REPORT

together with ADDITIONAL VIEWS [To accompany H.R. 6071] [Including cost estimate of the Congressional Budget Office] The Committee on the Judiciary, to whom was referred the bill (H.R. 6071) to amend title 18 of the United States

Code to strengthen the laws against counterfeiting trademarks, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass. The amendment is as follows: Strike out all after the enacting clause and insert in lieu thereof the following:

That this Act may be cited as the "Trademark Counterfeiting Act of 1984".TITLE 18 AMENDMENT

SEC. 2. (a) Chapter 113 of title 18 of the United States Code is ameby adding at the end the following:

"§ 2320. Use of counterfeit marks

"(a) Whoever engages or attempts to engage in conduct for which section 32(1)(a) of the Lanham Act *(15 U.S.C. 1114*(1)(a)) or Section 110 of the Olympic Charter Act *(36 U.S.C. 380)* provides a civil remedy, by intentionally using a mark or designation, knowing such mark or designation is a counterfeit mark, in connection with the sale, offering for sale, or distribution of goods or services shall, if an individual, be fined not more than $250,000 or imprisoned not more than five years, or both, and, if a person other than an individual, befined not more than an individual, be fined not more than $1,000,000. In the case of an offense by a person under this section which occurs after that person is convicted of another offense under this section, the person convicted, if an individual, shall be fined not more than $1,000,000 or imprisoned not more than fifteen

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years, or both, and if other than an individual, shall be finded not more than $5,000,000.

"(b) Any documents seized and held by an agency or other entity of the Federal Government in connection with a prosecution under this section are exempt from disclosure under section 552 of title 5 of the United States Code (commonly referred to as the 'Freedom of Information Act').

"(c) Upon a showing that any articles in the possession of a defendant in a prosecution under this section bear counterfeit marks or designations, the United States may obtain an order for the destruction of such articles.

"(d) For the purpose of this section--

"(1) the term 'counterfeit mark' means-- "(A) a spurious mark which is used in connection with the sale, offering for sale, or distribution of goods or services and which is identical with, or substantially indistinguishable from, a mark registered for those goods or services on the principal register in the United States Patent and Trademark Office; or

"(B) a spurious designation which is identical with, or substantially indistinguishable from, a designation as to which the remedies of the Lanham Act are made available by reason of section 110 of the Olympic Charter Act;

but such term does not include any mark or designation used in connection with goods or services of

whichthe manufacturer or producer was, at the time of the manufacture or production in question or a reasonabletime before such manufacture or production, in a contractual or other relationship, permitting the use of themark or designation for the type of goods or services so manufactured or produced, with the holder of theright to use such mark or designation, unless the user has knowledge of the termination of the relationship;and

"(2) the term 'Lanham Act' means the Act entitled 'An Act to provide for the registration and protection of trademarks used in commerce, to carry out the provisions of certain international conventions, and for other purposes', approved July 5, 1946 *(15 U.S.C. 1051* et seq.); and

"(3) the term 'Olympic Charter Act' means the Act entitled 'An Act to incorporate the United States Olympic Association', approved September 21, 1950 *(36 U.S.C. 371* et seq.).".

(b) The table of sections at the beginning of chapter 113 of title 18 of the United States Code is amended byadding at the end the following new item:

"2320. Use of

counterfeit marks.". LANHAM

ACT AMENDMENT

SEC. 3. The Act entitled "An Act to provide for the registration an protection of trademarks used in commerce,to carry out the provisions of certain international conventions, and for other purposes", approved July 5,1946 *(15 U.S.C. 1051* et seq.) is amended--

(1) in section 34 *(15 U.S.C. 1116)*
(A) by designating the first paragraph as subsection (a);
(B) by designating the second paragraph as subsection (b);
(C) by designating the third paragraph as subsection (c); and
(D) by adding at the end the following:

"(d)(1)(A) In the case of a civil action arising under section 32(1)(a) of this Act *(15 U.S.C. 1114)* or section110 of the Act entitled 'An Act to incorporate the United States Olympic Association', approved September21, 1950 *(36 U.S.C. 380)* with respect to a violation which consists of using a mark or designation inconnection with the sale, offering for sale, or distribution of goods or services, if the user knew or shouldhave known that such mark or designation is a counterfeit mark the court may, upon ex parte application,grant an order under subsection (a) of this section pursuant to this subsection.

"(B) Such order may provide for the seizure of goods and marks and designations involved in suchviolation and the means of making such marks and designations, and documents relating to the manufacture,sale, or receipt of things involved in such violation.

"(C) As used in this subsection the term 'counterfeit mark' means--

"(i) a counterfeit of a mark registered on the principal register in the United States Patent and Trademark Office for such goods or services sold, offered for sale, or distributed; or

"(ii) a spurious designation which is identical with, or substantially indistinguishable from,a designation as to which the remedies of this Act are made

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available by reason of section110 of the Act entitled 'An Act to incorporate the United States Olympic Association', approvedSeptember 21, 1950 *(36 U.S.C. 380);*

but such term does not include any mark or designation used in connection with goods or services of

which the manufacturer or producer was, at the time of the manufacturer or production in question or a reasonable time before such manufacturer or production, in a contractual or other relationship, permitting the use of the mark or designation for the type of goods or services so manufactured or produced, with the holder of the right to use such mark or designation, unless the user has knowledge of the termination of the relationship.

"(2) The court shall not receive an application under this subsection unless the applicant has given timely notice of the application to the United States attorney for the judicial district in which such order is sought. Such attorney may participate in the proceedings arising under such application if such proceedings may affect evidence of an offense against the United States.

"(3) The application for an order under this subsection shall

"(A) be based on affidavit or the verified complaint establishing facts sufficient to support the findings of fact and conclusions of law required for such order; and

"(B) contain the additional information required by paragraph (5) of this subsection to be setforth in such order.

"(4) The court shall not grant such an application unless the court finds that it clearly appears from specific facts that--

"(A) an order other than an order issued under this subsection is not adequate to achieve thepurposes of section 32 of this Act *(15 U.S.C. 1114);*"(B) the applicant has not publicized the requested seizure;"(C) success on the merits by the applicant is likely;"(D) an immediate and irreparable injury will occur if such seizure is not ordered;"(E) the matter to be seized will be located at the place identified in the application;"(F) the harm to the applicant of denying the application outweighs the harm to the personagainst whom seizure would be ordered of granting the application;"(G) the public interest would not be seriously adversely affected by granting the application;and"(H) the matter subject to such an order will be destroyed, moved, hidden, or otherwise madeinaccessible.

"(5) An order under this subsection shall set forth--

"(A) the findings of fact and conclusions of law required for the order;"(B) a particular description of the matter to be seized, and a description of each place atwhich such matter is to be seized;"(C) the time period, which shall end not later than seven days after the date on which suchorder is issued, during which the seizure is to be made;"(D) the amount of security required to be provided under this subsection; and

"(E) a date for the hearing required under paragraph (11) of this subsection.

"(6) The court shall take appropriate action to protect the person against whom an order under this

subsection is directed from publicity, by or at the behest of the plaintiff, about such order and any seizure under such order until the end of the hearing required under paragraph (11) of this subsection and may continue such action in the court's discretion after such hearing.

