REPORT

[To accompany S. 875]

The Committee on the Judiciary, to which was referred the bill (S. 875) to strengthen the laws against trafficking in counterfeit goods and services, and for other purposes, having considered the same, reports favorably thereon, with an amendment in the nature of a substitute, and recommends that the bill, as amended, do pass.

I. PURPOSE

Under Federal law today, there are virtually no criminal penalties for the sale of goods and services through the use of false trademarks. The absence of such penalties, and the lack of sufficiently stiff civil sanctions, has emboldened counterfeiters, who now defraud consumers out of billions of dollars each year in the United States alone. S. 875 is designed to provide both Federal prosecutors and trademark owners with essential tools for combating this insidious and rapidly growing form of commercial fraud.

S. 875 provides for criminal penalties of up to 5 years imprisonment and up to $250,000 in fines for individuals and up to $1,000,000 in fines for corporations and similar legal entities that intentionally traffic in goods or services knowing them to be counterfeit. The bill also authorizes the owner of a registered trademark to bring a civil suit for treble damages against those who violate this provision.

As counterfeiters have built larger and more professional enterprises, they have become increasingly callous towards the judicial process. In particular, once given warning that a trademark owner has discovered their illegal operation, many counterfeiters will simply destroy or conceal their illegal merchandise before any

[2]

court can examine it. To provide trademark owners with an effective means of combatting this lawless behavior, the bill provides that under certain defined circumstances, a private party may obtain a court order to seize counterfeit goods without giving advance notice to the defendant. Since reputable businesses would not be likely to destroy or conceal merchandise if given notice of court proceedings, the bill would not permit issuance of *ex parte* seizure orders against such business except in unusual circumstances. In addition, the bill provides numerous safeguards to ensure that *ex parte* seizures are not abused.

II. SUMMARY OF S. 875

S. 875 provides several vital weapons to help combat the mushrooming traffic in counterfeit goods and services. First, the bill authorizes courts to impose criminal penalties upon persons who intentionally traffic or attempt to traffic in goods and services knowing them to be counterfeit. Under the bill, an individual found guilty of counterfeiting goods or services could be sentenced to up to 5 years in prison, and to a fine of up to $250,000, or both; a corporation or other legal entity could be fined up to $1,000,000.

A manufacturer or merchant may recognize in advance that a mark he or she wishes to use might be thought to conflict with a registered trademark. To provide persons in this position with a "safe harbor" from criminal liability, the bill provides that none of the penalties of S. 875 shall apply to a person who (1) notifies the trademark registrant 30 days before its use of his or her intention to use a particular mark, and (2) properly labels his or her goods or other materials to prevent consumer deception.

Although the criminal sanctions of the bill are vital, it is unlikely that busy Federal prosecutors will be able to prosecute more than a fraction of those who traffic in known fakes. To encourage private enforcement of the bill, and to provide a strong deterrent to those who contemplate entering or continuing this illegal trade, the bill authorizes trademark owners to bring suit against trademark counterfeiters for treble damages. Although treble damages are available under the Trademark Act of 1946 *(15 U.S.C. 1051 et seq.)* (hereinafter "Lanham Act") on a discretionary basis, some courts have declined to award treble damages even in egregious cases of counterfeiting. Since counterfeiting is a uniquely pernicious form of trademark infringement, section 2320(d) of the bill entitles a plaintiff to an automatic award of the greater of treble damages or treble the defendant's profits if he or she can show

that the defendant has intentionally trafficked in goods or services knowing them to be counterfeit. Successful plaintiffs would also be automatically entitled under the bill to an award of costs, attorney's fees, and investigator's fees.

To ensure that plaintiffs can effectively enforce their rights under the bill, section 2320(f)(1) provides that under certain defined circumstances, plaintiffs may obtain court orders directing law enforcement officials to seize counterfeit goods without giving advance notice to the party from whom the goods are seized. The reason for this provision is that many counterfeiters, once given notice that their fraudulent operations have been discovered, will

[3]

immediately dispose of the counterfeit goods and make it impossible for the trademark owner ever to bring them to justice.

Before a court may issue an *ex parte* seizure order, it must find, based on sworn affidavits, that a sufficient basis exists for concluding that counterfeit goods are located at the described location, and that the plaintiff will be irreparably harmed

if the goods are not seized on an *ex parte* basis. In addition, a party seeking an *ex parte* seizure order must post a bond in an amount specified by the court. Any party subjected to a wrongful *ex parte* seizure will be able to collect damages from the party that sought the seizure.

The Committee wishes to emphasize what is *not* covered by the present bill. First, because the bill addresses only the use of spurious marks that are "identical to or substantially indistinguishable from" a registered mark, it does not reach routine business disputes about arguable instances of trademark infringement. For example, the bill does not reach disputes over similar, but readily distinguishable, marks. Second, it does not include within its coverage so--called "gray market" goods----i.e., authentic trademarked goods that have been obtained from overseas markets. The importation of such goods is legal under certain circumstances. For example, the Treasury Department has long interpreted section 526 of the Tariff Act of 1930, *19 U.S.C. 1526,* to permit the importation of such goods when the foreign and domestic users of the trademark are affiliated through common ownership and control. *See 19 C.F.R., 133.21(c).* In any event, since the trademarks on "gray market" goods are placed there with the permission of the trademark owner or of a party affiliated with the Committee does not consider such goods counterfeit for purposes of this legislation. Third, the bill does not extend to imitations of trade dress or packaging, unless those features have been registered as trademarks on the principal register in the U.S. Patent and Trademark Office. Finally, the bill does not reach private individuals who knowingly purchase counterfeit goods or services solely for their own personal use. The Committee believes that any trademark issues that may arise with regard to the above practices can best be dealt with by way of the ordinary civil remedies of the Lanham Act.

The bill is not intended to be used, nor is it likely to be used, to facilitate or enforce any system of resale price maintenance. In particular, the Committee does not intend the procedures provided by this bill to be used to harass merchants who sell legitimate trademarked goods or services at discount prices. Any party that brings suit under the bill for this purpose, or otherwise in bad faith, will be liable in damages, including punitive damages, to the victimized defendant.

III. DISCUSSION

Trademarks play a vital role in all but the most primitive societies. For consumers, who cannot investigate the merits of every product they buy, trademarks provide a uniquely reliable source of information about potential purchases. For manufacturers, trademarks crystallize the reputation that they built up in the past and ensure that satisfied customers will know where to come back for more.

[4]

Trademark counterfeiting----that is, selling or otherwise trafficking in goods or services through the use of spurious trademarks----poisons this crucial information system. It defrauds purchasers, who pay for brand--name quality and take home only a fake. It cheats manufacturers of sales that their reputation has earned them, and tarnishes that reputation when the manufacturers are blamed for the flaws of goods they did not produce. Finally, it

injures unwitting retailers, who must face the ire of customers who discover that their "brand name" purchases are in fact counterfeits.

It is obviously impossible to determine with precision the extent of commercial counterfeiting. However, Gerald J. Mossinghoff, Assistant Secretary of Commerce and Commissioner of Patents and Trademarks, testified before the Committee that "it is generally believed that several billion dollars of counterfeit goods are sold annually." *Trademark Counterfeiting Act of 1983*, Hearings on S. 875 before the Subcommittee on Patents, Copyrights and Trademarks of the Senate Committee on the Judiciary, 98th Cong., 1st Sess. 15 (1983) (hereinafter cited as 1983 *Hearings*). But the losses to victims of counterfeiting are not fully encompassed by sales statistics. A defective counterfeit part may hobble a machine far more valuable than the part itself, and a manufacturer whose good name is injured through the sale of inferior products bearing its trademark may lose much additional business as a result.

Counterfeiters have long plied their trade by sewing false brand name labels into cheaply manufactured clothing. In recent years, however, they have vastly expanded the scope of their operations. The Committee heard considerable testimony and saw substantial evidence that counterfeiters now traffic in automobile parts, cosmetics, fertilizers, chemicals, perfumes, watches, luggage, sporting goods, electronic equipment, computer components, medical devices, and numerous other items. No industry is immune to this form of fraud.

