibiting commercial dealing in misbranded textile fiber products).

- **Racketeer Influenced and Corrupt Organizations (RICO), 18 U.S.C. §§ 1961-1968**

Consider RICO if the intellectual property crimes are committed by organizations. Counterfeit labeling, 18 U.S.C. § 2318; criminal copyright infringement, 18 U.S.C. § 2319; trafficking in recordings of live musical performances, 18 U.S.C. § 2319A; and trademark counterfeiting, 18 U.S.C. § 2320, are all predicate offenses for a racketeering charge under 18 U.S.C. § 1961(1)(B). A RICO charge requires prior approval from the Organized Crime and Racketeering Section of the Criminal Division. *See* USAM 9-110.101, 9-110.320.

- **Money laundering, 18 U.S.C. §§ 1956, 1957**

Section 2320 is a predicate offense for a money laundering charge. 18 U.S.C. § 1956(c)(7)(D). *See, e.g., United States v. Bohai Trading Co.*, 45 F.3d 577, 579 (1st Cir. 1995) (charging § 2320 and § 1957 offenses).

Those seeking additional information on enforcing criminal provisions designed to protect consumers should contact the Justice Department's Office of Consumer Litigation at (202) 616-0219.

Congress has also provided civil remedies for violations of its prohibitions on misbranded goods and has established agencies to enforce those laws, such as the Federal Trade Commission and the Food and Drug Administration. Cases appropriate for civil enforcement may be referred to the appropriate agency. The Federal Trade Commission's Marketing Practices Section, which is part of the Consumer Protection Bureau, may be reached at (202) 326-3779. The Federal Trade Commission's website is [www.ftc.gov](http://www.ftc.gov), and their general information telephone number is (202) 326-2222. The Food and Drug Administration's website is [www.fda.gov](http://www.fda.gov), they may be reached by telephone at 1-888-INFO-FDA (1-888-463-6322).