"(7) Documents may be seized under this subsection only if the court enters a protective order forbidding the disclosure of any such documents, or the contents thereof, to any third party and requiring that the documents so seized be treated as confidential and not made available to the parties except under paragraph
(12) of this subsection. The protective order shall also provide that all documents so seized, other than any matter disposed of under section 36 of this Act *(15 U.S.C. 1118),* shall be returned to the person from whose custody such documents were seized and no information contained in such documents shall be retained after the order has lapsed or such litigation is concluded. The court may, for good cause shown, provide greater protection for the person from whom such documents were seized.

"(8) A person obtaining an order under this subsection shall provide the security determined adequate by the court for the payment of such damages as any person may recover as a result of a wrongful seizure under this subsection.

"(9) An order under this subsection, together with the supporting documents, shall be sealed until the party in possession of the matter seized has an opportunity to contest such order, except that any person against whom such order is issued

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shall have access to such order and supporting documents after the seizure has been carried out.

"(10) The court shall designate a United States marshal or other law enforcement officer to serve a copy of the order under this subsection and then to carry out the seizure under such order. The court shall issue orders when appropriate to protect the defendant from undue damage from the disclosure of trade secrets or other confindential information kept in the course of business, including an order restricting the access of the applicant (or any agent or employee of the applicant) to such secrets or information. The person carrying out the seizure shall in doing so follow, insofar as practicable, the requirements the Federal Rules of Criminal Procedure impose for the execution and return with inventory of a warrant for search and seizure, as though the seizure ordered under this subsection were pursuant to such a warrant.

"(11)(A) The court shall hold a hearing, unless waived by all the parties, on the date set by the court in the order of seizure. That date shall be not sooner than ten days after the order is issued and not later than fifteen days after the order is issued, unless the applicant for the order shows good cause for another date or unless the party against whom such order is directed consents to another date for such hearing. At such hearing the party obtaining the order shall have the burden to prove that the facts supporting findings of fact and conclusions of law necessary to support such order are still in effect. If that party fails to meet that burden, the seizure order shall be dissolved or modified appropriately.

"(B) In connection with a hearing under this paragraph, the court may make such orders modifying the time limits for discovery under the Rules of Civil Procedure as may be necessary to prevent the frustration of the purposes of such hearing.

"(12) Documents seized under this subsection shall be placed in the custody of the court. The court may make such documents available to the attorneys of record for all parties in the civil action, giving due consideration to the need to protect confidential information, except that the court shall not disclose to such attorneys any such document not determined relevant and material to such civil action unless the court finds that the participation of such attorneys is necessary to make such determination. Insofar as practicable documents to be made available under this paragraph shall be made available early enough to permit the parties to prepare for the hearing required under paragraph (11) of this subsection.

"(13) A person who suffers damage by reason of a wrongful seizure under this subsection may

commence a civil action against the applicant for the order under which such seizure was made, and in such civil action shall recover such relief as may be appropriate, including damages for lost profits, cost of materials, unjust enrichment, and loss of good will, and a reaonsable attorney's fee.";

(2) in section 35 *(15 U.S.C. 1117),* by inserting before the period at the end of the sentence which begins "In assessing damages" the following:

", and shall, unless the court finds extenuating circumstances, enter judgment for three times such profits or damages, whichever is greater, together with a reasonable attorney's fee, in the case of any violation of section 32(1)(a) of this Act *(15 U.S.C. 1114*(1)(a)) or section 110 of the Act entitled 'An Act to incorporate the United States Olympic Association', approved September 21, 1950 *(36 U.S.C. 380)* which consists of intentionally using a mark or designation, knowing such mark or designation is a counterfeit mark (as defined
in section 34(d) of this Act *(15 U.S.C. 1116*(d)), in connection with the sale, offering for sale, or distribution
of goods or services"; and

(3) in section 36 *(15 U.S.C. 1118),* by adding at the end of such section "The party seeking an order under this section give timely notice to the United States attorney for the judicial district in which such order is sought, and such United States attorney may, if such destruction may affect evidence of an offense against the United States, seek a hearing on such destruction or participate in any hearing otherwise to be held with respect to such destruction."

H.R. 6071, as reported by the Committee, would amend titles 15 and 18 of the United States Code. The primary purpose of the bill is to provide increased sanctions for the counterfeiting of certain registered trademarks. There are at present no Federal criminal laws that proscribe such conduct. The Trademark Act of 1946, *15 U.S.C. § 1051* et seq. (commonly known, and hereinafter referred to,

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as the Lanham Act), creates a civil cause of action for the counterfeiting of trademarks. *15 U.S.C. § 1114.*

This legislation provides the same sanctions for the counterfeiting of Olympic designations, now protected under the Olympic Charter Act, *36 U.S.C. § 371* et seq. The discussion of trademark counterfeiting in this report subsumes Olympic designations.

In the opinion of the Committee, the current law civil remedies are inadequate to address this serious and growing problem. While perhaps the most widely known instance of trademark counterfeiting relates to designer clothing, such conduct now extends to a variety of other articles, including cosmetics, pharmaceuticals, heart pacemakers, and aircraft parts. See, e.g., Testimony and Statement of James L. Bikoff, President, International Anticounterfeiting Coalition, Hearings on H.R. 2447, the Trademark Counterfeiting Act of 1983 Before the Subcommittee on Crime of the House Committee on the Judiciary, 98th Cong., 2d sess. (1983--84) (hereinafter cited as Trademark Counterfeiting Act Hearings).

The extent of trademark counterfeiting in all contexts is increasing. The International Trade Commission has found, for instance, that sales lost to foreign product counterfeiting increased from $37.5 million to $49.2 million from 1980 to 1982. United States International Trade Commission, USITC Publication 1479. The Effects of Foreign Product Counterfeiting on U.S. Industry (January 1984).

Trademarks play an important role in our society, by enabling businesses to identify themselves to their customers and to link that identity to their reputations for quality goods and service. In turn, trademarks permit consumers to readily identify certain products and services and to patronize those businesses with an expectation of quality.

Trademark counterfeiting has a detrimental effect on these legitimate expectations. When articles bearing trademarks are copied exactly, or substantially so, buyers of those goods are deluded into believing that they have purchased the genuine article. Often, the copies fail to meet the quality control standards imposed by the trademark owner. In fact, the counterfeit articles may present grave risks to the health and safety of consumers of those articles. For example, the use of fake, and often substandard, parts in an aircraft endangers passengers, crew, and those on the ground as well. This was precisely the case described

in *Textron, Inc. v. Aviation Sales, Inc.,* No. CV--77--1317, at 5 (C.D.Cal., Sept. 30, 1980) where the court found that the defendants' copies of plaintiff's helicopter parts "were critical or primary helicopter parts whose failure would result in the inflight loss of control of the helicopter [,...whose parts] lacked any quality control procedure or inspections to determine their airworthiness [, and whose parts] were defective, not airworthy, and created a grave risk to human life and safety."

In fact, the court found that "several helicopters have crashed resulting in injuries and death as the result of the failure of these parts manufactured and sold by the defendants." Id.

While not all cases of trademark counterfeiting have such serious consequences for human safety, such conduct can have a dire effect on the economy. Businesses are unjustly criticized for having

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sold substandard products, when in fact the products are fake. Consumers buy products that fall apart after minimal use. Trademark owners lose sales to counterfeiters, when consumers seeking the genuine article mistakenly buy the counterfeit. As businesses suffer economically, workers suffer a corresponding loss of jobs. Statement of Gerald B. Mossinhoff, Assistant Secretary and Commissioner of Patents and Trademarks, Trademark Counterfeiting Act Hearings supra.