The damage done by counterfeiting often goes beyond mere economic injury. Many counterfeiters today sell products that pose a serious threat to public health and safety. In 1977, for example, the Federal Aviation Administration discovered and ordered the immediate removal of shoddily manufactured "Being" fire detection systems potentially affecting up to 100 aircraft. Counterfeit brake parts have caused fatal automobile accidents; counterfeit heart pumps have been sold to

more than 200 hospitals throughout the country; and counterfeit drugs are believed to have killed more than a dozen people. For a fuller description of these and other incidents, *see* Rakoff & Wolff, *Commercial Counterfeiting and the Proposed Trademark Counterfeiting Act*, *20 Am. Crim. L. Rev. 145, 149--54 (1982).*

One of the most dramatic examples of the risks to human life that commercial counterfeiting can pose is described in the decision of a Federal district court in the case of *Textron v. Aviation Sales*, Civ. 77--1317 (C.D. Cal. Sept. 30, 1980). In that case, the court found that the defendants had manufactured and sold helicopter parts falsely bearing the registered trademark of the Bell Helicopter division of Textron, Inc. The court found that the counterfeits were critical *** parts whose failure would result in the in flight loss

[5]

of control of the helicopter," and that the parts "were defective, not airworthy, and created a grave risk to human life and safety." Slip op. at 5. The tragic result, that court found, was that "[s]everal helicopters have crashed resulting in injuries and death as a result of the failure of these parts manufactured and sold by the defendants." *Id.*

Although the Lanham Act provides for civil penalties for all forms of trademark infringement, including international trafficking in known counterfeits, penalties under the Act have been too small, and too infrequently imposed, to deter counterfeiting significantly. Indeed, many counterfeiters view potential civil penalties simply as a cost of doing their illegal business----a cost they can well afford, given the enormous profits to be made by capitalizing on the reputations, development costs, and advertising efforts of honest manufacturers at little expense to themselves.

Certain Federal criminal laws, such as those relating to mail and wire fraud, *18 U.S.C. 1341*--43, arguably apply to some instances of trademark counterfeiting. However, prosecutors have been understandably reluctant to bring prosecutions under these broadly worded laws. Nor have State anti--counterfeiting statutes proven effective; most such statutes treat counterfeiting as a misdemeanor, and have been little enforced. See Rakoff & Wolff, *supra*, 20 Am. Crim.
L. Rev. at 168--69. Able to reap huge profits at little expense, and facing neither criminal sanctions nor substantial civil penalties, counterfeiters have built steadily larger illegal enterprises. Indeed, many have integrated their counterfeiting operations with their other criminal activities. For example, Captain Arthur Katz, Commanding Officer of the Safe, Loft, and Truck Squad of the New York City Police Department, testified that "the same outlets

that deal in stolen merchandise often sell spurious products." *1983 Hearings, supra*, at 58.

To help stem what the Court of Appeals for the Second Circuit has described as an "epidemic" of commercial counterfeiting, *Montres Rolex S.A. v. Snyder, 718 F2d 524, 528 (2d Cir. 1983), cert. denied*, *104 S. Ct. 1594 (1984),* S. 875 provides for stiff criminal penalties for those who intentionally traffic in goods or services knowing them to be counterfeit. Individuals would be subject to up to 5 years in prison and to a fine of up to $250,000, while corporations and other legal entities such as partnerships could be fined up to $1,000,000. Of course, a person who trafficked in counterfeit goods or services without the mental state required by this bill might still be civilly liable under the Lanham Act or similar State statutes, which do not require proof of the defendant's state of mind.

In addition to criminal penalties, the bill would increase the damages available to victims in civil suits against counterfeiters. Under the Lanham Act, a successful plaintiff may recover (1) defendant's profits, (2) any damages the plaintiff has sustained, and (3) the costs of the action. *See 15 U.S.C. 1117.* A court may in its discretion award up to three times the plaintiff's actual damages and, in "exceptional cases," reasonable attorney's fees. *Id.* Although some courts have awarded treble damages under the Lanham Act, others have declined to do so even in cases of deliberate counterfeiting. For example, in *Playboy Enterprises v. Baccarat Clothing Co., 692 F.2d 1272 (9th Cir. 1982),* the Court of Appeals

[6]

found that "the defendants were guilty of willful trademark infringement" in selling counterfeit clothing, but nevertheless declined to direct the district court to award the plaintiff more than actual damages. *Id. at 1276.* The bill would therefore make an award of the greater of treble damages or treble the defendant's profits mandatory if the plaintiff can show that the defendant intentionally trafficked in goods or services knowing them to be counterfeit. A successful plaintiff would also be automatically entitled to an award of the costs of bringing the suit, including reasonable investigator's and attorney's fees.

There are two primary reasons the Committee believes that mandatory awards of treble damages (or profits) and costs are crucial to a successful fight against counterfeiting. First, such awards will significantly deter those who might otherwise engage in this fraudulent enterprise. As noted earlier, courts may in their discretion grant treble damages in any trademark infringement case. However, the statutory grant of authority to award such damages, 15 U.S.C. 1117, provides that treble damages "shall constitute compensation and not a penalty." This proviso is out of place in the context of commercial trafficking in known counterfeits, in which a financial penalty is entirely appropriate. This is especially so since for every counterfeiter who pays such a penalty, several may never be brought to justice. An award of treble damages will thus serve as a form of punitive damages, the appropriateness of which is well established in tort law for conduct involved egregious disregard for the rights of others. By taking the profit out of this lawless behavior, the Committee believes that the bill will offer a potent deterrent to counterfeiting.

A second reason for the mandatory imposition of treble damages and costs is that although the criminal provisions of the bill will aid significantly in the battle against counterfeiting, busy Federal prosecutors simply lack the resources to bring criminal charges against more than a fraction of trademark counterfeiters. Private businesses victimized by counterfeiting must therefore assume an important role in vindicating both their rights and the public interest in accurate trademark information. However, compiling evidence against clever counterfeiting rings and meeting this Act's burden of proof will often be difficult and risky. In addition, it is often hard for a plaintiff to prove more than a fraction of the losses that he or she has in fact incurred. To encourage private victims to provide needed enforcement of the bill's prohibition against counterfeiting, and to help make plaintiffs whole when they prove that a defendant has counterfeited the plaintiffs' goods or services, the bill therefore provides for a mandatory award of treble damages (or profits), and for an award of the costs of bringing the action, including reasonable investigator's and attorney's fees.

The bill also provides that under certain defined circumstances, a trademark owner may obtain a court order directing a law enforcement official to seize counterfeit goods and related materials without giving advance notice to the party from whom the goods are seized. *Ex parte* procedures of this sort, should, of course, be used with caution in civil cases. However, the Committee finds that trademark counterfeiting has become an increasingly professional operation, and that many of those who traffic in counterfeits have

[7]

become skilled at destroying or concealing counterfeit merchandise when a day in court is on the horizon. Counterfeiters often operate in networks, and if any member of the network learns that his fraud has been discovered, he will immediately transfer the counterfeit goods to another member of the network for safekeeping. Alternatively, a counterfeiter may destroy the goods or secrete them elsewhere. *See Fimab--Finanziaria Maglificio Biellese Fratelli Fila v. Kitchen, 548 F. Supp. 248, 250 (S.D. Fla. 1982)* (" 'dumping' of counterfeit goods or transfer of counterfeit goods to unknown third parties *** is a common practice in the counterfeiting industry.").

By whatever means, many commercial counterfeiters will prevent the courts from effectively exercising their jurisdiction. A common result is that after giving a counterfeiter notice of an upcoming hearing, the victimized plaintiff will be met in court with a version of the following refrain: "I bought only a few pieces from a man I never saw before and whom I have never seen again. All my business was in cash. I do not know how to locate the man from whom I bought and I cannot remember the identity of the persons to whom I sold." *In Re Vuitton et Fils, 606 F.2d 1,* (22d Cir. 1979). A "front line soldier" in the battle against counterfeiting who testified before the Committee, Mr. William C. Steffin of the Los Angeles law firm of Lyon & Lyon, echoed this observation. He commented that in the absence of a seizure order, "[t]he results are predictable. You are shown the door, perhaps not too politely, and at the TRO hearing you will learn that the defendant had no goods or documents at the time the notice was given and, in fact, the only such goods he or she ever sold [were] the ones that your investigator bought." *Trademark Counterfeiting Act of 1982*, Hearing on S. 2428 before the Senate Committee on the Judiciary, 97th Cong., 2d Sess. 58, 60 (1982).

In the face of widespread use of such bad faith tactics, the Committee believes that the careful use of *ex parte* orders is fully warranted. As the Second Circuit Court of Appeals has noted, "If notice is required [in a trademark counterfeiting case], that notice all too often appears to serve only to render fruitless further prosecution of the action. This is precisely contrary to the normal and intended role of 'notice' and it is surely not what the authors of [*Rule 65 of the Federal Rules of Civil Procedure*] anticipated or intended." *Vuitton, 606 F.2d at 5.* Indeed, many Federal district courts now authorize *ex parte* seizures in certain trademark infringement cases brought under the Lanham Act. *See* Bainton, *Seizure Orders: An Innovative Judicial Response to the Realities of Trademark Counterfeiting*, *73 Trademark Rep. 459, 463 n.11 (1983),* reprinted in *1983 Hearings, supra,* at 120, and the lengthy compilation of cases therein.

The Committee recognizes, however, that *ex parte* seizures must be employed with caution. The bill therefore provides stringent safeguards against abuse of *ex parte* seizure orders. All protections afforded by the Federal Rules of Civil Procedure are explicitly incorporated. In addition, the bill provides for numerous specific protections. Thus, the bill specifies that no *ex parte* seizure order may be granted unless a less severe remedy would be inadequate. No such order may be issued unless the court finds a sufficient basis

[8]

for concluding that counterfeit goods or certain related materials are located at the place identified in a sworn affidavit provided by the applicant, and that the applicant will suffer immediate and irreparable injury if the goods or materials are not seized through an ex parte order. In addition, the applicant will be required to post a bond, in an amount determined by the court, to compensate the defendant should the seizure prove to have been wrongly ordered. The party whose goods are seized will have the right to a hearing, within 10 days of the seizure, concerning the legality of the seizure, and a right to damages if his or her possessions were wrongfully seized. Finally, orders may not be issued against defendants who have complied with the notice and labelling provisions of proposed subsection 2320(c), or against innocent publishers protected under 15 U.S.C. 1114(2). The Committee believes that these safeguards are fully adequate to satisfy the constitutional requirements of due process, in light of the extraordinary bad faith exhibited by many commercial counterfeiters, and the need for effective means of stemming the current epidemic of counterfeiting.

The Committee wishes to emphasize that is does not intend for *ex parte* seizures to be employed routinely or

casually. In particular, the Committee does not believe that it would be appropriate to issue an *ex parte* seizure order when the defendant is a reputable merchant, absent unusual circumstances. A reputable merchant would not be likely to destroy or conceal counterfeit goods or otherwise act to frustrate the court's jurisdiction, and an applicant would therefore ordinarily be unable to make the showing required by this bill for issuance of an *ex parte* seizure order against such a merchant. This general principle might be overridden, of course, if the applicant could make a particularized showing that the merchant would be likely to defy an ordinary court order----such as by demonstrating that the merchant had previously refused to comply with such orders.

The Committee strongly believes that the remedies provided by the bill must not be used as part of a scheme to control the resale prices of legitimate, non--counterfeit goods, or to prevent the sale of authentic goods intended for distribution in foreign markets but shipped by independent importers into the United States (so--called "gray market" goods). Should a party bring suit under the bill for these purposes or otherwise in bad faith, proposed subsection 2320(i) entitles the victimized defendant to an award of damages. If a party should obtain an *ex parte* seizure order in bad faith, subsection 2320(i) would provide the victim with a remedy as well. The victim of a bad--faith suit will be entitled to costs, attorney's fees, and investigator's fees. A court may also award punitive damages against a party that has engaged in such bad--faith tactics.

The Committee is particularly concerned that the procedures provided by the bill not be used by manufacturers to obtain the names of----and then retaliate against----middlemen who have provided legitimate goods to discount retailers. For this reason, the Act provides special protections for business records seized under the *ex parte* seizure provisions. In addition, subsection (g) of the bill directs courts to take ample precautions to ensure that the civil discovery process is not abused for this purpose.

[9]

IV. HISTORY OF THE BILL

On April 22, 1982, in the Second Session of the 97th Congress, Senator Charles McC. Mathias of Maryland introduced S.2428, the Trademark Counterfeiting Act of 1982. *See* 128 Cong. Rec. 3913. The bill was referred to the Judiciary Committee, which held a hearing on the bill on September 15, 1982. The Committee heard testimony from the following witnesses; the Honorable William F. Baxter, Assistant Attorney General for the Antitrust Division, Department of Justice; Simon P. Gourdine, Commissioner, New York City Department of Consumer Affairs; Peter F. Jones, Senior Vice President, Levi Strauss & Co., and Chairman, International Anti--Counterfeiting Coalition; Vernon Venne, Senior Patent Attorney, Ashland Oil Co.; Raymond Fink, Attorney and Patent Counsel, Gates Corp.; Edward M. Brown, Manager, International Special Services, A. T. Cross Export Co.; and Seymour Merrall, Corporate Vice President for Administrative Services, Bausch & Lomb Corp.

In addition, the Subcommittee heard testimony from William C. Steffin, Esq., of the Los Angeles law firm of Lyon & Lyon; Jed Rakoff, Esq., of the New York City law firm of Mudge, Rose, Guthrie & Alexander; Thomas J. Corum, Esq., President, United States Trademark Association; Griffith B. Price, Jr., Esq., Chairman, Federal Legislation Committee, United States Trademark Association; David R. Haarz, Esq., Attorney for Trademark and Bankruptcy, K Mart Corp., on behalf of the Association of General Merchandise Chains; and Robert W. Steele, Esq., of the law firm of Howrey & Simon, Washington, D.C.

The present bill, substantially revised in light of the helpful testimony at the September hearing, was introduced by Senator Mathias on March 22, 1983, in the First Session of the 98th Congress. *See* 128 Cong. Rec. 3646. Judiciary Committee Chairman Strom Thurmond, Senator Howell Heflin, and Senator John Warner co--sponsored the bill. S. 875 was referred to the Judiciary Committee's Subcommittee on Patents, Copyrights and Trademarks, which held a hearing on the bill on September 14 1983. At the hearing, the Subcommittee heard testimony from the Honorable Gerald J. Mossinghoff, Assistant Secretary of Commerce and Commissioner of Patents and Trademarks; A. Robert Stevenson, Vice President, Government and Public Relations, K Mart Corp.; Edward T. Borda, President, Association

of General Merchandise Chains; James Bikoff, President, International AntiCounterfeiting Coalition; Capt. Arthur Katz, Commanding Officer, Safe, Loft, and Truck Squad, New York City Police Department; Paul Haluza, Director of Government Relations and Public Affairs, Motor Equipment Manufacturers Association; and Charles Turner,

Engineering Product Manager, Edelman Division of Parker Hannifin Corp. The Subcommittee also heard additional testimony from Robert W. Steele, Esq., and from Jed S. Rakoff, Esq. The testimony of all of these witnesses has been taken into account in the final version of the bill.

On November 17, 1983, the Subcommittee unanimously approved the bill for reporting to the full Committee with an amendment in the nature of a substitute. On May 10, 1984, without objection, the Judiciary Committee ordered the bill favorably reported, as "amend

[10]

ed" by a new amendment in the nature of a substitute, by a voice vote, without objection.

Since the bill's introduction, the following Senators have requested that they be added as cosponsors: Senator Christopher Dodd, Senator Alan Simpson, Senator Lowell Weicker, Senator Pete Wilson, Senator Claiborne Pell, Senator Jesse Helms, Senator Frank Lautenberg, Senator John Chafee, Senator Chic Hecht, Senator Charles Percy, Senator Joseph Biden, and Senator James Abdnor.

V. SECTION--BY--SECTION ANALYSIS

S. 875 adds a new section 2320 to title 18 of the United States Code, to provide for criminal sanctions and improved civil remedies for intentional trafficking in goods or services with knowledge that the goods or services are counterfeit. It also makes certain conforming changes to other sections of the United States Code.