The purpose of this legislation, therefore, is to strengthen existing laws on trademark counterfeiting. As stated above, no Federal criminal laws specifically punish such conduct. Certain Federal statutes, such as sections 1341 and 1343 of title 18 (relating to mail and wire fraud), may cover some instances of trademark counterfeiting, but those statutes are not specifically directed at such conduct and do not always adequately address it. Statement of Timothy J. Finn, Associate Deputy Attorney General, Trademark Counterfeiting Act Hearings supra.

Customs laws and regulations provide limited sanctions for the attempted importation of goods bearing infringing and counterfeit trademarks. *19 U.S.C. § 1526, 19 C.F.R. §§ 133.21* and *133.23a*. Goods bearing infringing trademarks may be imported if the offending mark can be obliterated or destroyed. Goods bearing counterfeit marks, however, must be forfeited to the Government.

The statement of the Commissioner of Customs, William C. von Raab, noted that the Customs Service supports efforts to strengthen the laws against trademark counterfeiting. Trademark Counterfeiting Act Hearings supra. The Customs laws, like the Federal criminal laws, do not adequately address the trademark counterfeiting problem. Statement of Timothy J. Finn, Associate Deputy Attorney General, Trademark Counterfeiting Act Hearings, supra.

In addition, the hearings on H.R. 2447 adduced substantial testimony that the provisions of the Lanham Act are also inadequate to address the trademark counterfeiting problem. For example, *15 U.S.C. § 1117* authorizes a court to award treble damages to a plaintiff whose trademark has been counterfeited; however, in appropriate instances, some courts apparently have not exercized this discretion. Testimony of Jed Rakoff, Esq., Counsel to International Anticounterfeiting Coalition, Trademark Counterfeiting Act Hearings supra. In addition, plaintiffs have not uniformly been able to obtain seizures, on an ex parte basis, of counterfeit articles. Such seizures are essential in instances where the alleged infringer, if notified or pending legal action, is likely to thwart the court's exercise of jurisdiction by hiding the offending goods or by destroying them. Statement of Richard A. Wallen, Esq., Trademark Counterfeiting Act Hearings supra. This legislation will permit plaintiffs everywhere to obtain such seizures in trademark counterfeiting cases, and sets forth uniform procedures for doing so. Plaintiffs and defendants alike will no longer be forced to rely on the vagaries of common law.

While the Committee recognizes the seriousness of the trademark counterfeiting problem, and the necessity of enacting a Federal law to deter and punish such conduct, it believes that any such law must be limited to only the most egregious conduct. Otherwise, current civil provisions of the Federal law are adequate to

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deal with such conduct. Statement of the section of Patent, Trademark and Copyright Law of the American Bar Association, Trademark Counterfeiting Act Hearings supra.

In this regard, the Committee takes no position on whether certain activities are violations of current civil law, but excludes such activities from the scope of this legislation. Excluded, for example, are practices involving so--called "overruns" and "parallel imports" or "grey market" goods. The term "overruns" in general refers to goods made by a trademark owner's designated manufacturer, but not permitted by, or violative of, the agreement between the owner and the manufacturer. For example, a manufacturer who has a contract with a trademark owner to make 500,000 pair of jeans, but during the night shift makes an extra 500,000 without the trademark owner's knowledge, may be liable to the trademark owner under the contract or under the provisions of civil law, but would not be subject to the criminal sanctions or increased civil remedies set forth in this bill. In another instance, the manufacturer may deliver the goods too late to meet the trademark owner's contractually mandated deadline. In such a case, the trademark owner would have the right to reject the goods. If the manufacturer then sells the rejected goods, those goods would not be considered counterfeit under this legislation. In fact, one court has held that such conduct is not even trademark infringement under the Lanham Act. *Monte Carlo Shirt, Inc. v. Daewoo International (America) Corporation,* Nos. 81--5908 and 81--5972 (9th Cir., June 8, 1983).

The terms "parallel imports" and "grey market" goods generally refer to trademarked articles legitimately made overseas and then distributed outside the trademark owner's desired distribution channels. For a description of this kind of activity, *see Bell & Howell: Mamiya Co. v. Masel Supply Co. Corp.,* No. 82--7867 (2nd Cir., Oct. 4, 1982).

Both of these kinds of activities are specifically excluded under the criminal and civil sections of this legislation. The Committee intends the exclusion to cover all situations involving "overruns" and "parallel imports" or "grey market" goods, but recognizes that, in an everchanging economic climate, the specific exclusion may not meet every possible instance of conduct it is not intended to cover. In such cases, the Committee relies on the elements of the offenses and the definition of "counterfeit mark" to ensure that the bill is interpreted in an appropriately narrow manner.

There is a third kind of activity that is excluded from this legislation's scope, and that relates to generic drugs. The Committee leaves it to the courts to determine when pharmaceuticals that are similar in appearance and are functionally equivalent to other, trademarked drugs, constitute trademark infringements. See, e.g., *Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844 (1982).* It does not intend that generic drugs be considered counterfeit for purposes of this legislation.

Closely related to the generic drug issue is that of "trade dress," or the recognizable design of a product or its package. While in certain circumstances, the trade dress may be registered as a trademark, it commonly is not. It is protected by this legislation only to the extent that it has been registered as a trademark and meets the other standards of this bill.

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The Committee emphasizes that this legislation relates only to counterfeiting of registered trademarks, and that no conduct that is not already proscribed by current law is covered by this bill. In fact, the scope of this bill is narrower than current law, in that it creates enhanced penalties for only the most egregious conduct covered by current law.

The bill does not affect current statutory or common law governing other conduct proscribed by the Lanham Act, or other Federal, State, or local laws relating to trademarks. The same reservation applies to conduct covered by section 110 of the Olympic Charter Act.

Finally, this legislation relies in a number of instances on concepts and definitions of the Lanham Act. Unless it does so explicitly, however, the Committee does not intend in any way to modify the Lanham Act or judicial interpretations of it.

The Committee is aware of substantial concern that the provisions of this legislation will be used, or abused, to attempt to create a system of retail price maintenance. Statement of Joseph W. Rares, President, American Free Trade Association, Trademark Counterfeiting Act Hearings supra; Statement of Edward T. Borda, President, American General Merchandise Chains, Inc., id. It is aware that certain trademark owners are unhappy that their goods are being sold outside their authorized channels of distribution to discount retailers. This kind of activity is beyond the scope of this legislation and the Committee takes no position on whether such conduct is a violation of other laws.

The Committee has been assured by the chief proponents of this legislation that they, and the trademark owners they represent, will not attempt to use the new remedies provided in this bill for resale price maintenance. See, e.g., Statement of James L. Bikoff, President, International Anti--counterfeiting Coalition, Trademark Counterfeiting Act Hearing supra. To apply for a seizure on an ex parte basis, or to file suit under section 32 of the Lanham Act *(15 U.S.C. § 1114,),* for the purpose of harassing or punishing a retailer or wholesaler who sells trademark owner's goods at a discount, would be a violation of this assurance, and a violation of the purposes of this legislation. Any party who abuses the seizure provision of proposed section 1116(d) may be liable for wrongful seizure under proposed section 1116(d)(13).