Section 1. This section sets forth the short title of the bill: the "Trademark Counterfeiting Act of 1984."

section 2. Subsections 2320 (a) and (b). These subsections define the crime of intentionally trafficking in goods or services knowing that they are counterfeit, or attempting to do so, and establish maximum criminal penalties.

The maximum penalties provided are 5 years imprisonment and/or a $250,000 fine in the case of an individual, and a $1 million fine in the case of a person other than an individual. The Committee wishes to emphasize that the prison terms and fines specified in subsection (a) are maximum penalties, which it does not expect to be routinely imposed. The Committee believes, however, that a combination of appropriate prison terms and substantial fines will create a needed deterrent to trademark counterfeiting.

Together, subsections 2320 (a) and (b) define the conduct prohibited by this bill. Subsection 2320(a) forbids intentional trafficking or attempting to traffic in goods or services knowing tha they are counterfeit. Subsection (b)(1) defines "counterfeit goods or services" as goods or services on or in connection with which a spurious mark is used or intended to be used, when the spurious mark is identical to or substantially indistinguishable from either (1) a genuine mark registered on the principal register in the U.S. Patent and Trademark Office, or (2) a designation protected under section 110 of the Amateur Sports Act of 1978, and used without the consent of the U.S. Olympic Committee. This conduct is the most extreme form of trademark infringement: it involves knowing use of a spurious mark that is identical, or virtually identical, to a registered trademark or protected Olympic symbol. It should be noted, however, that subsection (b)(1)(A)(ii) provides that there will be liability for the false use of a registered mark under this bill only if a spurious mark is used on or in connection with goods or services for which the genuine mark is actually registered on the principal register of the U.S. Patent and Trademark Office, and is in use.

The precise definition of when a mark is "identical to or substantially indistinguishable from" a registered mark will need to be developed on a case--by--case basis by the courts. *Cf. Montres Rolex, supra, 718 F.2d at 530--32 (2d Cir. 1983).* Obviously, a requirement

[11]

that the two marks be absolutely identical would be overly strict. It would allow counterfeiters to escape liability for counterfeiting by modifying the registered trademarks of their honest competitors in trivial ways. However, the Committee does not intend that this bill treat as counterfeiting what would formerly have been arguable, although not clear--cut, cases of trademark infringement. For example, manufacturers of generic drugs may adopt a mark for their goods that is reminiscent of, although certainly not "substantially indistinguishable from," a trademark used by the original manufacturer of a drug. Thus, "Prastimol" might be used as the mark for a drug that is the chemical equivalent of a drug sold under the trademark "Mostimol." Whether or not this sort of imitation may violate provisions of the Lanham Act or other statutes, the Committee does not intend the present bill to reach this type of

case.

The Committee wishes to reemphasize several other categories of case that the present bill does not cover. First, the bill does not reach trafficking in authentic goods that have been obtained from overseas markets and imported into the United States----so called "gray market" goods or "parallel imports"----since the trademark on such goods was placed there with the authorization of the trademark owner or of a party affiliated with the trademark owner. The importation of these goods is legal under certain circumstances, and the Committee does not consider such goods counterfeit for purposes of this legislation. Second, the bill does not extend to imitations of features of trade dress or packaging----such as color, shape, and the like----unless those features have been registered as trademarks on the principal register in the U.S. Patent and Trademark Office and are in use. Third, the bill is not intended to reach private individuals who purchase counterfeit goods or services solely for their own personal use. The Committee believes that any trademark issues that may arise with regard to the above practices can best be resolved within the context of the Lanham Act and other pertinent statutes.

Subsection 2320(a) forbids intentional trafficking in goods or services when the defendant knows that the goods or services are counterfeit. Thus, the bill has two mental state requirements: first, that the defendant "intends" to traffic in goods or services, and second, that he or she "knows" that the goods or services are counterfeit. The requirement that the defendant's trafficking be "intentional" is intended to ensure that the bill will reach only persons who traffic in goods or services deliberately, or "on purpose."

The mental state standards chosen by the Committee are designed to ensure that no innocent person could be held liable under this bill. In choosing these standards, the Committee determined that a "reckless" standard would be too low. Such a test would permit a finding of liability even if the defendant did not intend to traffic in the goods or services in question, or did not know that the goods or services were counterfeit. The Committee believes that such instances should be dealt with through the ordinary remedies of the Lanham Act.

Whether or not the defendant knew that the goods or services at issue were counterfeit will be a question of fact in any individual case, and in a criminal prosecution, will have to be proved beyond a reasonable doubt. As used in this bill, "knowledge" means actual

knowledge that the goods or services are counterfeit, and the existence of such knowledge will be a question for the judge or jury to decide on the basis of all the evidence presented. For further discussion of the term "knowing," see the Judiciary Committee Report on the Criminal Code Reform Act of 1981, S. Rept. 97--307, 97th Cong., 1st Sess. 67--68 (1981).

The Committee wishes to emphasize, however, that a defendant cannot be charged with knowing that particular goods or services were counterfeit merely because he or she had a suspicion that the goods or services might be counterfeit----or because a trademark owner made an unsubstantiated allegation to the defendant that the goods or services are counterfeit. Such an allegation would be insufficient to generate a firm belief or awareness on the part of the defendant that the goods were counterfeit. Indeed, if a person has an honest, good--faith belief that the goods or services at issue are not counterfeit, he or she will not be liable under this bill. Thus, a manufacturer who believes in good faith that he or she has a prior right to use a particular mark, or that the mark does not infringe a registered mark, could not be shown to "know" that he or she is dealing in counterfeits.

As noted earlier, a determination of whether the defendant knew that the goods or services in question were counterfeit will depend on the facts and circumstances of each individual case. However, in view of the free flow of goods in the economy, and the availability of "gray market" goods, a trademark owner will not ordinarily be able to establish that a defendant knew that goods were counterfeit solely because the trademark owner informed the defendant that he or she had not sold the goods directly to the defendant.

The Committee wishes to emphasize that although the present bill does not reach innocent infringement, the Lanham Act and other statutes do not reach such cases. This bill is not intended to change in any way existing rules of liability under those laws.

At the suggestion of the Justice Department, the explicit "effect on interstate commerce" element of the original

draft of S. 875 was eliminated. The Department argued that the explicit inclusion of this element was unnecessary, since a Federal nexus exists in the fact that the marks protected are federally registered trademarks or Olympic symbols protected by a Federal statute. However, the Committee wishes to emphasize that the bill is intended to reach all trafficking in counterfeits that affects interstate commerce, including trafficking that is discovered in its incipiency, such as before counterfeit goods have left the factory.

Subsection 2320(b)(2) provides a definition of the term "traffic." That definition is largely derived from a related, recently enacted statute, the Piracy and Counterfeiting Amendments Act of 1982, now codified at *18 U.S.C. 2318*(b).

Subsection 2320(b)(1)(B). Section 110 of the Amateur Sports Act of 1978, 36 U.S.C. 380, affords certain Olympic symbols a status akin to federally registered trademarks. This subsection is intended to ensure that these symbols will receive the same protection under this bill as will federally registered trademarks, subject to the limitations specified in the Amateur Sports Act concerning the protectins afforded to those symbols.

[13]

Subsection 2320(c). A manufacturer or merchant may be in doubt about whether a mark that he or she plans to use will infringe the trademark rights of a current registrant. The Committee believes that a person in this position should be able to ensure----in advance----that he or she will not be at risk of liability under this bill. Therefore, this subsection outlines two steps that a person contemplating use of a particular mark may take to assure a "safe harbor" from civil or criminal liability. The first is service of actual written notice upon the trademark registrant at least 30 days before the party begins to use the mark. The second is labeling the goods or related materials to identify the manufacturer of the goods bearing the mark, and to disclaim any connection with the owner of the registered mark. If one has taken both of these steps, one will be immune from liability under this bill.

The notice and labeling procedure is, of course, optional and not mandatory. A party's failure to use the notice and labeling procedure is not evidence that he or she trafficked in particular goods or services knowing that they were counterfeit. Indeed, if one believes in good faith that one has a right to use a particular mark, then one will not have acted with "knowledge" that the goods or services in question are counterfeit, and will not be liable under this bill in any event. The "safe harbor" offered by this subsection, however, provides a specific method by which a merchant or manufacturer can be assured that he or she will not be subject to the penalties of this bill.