HISTORY OF THE ACT

In the 97th Congress, Peter W. Rodino, Chairman of the Committee on the Judiciary, introduced H.R. 6175, the Trademark Counterfeiting Act of 1982. Due to the lateness in the session, no action was taken on the legislation. On April 3, 1983, Chairman Rodino introduced H.R. 2447, the Trademark Counterfeiting Act of 1983. H.R. 2447, provided for criminal and enhanced civil sanctions against trademark counterfeiting. The bill was referred to the Subcommittee on Crime of the House Committee on the Judiciary, which held three days of hearings on the bil, on October 20, 1983, November 3, 1983, and February 9, 1984. The Subcommittee received testimony and written comments on the legislation from a wide variety of parties. At the October hearing, the witnesses were

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James L. Bikoff, President, International Anticounterfeiting Coalition, Paul Haluza, Director, Governmental Relations and Public Affairs, Motor and Equipment Manufacturers Association, Edward T. Borda, President, Association of General Merchandise Chains, Inc., and Joseph W. Rares, President, American Free Trade Association.
At the November hearing, the Subcommittee heard testimony from Timothy J. Finn, Associate Deputy Attorney General, United States Department of Justice, Commissioner Gerald J. Mossinghoff, Assistant Secretary and Commissioner of Patents and Trademarks, United States Department of Commerce, Richard H. Abbey, Chief Counsel, ustoms Service, United States Department of the Treasury, and Robert G. Widham, President, Stanley Tools Division, Stanley Works.

At the February hearing, Alfred Eckes, Chairman, International Trade Commission, William M. Borchard, Esq., and Robert W. Sacoff, Esq., on behalf of the American Bar Association, Mark Budnitz, Professor of Law, Emory Law School, Kenneth Umans, Esq., and Richard A. Wallen, Esq., testified.

On April 25, 1984, William J. Hughes of New Jersey, Chairman of the Subcommittee on Crime, introduced H.R. 5532, which provided only for criminal sanctions against trademark counterfeiting.

On August 1, 1984, the Subcommittee held one day of markup on H.R. 2447 and H.R. 5532, and adopted an amendment in the nature of a substitute, offered by Mr. Hughes, to H.R. 5532. That amendment provided for civil remedies as well as criminal sanctions. The Subcommittee reported a clean bill. That bill, H.R. 6071, was introduced on August 2, 1984 by Mr. Hughes, Mr. Rodino, Harold Sawyer of Michigan, the ranking Republican member of the Subcommittee, Bruce Morrison of Connecticut, Larry Smith of Florida, Edward Feighan of Ohio, Charles Schumer of New York, E. Clay Shaw, Jr. of Florida, F. James Sensenbrenner, Jr. of Wisconsin, and Nancy Johnson of Connecticut.

On August 8, 1984, the full Judiciary Committee held one day of markup on H.R. 6071. The Committee adopted two minor amendments, amendments, one offered by Mr. Hughes and the other by Edward Feighan of Ohio. See discussion infra. By voice vote, the Committee ordered the bill reported to the full House.

SECTION--BY--SECTION ANALYSIS

The first section of the bill sets forth its short title: the Trademark Counterfeiting Act of 1984.

TITLE 18 AMENDMENT

Section 2 of the bill amends chapter 113 of title 18 of the United States Code (relating to stolen property) by adding a new section 2320. "Use of counterfeit marks." That section, in subsection (a), incorporates by reference conduct proscribed by *15 U.S.C. § 1114*(1)(a) (section 32(1)(a) of the Lanham Act) and *36 U.S.C. § 380* (section 110 of the Olympic Charter Act). It provides that whoever violates those provisions of law, and does so by intentionally using a mark or designation, knowing that such mark or designation is counterfeit, is guilty of a criminal offense.

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As discussed above, there are existing remedies for trademark counterfeiting under the Lanham Act and other civil provisions of the law. This legislation will make the Lanham Act remedies even stronger. The Committee in general supports the longstanding treatment of intellectual property offenses as civil law offenses. Thus, criminal sanctions for intellectual property offenses are appropriate only in the narrowest of circumstances. See Additional Views of Robert Kastenmeier of Wisconsin.

For this reason, the state of mind required to consitute a violation of new section 2320 is the highest possible: "intentional" as to conduct and "knowing" as to circumstances. In other words, the defendant must have not just voluntarily used a counterfeit mark or designation. Such use must have been the defendant's conscious objective or purpose. In addition, the defendant must have an awareness of or a firm belief that the mark is a counterfeit mark. See H. Rep. No. 96--1396, accompanying H.R. 6915, the Criminal Code Revision Act of 1980, 96th Cong., 2d sess. at 33 (1980) (hereinafter cited as Criminal Code Report). Of course, if the prosecution proves that the defendant is "willfully blind" to the counterfeit nature of the mark or designation, it will have met its burden of showing "knowledge." See *United States v. Jewell, 532 F. 2d 697* (9th Cir.), cert. denied *426 U.S. 951 (1976).* See generally, Criminal Code Report at 36.

The use of the mark or designation must be "in connection with the sale, offering for sale, or distribution of (certain) goods or services." This language is based on a similar limitation in the Lanham Act, which requires use "in connection with the sale, offering for sale, distribution, or advertising of any goods or services...." *15 U.S.C. § 1114*(1)(a).

This requirement limits the scope of the criminal provision in an important way. The Committee does not intend to criminalize noncommercial conduct, such as the simple possession of goods or services with a counterfeit trademark affixed. The counterfeit mark must be used for a commercial purpose; that is, the sale or offering for sale, or distribution of goods or services. While the term "sale" may cover only one transaction, the term "distribution" in this context means sales on a widespread basis. Transfers of counterfeit goods or services without any consideration given are therefore not within the scope of this legislation.

Because it wishes to cover only a narrow range of conduct in this legislation, because of the inchoate nature of conduct

involving only advertising, and because of its First Amendment implications, the Committee has chosen not to cover use of a counterfeit mark or designation in connection with advertising of goods or services. Of course, the advertising of goods or service with counterfeit marks affixed that are otherwise covered by section 2320 may be relevant to the issue of whether the defendant has committed other conduct that is proscribed by section 2320.

For the same reason, the legislation does not incorporate section 32(b)(1) of the Lanham Act *(15 U.S.C. § 1114*(1)(b)). The activities covered by that provision are broader, and less egregious, than the conduct the Committee believes merits criminal and enhanced civil sanctions.

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Proposed section 2320 also punishes an actor who attempts to engage in the proscribed conduct. An attempt is punishable at the same level as a completed offense. Through *18 U.S.C. § 371,* conspiracies to commit an offense under proposed section 2320 are also prohibited.

Because of the wide ranging and potentially serious effects of trademark counterfeiting, the Committee has given the courts the authority to punish such conduct quite severely. An individual who is convicted of a violation of section 2120 may be fined $250,000 or imprisoned for five years, or both. A person other than an individual may be fined $1,000,000.

An individual who has been convicted of an offense under section 2320 and who then violates the section again may be fined $1,000,000 and imprisoned for 15 years. In the same circumstances, a person other than an individual may be fined $5,000,000.

The term "person" is defined in *1 U.S.C. § 1.*

The Committee recognizes that the potential penalties for a violation of section 2320 are extremely high. For example, given the grave risk to health and safety that such conduct may present, or the egregious nature of a defendant's conduct, these high maximum penalties are fully warranted. However, the Committee also recognizes that there are many instances of trademark counterfeiting where no such risk exists, or where the defendant's conduct is not egregious. Court should of course exercise their discretion in imposing penalties that are appropriate under the circumstances.

As noted above, the penalties for a second and subsequent conviction are enhanced. However, these enhanced penalties may be imposed only when the second violation occurs after the defendant has committed and been convicted of a prior violation. Thus, a defendant who violates section 2320 on two separate instances, but who is not convicted of the first violation until after the second one has occurred, is not subject to the enhanced penalties.

Defining the criminal offense to incorporate the elements of section 32(1)(a) of the Lanham Act *(15 U.S.C. § 1114*(1)(a)) means that all defenses and other limitations on relief set forth in the Lanham Act are applicable to the criminal section as well, See, e.g., *15 U.S.C. §§ 1114*(2) and 1115(b).

Subsection (b) of proposed section 2320 exempts documents seized for a trademark counterfeiting prosecution from disclosure under the Freedom of Information Act *(5 U.S.C. § 552).* The committee is concerned about inappropriate release and dissemination of confidential business records. While information about sources of supply, for example, may be relevant to a determination of whether the defendant's goods are counterfeit, they may also provide invaluable, and not otherwise obtainable, business information to a competitor.

The Freedom of Information Act already exempts certain documents, such as trade secrets and commercial and financial information, from release, *5 U.S.C. § 552*(b)(4). However, the documents that may be seized in a trademark counterfeiting investigation, such as lists of sources of supply, may not fall into that category and thus may not be protected.

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Of course, documents are protected only if they are "held by an agency or other entity of the Federal Government in connection with a prosecution" for a violation of proposed section 2320.

This exclusion of documents from release pursuant to the Freedom of Information Act has no effect on the application of that Act in other contexts.

Proposed section 2320 (c) provides that the United States may obtain an order seeking the destruction of any counterfeit articles that the defendant possesses. Before such an order may be granted, the Government must prove that the articles actually bear counterfeit marks or designations. Even if the defendant is ultimately acquitted of the criminal charge, there is no valid public policy reason to allow the defendant to retain goods which are in fact counterfeit. The Committee intends that the court exercise the same options it has in ordering destructions pursuant to *15 U.S.C. § 1118.* In

practice, and in appropriate circumstances, the courts have ordered that counterfeit article given to chartable institutions or to the Federal Government. Rather than destroying goods that may have value, the Committee believes that these goods should be preserved whenever possible, so long as the offending mark or designation is removed.

New subsection (d) of section 2320 defines the term "counterfeit mark." Subparagraph (A) is based on the Lanham Act definition of "counterfeit." *15 U.S.C. § 1127.* A "counterfeit" under the Lanham Act is a "spurious mark which is identical with, or substantially indistinguishable from, a registered mark." Subparagraph (A) adds two additional criteria. First, the mark must be "used in connection with the sale, offering for sale, or distribution of goods or services." This language is taken from section 32 of the Lanham Act *(15 U.S.C. § 1114)* and limits the scope of the definition to marks in commercial use. See discussion of this language as used in subsection (a) of proposed section 2320 supra. Second, the counterfeit mark must be used on those goods or services for which the genuine mark is registered on the principal register in the United States Patent and Trademark Office.

Subparagraph (B) sets forth a second meaning of "counterfeit mark." It is also based on the Lanham Act definition of "counterfeit," but applies to designations described in section 110 of the Olympic Charter Act *(36 U.S.C. § 380).* That section gives the United States Olympic Committee the right to sue for unauthorized use of an Olympic designation and to seek the remedies provided in the Lanham Act. Because Olympic designations are not registered on the principal register in the United States Patent and Trademark Office, subparagraph (B) is included to ensure that they are covered by this legislation. This legislation does not otherwise affect the right and remedies provided by the Olympic Charter Act.

Because the Lanham Act does not distinguish between "counterfeits" and other kinds of infringements, there has been virtually no case law defining the term "counterfeit." One recent case, *Montres Rolex, S.A. v. Snyder,* No. 82--6168 (2nd Cir., Sept. 14, 1983), did distinguish between "counterfeits" and "infringements" for purposes of the Customs laws described above. The definition of "counterfeit" in the Customs laws tracks that in *15 U.S.C. § 1127.* The court

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found that infringements are simply "likely to cause confusion," while counterfeits are "substantially indistinguishable" from the registered mark. This is the distinction made in this legislation. It is not enough that the challenged mark be likely to cause confusion in any person's mind. The challenged mark must either be "identical with" or "substantially indistinguishable from" the registered mark.

Subsection (d) provides an exception to the definition of "counterfeit mark" for business practices commonly referred to as "overruns." For example, a manufacturer who has a contract with a trademark owner to make 500,000 pair of blue jeans and to affix the trademark owner's trademark, may in fact make 1 million pair, and affix the mark to the unauthorized 500,000 as well. The trademark owner has "put the wheels in motion" for the manufacturer to make the overruns, and has the means to protect himself or herself. For example, the trademark owner can specify in the contract that the making of overruns shall constitute a breach of the contract, and that the manufacturer shall be liable for liquidated damages if overruns are made. The contract might also specify that the trademark owner has the right to inspect the manufacturer's facilities to ensure that overruns are not being made.

For these reasons, the Committee believes that, while the action of the manufacturer may constitute trademark infringement under the Lanham Act's section 32(1)(a) *(15 U.S.C. § 1114*(1)(a)), it should not be made criminal. The contractual and other civil remedies already existing make it inappropriate to criminalize such practices. The Committee does not, however, take any position about whether such practices are in fact violations of any civil provision of law.

To constitute an exception to the definition of "counterfeit," there need not be a contract between the manufacturer and the trademark owner. Other relationships permitting the use of the mark or designation will also trigger the exception. Indeed, the exception is not limited to manufacturers; producers of goods and services generally are covered.

The exception is limited to goods or services of the type provided for in the contract or other agreement. Thus, in the example described above, if the manufacturer used the trademark not only for the 500,000 pair

of jeans made pursuant to the contract, but also for 500,000 hats, the manufacture of the hats would be an act of counterfeiting. This language distinguishes the exception from the basic definition of "counterfeit mark." In the latter, the spurious mark must be used for goods and services for which the genuine mark is registered on the principal register. In other words, if the mark is registered for "wearing apparel," a trademark is counterfeit if it is used on wearing apparel and otherwise meets the criteria set forth in subsection (d).

The exception, however, applies only to the type of goods or services covered by the contract. In the example described above, the contract permitted the manufacture of blue jeans, not hats. Even if the trademark had been registered for "wearing apparel"----a term encompassing blue jeans and hats----the manufacture of hats would be counterfeit because they were not covered by the contract.

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The term "holder of the right to use such mark" generally refers to the trademark owner, assignees of the trademark owner, and others with a similar relationship to the trademark owner.

The exception applies to goods and services produced while the contract or other relationship was in effect. It also applies to goods and services produced "a reasonable time" after the contract or other relationship is terminated. What constitutes a "reasonable time" will obviously depend on the nature of the business relationship between the parties, the nature of the business itself, and other factors the court deems relevant. The purpose of this language is to protect purchasers of "overruns" who are unaware that the permission to produce the goods or services has been terminated. Once again, the burden should be on the trademark owner to protect himself or herself, in the agreement, against unauthorized use of the articles. To place this burden on unsuspecting purchasers, who may have a good faith relief that the articles are authorized, would be unfair.