Subsection 2320(c)(3). Obviously, even after complying with the notice and labeling procedure, there is no insulation from liability if one deliberately defies a court order enjoining trafficking in particular goods or services. In addition, a defendant cannot avail himself or herself of this subsection merely because he or she *attempted* to serve notice upon the registrant; the defendant must actually have served the notice.

Subsection(c)(4). A person's use of the notice and labeling procedures of this bill does not exempt that person from liability under the Lanham Act or other Federal, State, or local laws. The Committee believes that courts must make an independent examination of whether a party has violated such laws, and does not intend the notice and labeling procedures to provide a generalized immunity from liability under those laws.

Subsection 2320(d)(1). This subsection authorizes a trademark registrant or the U.S. Olympic Committee to bring suit for treble damages or profits, and other relief, if he or she can establish, by a preponderance of the evidence, that the defendant violated proposed subsection 2320(a). A plaintiff who can make this showing will be entitled to three times his or her actual damages, or three times the defendant's profits, whichever is greater. In addition to an award of damages, a successful plaintiff under this bill will be entitled to recover the costs of investigating and prosecuting the suit, including reasonable investigator's and attorney's fees.

The term "registrant" is intended to be interpreted in the same way that it has been construed in connection with section 32 of the Lanham Act *(15 U.S.C. 1114*(1)) with respect to the standing of parties to bring suit. Thus, exclusive licensees would be permitted to

[14]

bring a civil action under this subsection if the registrant is also a party to the suit.

The elements of proof in a civil suit under this Act will be the same as in a criminal prosecution: the plaintiff must establish that the defendant intentionally trafficked or attempted to traffic in goods or services knowing them to be counterfeit. Of course, the standard of proof in civil case will be by a preponderance of the evidence, rather than beyond a reasonable doubt.

Subsection 2320(d)(2). This provision authorizes courts to award prejudgment interest to plaintiffs in suits brought under subsection 2320(d) of the bill, as well as to defendants whose goods have been wrongly seized (*see* subsection 2320(f)(3)), or who have been sued in bad faith under this section (*see* subsection 2320(i)). The purpose of this provision is to ensure that the injured party is in fact made whole by the relief he or she is granted, and to discourage dilatory tactics in litigation under this Act.

Subsection 2320(d)(3). A defendant who has already been criminally prosecuted, and found beyond a reasonable doubt to have engaged in trademark counterfeiting, should not be permitted in a later civil suit to contest the essential allegations of the criminal offense of which he or she has been convicted. This proviso is identical to that contained in the Racketeer Influenced and Corrupt Organizations Act, *18 U.S.C. 1964*(d). However, nothing in this bill is intended to change the usual rules concerning the limited collateral estoppel effect in later litigation of a plea of *nolo contender* or of a guilty plea later withdrawn. *See* Rule 410, Federal Rules of Evidence Rule 11 (e)(6), Federal Rules of Criminal Procedure.

Subsection 2320(e). This subsection is intended to ensure that a defendant in a civil or criminal suit under this bill will be able to raise any relevant defense that he or she could raise in a suit under the Lanham Act. For example, if a trademark has been canceled or abandoned, a defendant would have a defense under the Lanham Act, see 15 U.S.C. 1115, and therefore under this bill. The Committee intends to incorporate not only relevant defense that are explicitly provided for in the Lanham Act, but also relevant defense that the courts may recognize in their interpretation of that Act.

Subsection 2320(f). This subsection is intended to provide victims of trademark counterfeiting with essential litigation tools for bringing to justice persons who traffic in counterfeit goods and who refuse to deal in good faith with the judicial system. It authorizes the court to issue appropriate orders, including, when appropriate, temporary restraining orders (with or without notice to the defendant) and *ex parte* orders to seize counterfeit goods, spurious marks, the means of making spurious marks, articles bearing or intended to bear such marks, and business records documenting the manufacture, purchase, or sale of counterfeit goods or materials.

This subsection is primarily directed at situations in which a plaintiff can show that a party has counterfeit goods or other materials bearing spurious marks, and that if ordered by the court to retain the goods or materials, the party would be likely to defy the order by destroying, hiding, or transferring them. In addition, this subsection authorizes the issuance of a seizure order on an *ex parte* basis if the plaintiff can show that the defendant will otherwise act

to prevent the court from effectively exercising jurisdiction over him or her.

The Committee recognizes that *ex parte* seizure orders are an extraordinary remedy, which must be used sparingly and only as needed. The Committee does not intend that these orders be used against reputable businesses except under unusual circumstances , such as when the applicant can make a particularized showing that the merchant would be likely to defy a court order to maintain the status quo. A reputable merchant would not be likely to defy a court order to retain goods or otherwise act to frustrate the court's jurisdiction, and the issuance of an *ex parte* seizure order against such a merchant would therefore be wholly inappropriate, in the absence of the unusual circumstances just mentioned. Rather, the Committee believes that *ex parte* seizure orders are an appropriate tool when dealing with defendants who are likely to attempt to defeat a court's efforts to exercise jurisdiction over them. The strongest evidence that a defendant would be likely to attempt to defeat a court's efforts to exercise jurisdiction over them. The strongest evidence that a defendant would be likely to do so would be evidence that he or she had acted in bad faith towards the judicial process in the past. A court may, however, consider any other evidence relevant to this determination.

To ensure that *ex parte* seizure orders are used only when necessary, and that they are not abused for anti--competitive purposes, the bill includes numerous procedural protections, which are discussed at greater length

below. In addition, the bill incorporates the Federal Rules of Civil Procedure by reference in paragraphs (3) and (6).

Subsection 2320(f)(2). The Committee recognizes that the seizure of business records poses particularly difficult questions. The seizure of such records can be vital to the victimized plaintiff, since if the defendant is permitted to destroy those records, the plaintiff may be at a complete loss in attempting to prove his or her damages. However, the Committee believes that courts must be sensitive to the concerns of defendants about the release of confidential business information, especially when that information might be used to enforce a scheme of resale price maintenance. To ensure that the procedures provided for in this bill cannot be used for such purposes, the bill provides that any records seized in a civil proceeding should be placed immediately into the custody of the court, and that they should be made available only under an appropriate protective order to protect any confidential business information that may be contained in the records, such as the names of sources of supply. The Committee intends the procedures described in subsection 2320(g) to be used in setting the terms of any such protective order. Courts should also take prcautions to ensure that representatives of the plaintiff not be permitted to examine documents containing confidential business information during the course of an *ex parte* seizure.

As with the *ex parte* seizure of any other materials, the Committee believes that courts should consider all less drastic alternatives before approving an order for an *ex parte* seizure of business records. Thus, the court should consider whether an order directing the defendant to maintain the records in their current condition would be adequate.

[16]

***Subsection 2320(f)(3)*. This provision makes clear that a party seeking an *ex parte* seizure order must supply the court with affidavits clearly setting forth the reasons why this form of relief is appropriate. In particular, the applicant should explain why it would not be sufficient to issue a temporary restraining order directing the defendant to retain custody of the goods or materials in question, or to turn them over to the court. In addition, should the court find that issuance of an *ex parte* seizure order is appropriate, the court must then determine the amount of security that the applicant must provide to protect the defendant should the seizure prove to have been wrongful. The Committee believes that in**

setting the amount of security, courts should err on the side of caution----that is, towards larger bonds----in light of the need to protect the unrepresented defendant, and to ensure that he or she will have an effective remedy if he or she is the victim of a wrongful seizure.

Should a party's goods be wrongfully seized under this bill, the victim of the wrongful seizure will be entitled to collect damages from the party that applied for the seizure, including damages for loss of good will, if any. The Committee is particularly concerned that the good will of the defendants not be unfairly injured before they have had their day in court. This subsection therefore provides that any *ex parte* seizure order shall be placed under seal until the defendants have been given an opportunity to contest the order. The seal order shall provide that the applicant may not needlessly publicize the issuance or carrying out of the seizure order until the defendant has been given an opportunity to contest it. In addition, if a seizure proves to have been wrongfully ordered, the applicant will be responsible for any loss of good will that the applicant has suffered. In assessing such damages, the court should take into account whether the defendant needlessly publicized the planned seizure prior to issuance of the seizure order, as well as whether the applicant complied with the seal placed on the order once issued.