It is not unfair, however, to hold criminally liable a purchaser who is aware that the producer no longer has the right to produce such articles. Therefore, the exception does not apply if "the user has knowledge of the termination of the relationship." The word "user," in this context, means anyone who possesses the goods, through the line of distribution, for commercial purposes.

Obviously, if the goods are manufactured during the existence of a valid contract, and the user purchases them knowing that a valid contract exists, the fact that the contract is later terminated is irrelevant. Thus, if the user has knowledge that such a contract was terminated, that knowledge is irrelevant; it does not make the goods counterfeit. It is only where the user knows that the goods were made after the termination of the contract, or were of a different type than those called for by the agreement, that the goods may be considered counterfeit.

The defendant has the burden of proving that the goods in question fall within the exclusion set forth in proposed subsection (d). The Government, in turn, has the burden of proving that the defendant had knowledge of the termination of the relationship.

As noted above, this legislation does not in any way cover so--called "parallel imports" or "grey market" goods, "trade dress" violations, and conduct relating to generic drugs. It is not necessary, therefore, to create a specific exclusion for these kinds of activity.

The other definitions in subsection (d) of proposed section 2320 are self--explanatory. Proposed paragraph (2) defines the term "Lanham Act," and proposed paragraph (3) defines the term "Olympic Charter Act."

LANHAM ACT AMENDMENT

Section 3 of the bill amends the Lanham Act in several respects. First, it amends *15 U.S.C. § 1116* by adding a new subsection (d)(1). In general, section 1116 governs the use of injunctions to protect the rights of trademark owners. The amendment would, for the first time, specifically codify the authority of the Federal courts to

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grant seizures of goods and related marks and designations on an ex parte basis.

Although in recent years, many courts have granted these kinds of seizures, the proponents of the legislation strongly urged that this authority be codified. See, e.g., Statement of James L. Bikoff, President, International Anticounterfeiting Coalition, Trademark Counterfeiting Act Hearings supra.

These parties contended that seizures on an ex parte basis are essential to the full protection of the rights of a legitimate trademark owner. Trademark counterfeiters are often "fly by night" operators, who sell their goods on street corners and who will, if given notice of impending court proceedings, dispose of their goods to someone else in the counterfeiting network or simply destroy them as a cost of doing business and to escape legal liability. In many cases, therefore, noticed applications for injunctions are therefore inadequate to protect the trademark owner's rights. To protect the authority of the courts in these kinds of cases, these parties urged the Committee to codify the courts' authority to grant seizures on an ex parte basis. Id.

In addition, according to these parties, the granting of requests for such seizures has not been uniform in the federal courts; some courts believe that they currently have no authority to order them. Those courts that have ordered seizures on an ex parte basis have relied on a variety of existing laws to do so. Testimony of Robert W. Sacoff, Esq., on behalf of the Section of Patent, Trademark and Copyright Law of the American Bar Association, Trademark Counterfeiting Act Hearings supra.

For example, some courts rely on *Rule 65 of the Federal Rules of Civil Procedure* (relating to injunctions). Other courts have relied on the All Writs Act *(28 U.S.C. § 1651).* Still others have derived such authority from section 34 of the Lanham Act *(15 U.S.C. § 1116).* Bainton, Seizure Orders: An Innovative Judicial Response to the Realities of Trademark Counterfeiting, *73 Trademark Rptr. 459 (1983).*

None of these statues clearly and specifically grants the courts the power to order such seizures. The Committee does not, however, take any position on whether the courts have been exercising their authority appropriately. It is the Committee's purpose in this legislation to ensure that the courts do, in the proper circumstances, have such authority. It is convinced by the testimony of proponents of this legislation that, while the majority of Federal courts have been ordering such seizures, they have not done so uniformly, and that their orders have been based on varying provisions of law.

Most importantly, the Committee is concerned that the courts have not had any guidance on the kinds of procedures to be used for ordering such seizures, and on the kinds of protections that must be afforded defendants in such proceedings.

A seizure is not the same as an injunction, which generally restrains the defendant from acting in a certain way. While the courts have the authority to order "mandatory" injunctions, which require the defendant to act in a certain way, Developments in the Law----Injunctions, *78 Harv. L. Rev. 994, 1061 (1965),* the Committee believes that seizures of the defendant's property, without giving **[16]** the defendant the opportunity to be heard, present appreciably different and important issues that must be specifically addressed in this legislation. See, e.g., Statement of Professor Mark Budnitz, Trademark Counterfeiting Act Hearings supra.

In cases of application for seizure on an ex parte basis for alleged trademark counterfeiting, for example, the courts are presented only with a trademark owner's claim that the goods in question are counterfeit. The goods are in the possession of the defendant, the applicant has no proprietary interest in them, and the propriety of the defendant's possession will not be determined until a noticed hearing can be held. In such cases, the due process protections must be even greater than where the applicant claims an ownership interest in the matter in the defendant's possession. *Mitchell v. W.T. Grant, 416 U.S. 600 (1974),* Statement of Professor Mark Budnitz, Trademark Counterfeiting Act Hearings supra.

Judicial proceedings of this type present substantial constitutional issues. It is thus essential that the defendant, who is not present at the seizure hearing, be accorded all possible protections against improper seizure of his or her property.

In addition to the constitutional mandate, there are policy reasons for limiting the availability of such seizures. Because of their onerous nature, the Committee intends that seizures on an ex parte basis be used only as a last resort, where no other means are adequate to protect the authority of the court and the integrity of its orders. It is not appropriate to order such a seizure against a reputable business person who will willingly comply with a court order. The essence of the requirements set forth in proposed subsection (d) of section 1116 is that the defendant will not comply with a less drastic court order, such as a temporary restraining order, and that there is no other means of protecting the court's authority than to, without the defendant's consent, and without notice, seize the property in the defendant's possession.

Such a harsh remedy mandates strict controls and protections. They are provided in proposed section 1116(d).

As noted above, proposed subsection (d)(1) sets forth the authority for courts to order such seizures, pursuant to section 1116(a) of title 15. That subsection authorizes the courts to grant injunctions to protect trademark owners' rights, "according to the principles of equity...." Thus, all relevant equitable considerations for the granting of other kinds of preliminary relief are equally applicable here.

The Committee does not intend to preempt Rule 65 completely. Where procedures set forth in Rule 65 are inconsistent with the dictates of proposed section 1116(d), courts should rely on section 1116 as amended by this legislation. However, in those cases where section 1116 is silent, and for precedential value, the courts should look to Rule 65 and to general principles of equity.

Proposed subparagraph (d)(1)(A) authorizes the courts to order seizures on an ex parte basis when the applicant alleges a violation of *15 U.S.C. § 1114* or *36 U.S.C. § 380.* Obviously, no seizure order may be directed against a person who is not a defendant in the action.

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The court must find that it clearly appears from specific facts that the matter to be seized is actually counterfeit. See discussion of proposed section 1116(d)(4)(C) infra.
In addition, the applicant must show that the defendant's conduct consists of "using a mark or designation in connection with the sale, offering for sale, or distribution of goods or services . . .". This language parallels that used in section 32(1) of the Lanham Act *(15 U.S.C. § 1114*(1)) and in proposed section 2320 of this bill. See discussion supra.