The Committee believes that the definition of a "wrongful seizure" must be developed on a case--by--case basis, in light of existing precedents under *Rule 65 of the Federal Rules of Civil Procedure.* However, the mere fact that a few non--counterfeit items may have been seized does not make the seizure as a whole wrongful; otherwise, a counterfeiter could ensure that any seizure of counterfeit merchandise would be "wrongful" simply by mingling a few genuine items with his or her inventory of fakes.

Subsection 2320(f)(4). This subsection states the findings that a court must make in order to issue an *ex parte* seizure order. First the court must find that a temporary restraining order, with or without notice, would be inadequate to protect the applicant's interests. The court must also find a sufficient basis for concluding, based upon

sworn statements submitted by the applicant, that: (1) there are counterfeit goods or other listed materials at the place identified by the applicant, and
(2) the applicant will suffer immediate and irreparable harm if the goods or materials are not seized through an *ex parte* order.

The applicant may prove irreparable harm by making any appropriate showing that: (a) the person from whom the goods or materi

[17]

als are to be seized would not comply with a court order to retain the goods or materials and to make them available to the court, but would instead make the goods or materials inaccessible to the court by destroying, hiding, or transferring them, or (b) the person from whom the goods or materials are to be seized would otherwise act to frustrate the jurisdiction of the court. In determining whether to issue an *ex parte* seizure order, one relevant factor would be that the goods or services in question pose a serious threat to health and safety. If an applicant has made some showing that a defendant is likely to defy a court order to maintain the status quo, the addition of a serious health and safety concern might justify issuance of an *ex parte* seizure order.

The subsection specifically provides that if an applicant can make the showing required by paragraphs (4) (A) and (B), no additional showing about the defendant's state of mind is needed. For example, it would not be necessary to show that the defendant knows at the time the application is filed that the goods in question are counterfeit. Such a showing will often be impossible to make at an *ex parte* hearing, and is in any event unnecessary. For example, a defendant may routinely transfer to confederates any goods that are the subject of a court proceeding, even if the defendant is not certain that the goods are counterfeit. If an applicant can make a sufficient showing that the goods *are* counterfeit, and that the defendant is likely to destroy, conceal, or transfer them if notified, an *ex parte*seizure order should be available regardless of whether the defendant knows at that time that the goods are counterfeit. Such an order would fulfill the vital purpose of protecting the court's ability effectively to exercise jurisdiction over the case.

Subsection 2320(f)(6). The Committee believes that for the maintenance of public order, it is important that law enforcement officials, and not private citizens, enforce seizure orders. When possible, U.S. Marshals should carry out the orders. However, the Committee recognizes that, in many judicial districts, U.S. Marshals have so many responsibilities relating to criminal matters that they are unable to respond expeditiously to requests by private parties for aid in civil matters. The Committee therefore believes that it is appropriate, when the court so designates, for local law enforcement officials to carry out *ex parte* seizures when Federal marshals are not readily available.

Within 10 days after the seizure is performed, a hearing shall be held concerning the legality of the seizure and the need for injunctive relief, if any. The Committee intends for this hearing to be conducted in accordance with *Rule 65 of the Federal Rules of Civil Procedure.* As is customary in connection with this sort of hearing, if a party requests it, discovery must be expedited to ensure that each party is able adequately to prepare for the hearing.

Any materials or goods seized under this subsection shall be taken into the custody of the court. If, at the hearing held after the seizure, the plaintiff makes the required showing that the goods are counterfeit, the court may retain custody of the goods, even if the plaintiff fails to meet some other requirement for issuance of an injunction, such as failure to show that he or she would sustain an irreparable injury if the goods were released. However, if the

[18]

plaintiff fails to make the required showing that the goods are counterfeit, the court must return the goods to the defendant.

The Committee recognizes that under some circumstances, a privately obtained seizure order might interfere with an ongoing criminal investigation by the U.S. Attorney's Office. Subsection 2320(f)(6) therefore requires an applicant for an *ex parte* seizure order to give notice to the U.S. Attorney for the local judicial district at least 24 hours before the order becomes effective. However, if the court determines that notice would be impracticable----for example, if the defendant is on the verge of leaving the jurisdiction with a cargo of counterfeit goods----this notice may be waived.

Subsection 2320(f)(7). A party that has notified the trademark registrant in advance of its intention to use a

particular mark and that has labeled its goods appropriately, in accordance with subsection 2320(c), is not subject to an *ex parte* seizure under this subsection.

Subsection 2320(g). This subsection directs courts to employ appropriate procedures to ensure that confidential business information, such as the names of suppliers, is not improperly disclosed in discovery proceedings in civil cases under this bill. The Committee recognizes that the courts have developed a number of solutions to this problem, and believes that three procedural devices in particular are worthy of special consideration.

The first is the use of a third party, chosen by the court or by agreement of all parties concerned, who can examine business records and extract the needed information without revealing the names of suppliers or other sensitive information. This procedure, apparently first used by Judge Zavatt in *Triangle Manufacturing Co. v. Paramount Bag Manufacturing Co., 35 F.R. 540 (S.D.N.Y. 1964),* has since been used in numerous other cases, including *Battle Creek Equipment Co. v. Roberts Manufacturing Co., 90 F.R.D. 85 (W.D. Mich. 1981).* The second is *in camera* inspection of the sensitive documents. *See Altech Industries, Inc. v. Al Tech Specialty Steel Corp., 528 F. Supp. 521 (D. Del. 1981).* Should the court find that these procedures are inappropriate or not fully satisfactory, a protective order may issue that would limit disclosure of sensitive business information to outside counsel employed by the opposing party. *See Federal Open Market Committee v. Merrill, 443 U.S. 340, 362 n.24 (1979); Federal Trade Commission v. Exxon Corp., 636 F.2d 1336, 1349--51 (D.C. Cir. 1980); Chesa International, Ltd Fashion Associates, 425 F. Supp. 234* (S.D.N.Y.), *aff'd*, *573 F.2d 128 (2d Cir. 1977).* In weighing whether and in what form disclosure of privileged business information should be permitted, the courts should, of course, balance the plaintiff's showing of need for the information against the defendant's claim of privilege.

A solution to the problem of protecting sensitive business information from improper disclosure will need to be tailored to the facts of each individual case. For example, although the disclosure of key information solely to a party's outside counsel will in many instances provide a satisfactory solution to the problem of confidentiality, this solution might not be appropriate if that counsel also represents the party in related litigation in which the information would not be discoverable. In general, however, the Committee believes that thoughtful use of procedural safeguards will help avoid

any possibility that parties might use suits under this bill to obtain and misuse confidential business information.

Subsection 2320(h). If a court finds goods to be counterfeit in either a criminal or a civil case, it may, after reasonable notice to the U.S. Attorney, order the goods and related materials to be destroyed, or order that any spurious marks be removed from the goods or materials and that the goods or materials be given to the United States or to an appropriate charity.

Subsection 2320(i). The Committee wishes to discourage frivolous of nuisance suits under the bill, and to help prevent an allegation of counterfeiting from becoming a "boiler plate" pleading in every trademark suit. Should a party bring a suit in bad faith under this bill----for example, as part of an effort to control the resale prices of authentic trademarked goods----this subsection provides that the victimized defendant will be entitled to an award of damages, including punitive damages when appropriate, and the costs of defending the action, including reasonable attorney's and investigator' fees. The Committee believes that if a defendant can show that the plaintiff pleaded or pursued a suit against him or her in bad faith, an award of substanital punitive damages will usually be appropriate. Of course, this provision does not exclude any remedies that a victimized defendant may have under the antitrust laws or other laws.

The Committee wishes to emphasize, however, that this provision is not intended to reverse the usual principles of the Federal Rules of Civil Procedure with respect to "notice pleading." Thus, a plaintiff need not have conclusive proof that the defendant has intentionally trafficked in known counterfeits in order to file a suit under this bill. Should a plaintiff plead or pursue a suit when it is clear that the suit is baseless, however, this provision would make the plaintiff liable in damages to the victimized defendant. For example, should the plaintiff learn as a result of discovery that any claim of counterfeiting is meritless, continued pursuit of such a claim would be in bad faith.