Finally, the applicant must show that the defendant either "knew or should have known that such mark or designation is a counterfeit mark...". Whether the defendant "should have known" the nature of the mark is an objective standard; the court must consider the normal and reasonable practices of the business community generally, as well as the specific practices of the defendant.

In applying this standard, the court must be careful not to impose too heavy a burden on the defendant. For example, it may be unreasonable to expect the defendant to train every employee to recognize counterfeits. In addition, some counterfeits are such close copies of the genuine article that only an expert would be able to distinguish them. Statement of Edward T. Borda, President, American General Merchandise Chains, Trademark Counterfeiting Act Hearings supra.

It is also not enough for the trademark owner to simply allege to the defendant that the goods are counterfeit. For example, a trademark owner may assert that the defendant did not obtain the goods from an authorized distributor, and that the goods must therefore be counterfeit. The Committee is aware that discounters often obtain their merchandise from distributors who are not authorized by the trademark owner, but who are nonetheless legitimate. Those goods are not counterfeit and the trademark owner's mere assertion that they are does not make them so. Nor does it satisfy the burden of proving that the defendant "should have known" that the goods were counterfeit.

While seizure on an ex parte basis may be appropriate even when the defendant did not actually know that the goods were counterfeit, but simply "should have known," the recovery of treble damages or profits from such a defendant is not appropriate under this legislation. Thus, this legislation does not permit a recovery in such circumstances. Proposed *15*
U.S.C. § 1117. In such circumstances, a business should not be allowed to retain goods once they have been

found to be counterfeit. However, that business should not be penalized, by an order for treble recovery, for possessing those goods unless the business person intended to sell the goods and knew that they were counterfeit.

Proposed subparagraph (B) describes the articles that are subject to a seizure on an ex parte basis: "goods and marks and designations involved in such violation and the means of making such marks and designations, and documents relating to the manufacture, sale, or receipt of things involved in such violation."

As noted above, a defendant has no legitimate right to retain counterfeit goods and marks and designations and the means of making such marks and designations. Seizure of such matter, on

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an ex parte basis if necessary, is appropriate. Seizure of related documents is also appropriate, when necessary to avoid "frustrating implementation of the trademark owner's statutory and common law rights." Seizure Orders, supra, at 464. When needed to protect the court's authority, seizures of documents may also be carried out on an ex parte basis.

It is important, to limit the scope of such seizures. This legislation does not permit a wholesale search of the defendant's business premises and records. Several witnesses before the Subcommittee stated their concern that seizures on an ex parte basis would be used not only to seize counterfeit goods, but also to obtain the defendant's confidential business records, including sources of supply. Records identifying sources of supply could be used to retaliate against business people who, against the wishes of the trademark owner, sell goods to legitimate discounters. See, e.g., Statement of Edward T. Borda, President, Association of General Merchandise Chains, Trademark Counterfeiting Act Hearings supra.

The Committee intends to protect the confidentiality of the defendant's records of legitimate transactions. Only those documents "relating to the manufacture, sale, or receipt of things involved in" a violation described in proposed subsection (d)(1)(A) may be seized pursuant to an order granted on an ex parte basis. Further protection of the defendant's business records is provided in proposed paragraphs (6), (10), and (12) of subsection (d). See discussion infra.

Proposed subsection (d)(1)(C) set forth the same basic definition of "counterfeit mark" used in proposed section 2320 of title 18. The same limitations upon and exclusions to that definition apply here. See discussion supra.

Proposed subsection (d)(2) requires the applicant for a seizure on an ex parte basis to first notify the United States Attorney for the district where the order is sought. Since the legislation gives the Federal Government the authority to bring criminal prosecutions against trademark counterfeiters, the Committee believes it is necessary to protect the integrity of any investigations or prosecutions under proposed section 2320. Before any seizures in a civil proceeding are made that might warn a defendant that his or her activities have been discovered, the United States Attorney should be given the opportunity to participate in the civil proceedings and explain how the criminal case might be jeopardized. It is only where the civil proceedings "may affect evidence" in the criminal case that the prosecutor may appear.

The applicant must give the United States Attorney "timely notice" of the seizure application. The term "timely" means whatever is reasonable under the circumstances. The Committee recognizes that often plaintiffs in trademark counterfeiting cases need to obtain orders for such seizures on an expedited basis. Otherwise, the alleged counterfeiter may abscond with the counterfeited goods, or may dispose of them in a way that puts them beyond the court's power. In such circumstances, the applicant might request that a hearing be held simultaneously with the filing of the application. "Timely" notice in those circumstances may mean serving the prosecutor on the way into the courthouse.

If, however, there is no need to expedite the seizure, and the hearing is set for two days after the application is filed, there is no

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reason why the applicant cannot give the United States Attorney two days notice.

It is within the court's discretion to decide whether, under the circumstances, notice to the prosecutor has been "timely."

It is the responsibility of the United States Attorney, of course, to ensure that when it is appropriate, a prosecutor will appear in court for the seizure hearing. So long as notice has been timely, neither the court nor the applicant has any responsibility to inquire into whether a prosecutor will appear.

The Committee recognizes that in many cases, there may be no need for notice to the United States Attorney. Where a criminal investigation of the counterfeiting of the applicant's mark is pending, it is likely that the applicant will already have been contacted by the investigators, and the prosecutors will already be aware of the applicant's plans in the civil proceedings. In these cases, notice will be little more than a formality. It is the cases where there has been no such communication between the applicant and the prosecutor's office that such notice is needed.

Paragraphs (d)(3) and (4) set forth the requirements for the application for an order for a seizure on an ex parte basis. In large part, these requirements are based on those of *Rule 65 of the Federal Rules of Civil Procedure* and case law interpreting it. The requirements have been modified where appropriate to conform them to the circumstances peculiar to seizures on an ex parte basis. As noted above, where no procedures are set forth in this bill, those required by Rule 65 should be followed.

The application must be based on either an affidavit or a verified complaint. The words "verified complaint" were added to paragraph (e) by an amendment offered by Mr. Feighan in Committee markup, to conform the procedure to that of *Rule 65 of the Federal Rules of Civil Procedure.*

Both an affidavit and a verified complaint are filed under oath. This requirement, and the fact that the defendant is not present in court, make it essential for the court to rely, wherever possible, on the personal knowledge of the applicant. It will not do, for example, for the lawyer representing the trademark owner to state, "upon information and belief" facts that are within the client's or investigator's personal knowledge and which should have been stated in the affidavit of the client or investigator.

Ordinarily, the preference for personal knowledge will preclude the reliance on hearsay in the affidavit or verified complaint. There are, however, circumstances where the use of hearsay may be appropriate, because crucial information could not otherwise be obtained. Where, for example, the lawyer has obtained information from a confidential source whose identity cannot be revealed publicly, the court may accept hearsay in an affidavit or verified complaint. See generally, Wright & Miller, Federal Practice and PROCEDURE, Civil § 2952, at 514--16 (1973).

The affidavit or verified complaint must establish "facts sufficient to support the findings of fact and conclusions of law required" for the court to order a seizure on an ex parte basis. As required by paragraph (4) of proposed subsection (d), the court may order such a seizure only where it "clearly appears from specific

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facts" that the circumstances described in that paragraph exist. See discussion supra.