Subsection 2320(j). This subsection is intended to clarify that this bill does not in any way alter, supersede, or change the enforceability of the remedies that now exist under the Lanham Act and other pertinent civil and criminal statutes. That is, the remedies provided by this bill are intended to be in addition to, and not in substitution for, the

remedies provided by other Federal, State, or other laws. Of course, when a civil claimant recovers treble damages or profits under proposed section 2320, he or she would not be entitled to corresponding recovery under any other Federal, State, or other law in connection with the same underlying transactions or occurrences.

This subsection also ensures that provisional and equitable remedies that are available under the Lanham Act will be available under this bill as well. For a description of some existing remedies under the Lanham Act, *see* Bainton, *supra*,73 Trademark Rep. 459.

Subsection (k). Section 32 of the Lanham Act, codified at *15 U.S.C. 1114*(2), contains important protections for innocent printers and publishers in trademark cases. The Committee intends to incorporate those protections in full into the present bill.

[20]

Section 3. This section amends the table of sections at the beginning of chapter 113 of the United States Code to add a new item relating to section 2320.

Section 4. The Lanham Act currently uses the term "counterfeit" in several of its sections. To avoid confusion with the use of that term in the present bill, this section deletes uses of the term "counterfeit" in the Lanham Act, and makes appropriate changes to another statute, *19 U.S.C. 1526*(e), that refers to the definition of that term in the Lanham Act.

Section 5. This bill takes effect upon enactment.

VI. REGULATORY IMPACT STATEMENT

Pursuant to paragraph 11(b), Rule XXVI of the Standing Rules of the Senate, the Committee has concluded that the Act will have no direct regulatory impact.

VII. COST OF LEGISLATION

In accordance with paragraph 11(a) of Rule XXVI of the Standing Rules of the Senate and section 403 of the Congressional Budget Act of 1974, the Committee provides the following cost estimate, prepared by the Congressional Budget Office:

U.S. Congress,

Congressional Budget Office,

Washington, DC, June 4, 1984.

Hon. STROM THURMOND,
Chairman, Committee on the Judiciary,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed S. 8 the Trademark Counterfeiting Act of 1984, as ordered reported by the Senate Committee on the Judiciary, May 10, 1984. We estimate that no significant costs to federal, state, or local governments will result from the enactment of this bill.

S. 875 provides criminal penalties and increased civil penalties for persons who intentionally and knowingly traffic in counterfeit goods or services. The bill applies to all goods and services with identifying marks that are registered with the U.S. Patent and Trademark Office and to any unauthorized use of Olympic symbols. Convicted individuals will face up to five years in prison and up to $250,000 in fines. Convicted corporations or other legal entities may be fined up to $1 million. Claimants in civil actions may recover the greater of triple the claimant's damages or triple the defendant's profits, plus the cost of investigating and prosecuting the action. A defendant may be awarded damages if he is found innocent.

Based on information provided by the Department of Justice and the Patent and Trademark Office, we expect that enactment of the bill will not result in any signficant increase in agency workloads or costs. Most of the cases

would be subject to civil adjudication, where the costs would be absorbed by one of the parties. The collection of fines may result in some additional receipts to the federal government, although there is no reliable basis for estimating these amounts.

[21]

If you wish further details on this estimate, we will be pleased to provide them.

Sincerely,

RUDY G. PENNER.

VIII. CHANGES IN EXISTING LAW In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, changes in existing law made by
S. 875 are as follows: Existing law proposed to be omitted is enclosed in black brackets, new material is printed in italic, existing law in which no change is proposed is shown in roman.

UNITED STATES CODE

*****

TITLE 15----COMMERCE AND TRADE

*****

CHAPTER 22.----TRADE--MARKS

*****

Subchapter III.----General Provisions

*****

Sec.1114. Remedies; infringement; innocent infringement by printers and publishers.

*****

1118. Same; destruction of infringing articles.

*****

1127. Construction and definition; intent of chapter. *****

§ 1114. Remedies; infringement; innocent infringement by printers and publishers

*****

(a) use in commerce any reproduction, [counterfeit,] copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or

(b) reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, [counterfeit,] copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale,

[22]

distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive.*****

§ 1118. Destruction of infringing articles

In any action arising under this chapter, in which a violation of any right of the registrant of a mark registered in the Patent and Trademark Office shall have been established, the court may order that all labels, signs, prints, packages, wrappers, receptacles, and advertisements in the possession of the defendant, bearing the registered mark or any reproduction, [counterfeit,] copy, or colorable imitation thereof, and all plates, molds, matrices, and other means of making the same, shall be delivered up and destroyed.

*****

§ 1127. Construction and definitions; intent of chapter

*****[A "counterfeit" is a spurious mark which is identical with, or substantially indistinguishable from a registered mark.]*****

TITLE 18----CRIMES AND CRIMINAL PROCEDURE

*****

CHAPTER 113----STOLEN PROPERTY

Sec.

2319. Criminal infringement of a copyright.

2320. Trafficking in counterfeit goods or services. *****

§ 2320. Trafficking in counterfeit goods or services

(a) Whoever intentionally traffics or attempts to traffic in goods or services knowing such goods or services to be counterfeit shall, if such offender is an individual, be fined not more than $250,000 or imprisoned for not more than five years, or both, or if such offender is a corporation, partnership, association, or other legal entity, be fined not more than $1,000,000.

(b) As used in this section
(1) "counterfeit goods or services" means
(A) goods or services
(i) on or in connection with which a spurious mark, which is identical to or substantially indistinguishable from a genuine mark, is used or intended to be used; and

[23]
(ii) for which the genuine mark is registered on the principal register in the United States Patent and Trademark Office and is in use; or
(B) goods or services on or in connection with which a designation that is identical to or substantially indistinguishable from a designation that is specifically protected by section 110 of the Amateur Sports Act of 1978 (36 U.S.C. 380) is used or intended to be used in a manner prohibited by such Act, without the consent of the United States Olympic Committee; and
(2) "traffic" means to
(A) transfer, assign, or dispose of, to another, for value;
(B) offer to so transfer, assign, or dispose of;

(C) receive, possess, transport, or exercise control of, with intent to so transfer, assign, or dispose of; or
(D) assist or conspire with another in doing anything prohibited by subparagraphs (A) through (C); and
(3) "spurious mark" means a mark that is not genuine or authentic.

(c)(1) A defendant who traffics in goods or services that are alleged to be counterfeit shall not be subject to the criminal penalties or civil remedies of this section if the defendant establishes by a preponderance of the evidence that adequate labeling was provided on the goods or services and that adequate notice was provided to the registrant of the genuine mark.

(2)(A) A labeling shall be deemed adequate if, in each place where the alledgedly spurious mark is used, the labeling clearly and conspicuously identifies the manufacturer of the goods or provider of the services, and disclaims any license from or affiliation with the owner of the genuine mark.

(B) Notice to the registrant of the genuine mark shall be deemed adequate if it was in writing and
(i) was actually served upon the registrant of the mark at at least thirty days before the defendant trafficked in goods or services using the allegedly spurious mark,

(ii) stated the defendant's full name and business addresses,

(iii) identified in detail the proposed mark and the goods or services for which the defendant planned to use the mark, and

(iv) stated the date upon which the defendant intended to begin trafficking in goods or services using the mark.

The notice shall be deemed inadequate if the trafficking began before the date specified in the notice.

(3) Adequate notice and labeling under this subsection shall not be an affirmative defense for a defendant who traffics in counterfeit goods or services while the defendant is subject to a court order restraining or enjoining such trafficking.
(4) A party's compliance with the notice and labeling provisions of this subsection shall not be dispositive of that party's liability under any other provision of law, including any Federal, State, or other law.

(d)(1) An action seeking civil remedies for a violation of subsection (a) of this section may be brought, without regard to the amount in controversy, in any district court of the United States in the district

[24]

in which the violation occurred or in which the defendant resides, is found, has an agent, or transacts business. Such an action may be brought by either a registrant of a mark registered on the principal register in the United States Patent and Trademark Office whose business of property is or may be injured by reason of a violation of this section involving the mark of the registrant, or by the United States Olympic Committee. Upon establishing such a violation by a preponderance of the evidence, such civil claimant shall recover--

(A) the greater of treble claimant's damages or treble defendant's profits,
(B) the claimant's costs of the action, and
(C) the claimant's costs of investigating the violation and prosecuting the suit, including reasonable investigator's and attorney's fees.
(2) The court, on a motion promptly made, may in its discretion award prejudgment interest on the monetary recovery

In assessing defendant's profits, the claimant shall be required to prove defendant's sales only. The defendant must prove all elements of cost or deduction claimed therefrom.

(2) The court, on a motion promptly made, may in its discretion award prejudgment interest on the monetary recoveryawarded under this subsection and subsection (f)(3) and (i) of this section, at an annual interest rate established under section 6621 of the Internal Revenue Code of 1954, commencing on the date of the service of the civil claimant's pleadings setting forth the claim for monetary recovery and ending on the date such judgment is awarded, or for such shorter time as the court deems appropriate

(3) A final judgment or decree rendered in favor of the United States in any criminal proceeding brought by the United States under this section shall estop the defendant from denying the essential allegations of the criminal offense in any civil proceeding brought by any civil claimant under this section.

(e) All defense available in an action brought under the Act of July 5.1946, commonly known as the Trademark Act of 1946 (60 Stat. 427; 15 U.S.C. 1051 et seq.) shall be available, if relevant, in any criminal or civil action brought under this section.

(f)(1) In any civil proceeding brought pursuant to this section the district courts of the United States shall have jurisdiction to prevent and restrain trafficking in counterfeit goods or services by issuing appropriate orders, including, in appropriate circumstances, temporary restraining orders on notice to the defendant, ex parte temporary restraining orders, and ex parte orders for the seizure of counterfeit goods and the following materials:

(A) spurious marks;
(B) the means of making such spurious marks;
(C) articles in the defendant's possession bearing such spurious marks, or on or in connection with which such spurious marks are intended to be used; and
(D) business records documenting the manufacture, purchase, or sale of counterfeit goods or of the materials listed in subparagraphs (A) through (C) of this paragraph.

(2) Any business records seized through an ex parte seizure order in a civil proceeding under this section shall be taken into the custody of the court. The applicant or its representatives shall not be permitted to see any such records during the course of the seizure or thereafter, except under an appropriate protective order, issued on

[25]
notice to the person from whom the records were seized, with respect to confidential business information.
(3) Ex parte seizure orders under this section shall be subject to the Federal Rules of Civil Procedure. No such order shall be issued unless the applicant
(A) provides an affidavit clearly setting forth specific facts in support of the need for the seizure order, and
(B) provides security in an amount the court deems adequate to compensate any person for damages such person may suffer as a result of a wrongful seizure or wrongful attempted seizure of such person's property under this subsection.

Such damages shall include, but not be limited to, lost profits, the cost of materials, and loss of good will. In any case in which it is shown that the applicant caused the seizure without adequate evidence that the goods or materials were counterfeit, damages shall include reasonable attorney's fees. The court shall place under seal any order for an ex parte seizure under this section until the defendant has been given an opportunity to contest such order.

(4) No order for an ex parte seizure under this subsection shall be issued unless the court finds that a temporary restraining order on notice to the defendant, or an ex parte temporary restraining order, would be inadequate to protest the applicant's interest. In particular, no court shall issue any order for an ex parte seizure under this subsection unless it clearly appears from specific facts offered under oath or affirmation that

(A) counterfeit goods or the materials described in paragraph (1) are located at the place identified in the affidavit, and
(B) the applicant will suffer immediate and irreparable injury, loss, or damage if the goods or materials are not seized through execution of an ex parte order, in that
(i) the person from whom the goods or materials are to be seized would not comply with an order to retain the goods or materials and to make them available to the court, but would instead make the goods

or materials inaccessible by destroying, hiding, or transferring them; or

(ii) the person from whom the goods or materials are to be seized will otherwise act to frustrate the jurisidction of the court in a proceeding under this section.

If the applicant can make this showing, the applicant need not make any further showing about the defendant's state of mind in order to obtain an ex parte seizure order.

(5) Any order for a seizure under this subsection shall particularly describe the goods or materials to be seized, the place from which they are to be seized, and the amount of security provided by the applicant.

(6) Any seizure ordered under this subsection shall specify that such order is to be carried out by a United States Marshal or other law enforcement officer or agency designated by the court. Any matter seized shall be taken into the custody of the court, pending a hearing to be conducted within ten days after the seizure concerning the legality of the seizure and the need for injunctive relief, if any. Such hearing shall be conducted pursuant to rule 65 of the Federal Rules of Civil Procedure. All parties shall be granted, upon request, expedited discovery in connection with such hearing. Should the

[26]

Plaintiff fail to make the showing required by rule 65, the goods or materials seized shall be returned to the defendant, unless the court specifically finds that the goods or materials are counterfeit, in which case the court may retain them for evidentiary purposes. Such seizure shall be made only after the order has been served upon the defendant, his agent, accomplice, or designee. The applicant shall give notice of an application for an order under this section to the United States Attorney for the district in which the issuing court sits. Such notice shall be given at least twenty--four hours before the order becomes effective, unless the court determines that such notice would be impracticable.

(7) No order for a seizure shall be issued under this subsection if the defendant has complied with the notice and labeling provisions of subsection (c) of this section.

(g) The court shall employ appropriate procedures to ensure that confidential business information is not improperly disclosed in discovery proceedings in civil cases under this section.

(h) If, in any civil or criminal action brought under this section, the court determines that the goods or services at issue are counterfeit, the court may, after reasonable notice to the United States Attorney for the district in which the issuing court sits, order the destruction of all counterfeit goods, spurious marks, means of making such spurious marks, and materials bearing such spurious marks, which are in the possession or control of the court or any party to the action; or, after obliteration of any spurious mark, the court may order the disposal of such goods, marks, means, or materials to the United States or an eleemosynary institution.

(i) When a civil claimant in bad faith pleads or pursues a cause of action under subsection (d) of this section, the court shall award damages to the defendant, including punitive damages when appropriate, and the costs of defending the cause of action, including reasonable investigator's and attorney's fees incurred by the defendant.

(j) Nothing in this section shall supersede or change any provision of Federal, State, or other law imposing criminal penalties or affording civil remedies in addition to those provided for in this section, except that no civil claimant who recovers treble damages or treble profits pursuant to this section shall also be entitled to corresponding recovery under any other Federal, State, or other law in connection with the same underlying occurrences or transactions. Any provisional or equitable remedy that would be available in a comparable civil action under the Trademark Act of 1946 shall, to the same extent and upon a comparable showing, be available under this section.

(k) The remedies available in any civil action under this section shall be subject to the limitations specified in section 32 of the Trademark Act of 1946 (15 U.S.C. 1114(2)).

*****

TITLE 19----CUSTOMS DUTIES

*****

[27]

CHAPTER 4----TARIFF ACT OF 1930

* * * * *

Subtitle II----Special Provisions

* * * * *

Sec. 1526. Merchandise bearing American trademark.

* * * * *

(e) Merchandise bearing counterfeit mark; seizure and forfeiture, disposition of seized goods.

* * * * *

MERCHANDISE BEARING COUNTERFEIT MARK; SEIZURE AND FORFEITURE; DISPOSITION OF SEIZED GOODS

(e) Any such merchandise bearing [a counterfeit mark (within the meaning of section 1127 of Title 15)] *a spurious mark that is identical to, or substantially indistinguishable from, a mark registered in the United States Patent and Trademark Office,* imported into the United States in violation of the provisions of section 1124 of Title 15, shall be seized and, in the absence of the written consent of the trademark owner, forfeited for violations of the customs laws. Upon seizure of such merchandise, the Secretary shall notify the owner of the trademark, and shall, after forfeiture, obliterate the trademark where feasible and dispose of the goods seized--

*****

98th Congress, 1st Session

To amend title 18 of the United States code to strengthen the laws against the counterfeiting of trademarks, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

APRIL 7, 1983

Mr. RODINO (for himself, Mr. EDWARDS of California, and Mr. FRANK) introduced the following bill; which was referred to the Committee on the Judiciary