Subparagraph (B) of proposed subsection (d)(3) simply states that the applicant must provide the court with all additional information needed for the court's order. See discussion of proposed subsection (d)(5) infra.

Paragraph (4) sets forth the factors the court must consider in deciding whether to grant an application for a seizure on an ex parte basis. The court must decide whether it "clearly appears from specific facts" presented by the applicant that these factors exist. The standard for the court's consideration is taken from *Rule 65(b) of the Federal Rules of Civil Procedure*, relating to temporary restraining orders. The standard was changed from one of "probable cause" to "clearly appears from specific facts" by an amendment offered by Mr. Hughes at Committee markup.

Subparagraph (A) of proposed subsection (d)(4) provides that the court may not order a seizure on an ex parte basis if there is another, less onerous method of protecting the court's power. For instance, if a temporary restraining order or

a preliminary injunction would be adequate, the court should not grant an application under this subsection. Certainly where the giving of notice would not be detrimental to the applicant's case, seizure as authorized by subsection (d) is not permitted.

Pursuant to subparagraph (B), the court may not grant a seizure order if the applicant has publicized the seizure. According to testimony at the Subcommittee's hearings, publicity about a seizure, and the allegation that a business deals in counterfeit goods, can cause significant damage to the reputation of a business against whom a seizure is directed. Statement of Edward T. Borda, President, Association of General Merchandise Chains, Trademark Counterfeiting Act Hearings supra.

Obviously, where the application for a seizure is granted on an ex parte basis, the business' owner has not been notified of the request for a seizure and thus has no chance to respond to the allegations. To protect businesses from such damage, at least until a noticed hearing is held and the business' owner can respond, the applicant may not publicize the application for a seizure. This restriction continues only until the noticed hearing is held, unless the court in its discretion deems it necessary to continue it. See discussion of proposed subsection (d)(6) infra.

Subparagraphs (C) and (D) set forth two traditional requirements for the granting of equitable relief: it is likely that the applicant will succeed on the merits of the case, and the applicant will suffer an immediate and irreprable injury if the seizure is not ordered.

The term "merits" refers to the applicant's cause of action under section 32 of the Lanham Act *(15 U.S.C. § 1114).* Thus, for example, to obtain a seizure order, the applicant must show that it is "likely" that the matter to be seized is counterfeit.

The kinds of injury the applicant may suffer will vary, of course, depending on the kind of articles alleged to be counterfeited and on the kind of business the applicant is in. For example, if the quality of the allegedly counterfeited goods is so inferior that significant and long term damage to the applicant's reputation is inevitable if

the goods are sold, the applicant may suffer immediate and irreprable injury.

The applicant must be precise in describing the location of the matter to be seized. Subparagraph (E) requires the court to find that the matter will be located at the place identified by the applicant. The Committee is aware, however, that some defendants may be itinerant and may sell their goods on the open streets. It may be difficult for the applicant to identify exactly where the defendant is conducting business. While the courts should thus be flexible in applying subparagraph (E), it is not sufficient for the applicant to state that the matter may be located "somewhere in downtown Washington, D.C." and that the precise location cannot be determined until the seizure takes place.

The name of a trademark counterfeiter may be unknown, and it may be difficult to anticipate who will have possession of the matter at the time of the seizure. While the bill therefore does not mandate it, the courts should require such an identification where the applicant is able to make it.

Subparagraph (F) sets forth a third traditional equitable consideration for the granting of equitable relief: that the harm to the applicant if the request for a seizure is denied outweighs the harm to the alleged counterfeiter if the request is granted. For example, the court should consider any damage to the defendant's reputation and the invasion of the defendant's privacy if seizure is granted, and should weigh these factors and harm to the applicant under subparagraph (D).

Subparagraph (G) restates a fourth traditional equitable consideration: the effect on the public interest if the seizure is ordered. That the public interest would be enhanced if the request is granted is irrelevant if

the applicant does not meet all of the other requirements for seizure. Ordinarily, the only instance where the public interest would be involved is where the applicant otherwise qualifies for such relief. If the court determines that, nevertheless, the public interest would be harmed by the granting of the request, it must be denied. For instance, if the court determines that to grant the application would jeopardize an ongoing criminal investigation, which would have far--reaching effects on consumers generally, it may deny the request.

The Committee anticipates that in some cases, the dispute will be a purely private matter, and that there will be no effect at all on the public interest. In these cases, if the applicant otherwise qualifies for a seizure order, the request should be granted.

Pursuant to subparagraph (H), no application for a seizure on an ex parte basis may be granted unless the matter "will

be destroyed, moved, hidden, or otherwise made inaccessible." This requirement responds to the complaints of witnesses at the Subcommittee's hearings that seizures are needed on an ex parte basis because otherwise, some defendants who are notified of pending legal action will attempt to remove themselves and the goods from the reach of the court. See discussion supra.

The most obvious example of proof sufficient to satisfy subparagraph (H) is that the defendant has attempted to evade the judicial process in the past. If no such action on the defendant's part will
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occur, there is no reason for the defendant not to be notified of the seizure request.

Paragraph (5) describes the matters that must be set forth in the court's order granting a seizure on an ex parte basis. The order must be supported by findings of fact conclusions of law relating to the criteria required by paragraph (4). It must particularly describe the matter to be seized, and also describe the locations where the matter will be found.

The order must also state when the seizure shall take place. Because of the often transitory nature of counterfeiters and counterfeit goods, the court may permit the seizure to take place within seven days of the issuance of the order. The applicant may request this amount of time in which to make the seizure in the belief that if the matter is not at the identified location on one day, it will be there shortly thereafter.

The order must also state the amount of security that paragraph (8) of proposed subsection (d) requires the applicant to provide. See discussion infra.

Finally, the order must state the date of the noticed hearing required by proposed subsection (d)(11)(A). Service of the order on the defendant just before the seizure occurs, as required by proposed subsection (d)(10), will constitute notice to the defendant of the hearing.

Paragraph (6) requires the court to take appropriate action to protect the defendant from publicity about a seizure and an order permitting it. The court's power under this paragraph extends only to publicity "by or at the behest of the plaintiff..." The purpose of the court's order is to protect the reputation of the defendant until he or she can appear in court. Thus, in general, the court's power extends only until the time a noticed hearing is held. At that time, the defendant will presumably be able to present his or her side of the story to the court, thus attempting to counter any negative publicity from the plaintiff's account of the facts. The Committee believes, however, that unusual circumstances may make it necessary for the court to continue to protect the defendant from publicity by or at the behest of the plaintiff. Such circumstances might exist, for example, where the plaintiff is vastly more powerful than the defendant in terms of money, reputation, and other resources. Paragraph (6) empowers the court to use its discretion to determine whether such protections should be continued beyond the date of the noticed hearing.

The Committee is of course aware that the First Amendment ultimately dictates the extent of any restrictions on publicity in legal proceedings. Use of the term "appropriate action" ensures that any restrictions imposed pursuant to this paragraph will be consistent with the demands of the Constitution.

Pursuant to paragraph (7), the court must issue a protective order before any documents are seized

under this subsection. As noted above, the Committee intends that seizures under this subsection not be used as a subterfuge for obtaining the defendant's confidential business records, such as sources of supply. Even incident to a legitimately requested seizure, there is a danger that such records will be improperly revealed. Paragraph (7) therefore prevents the disclosure of such records and their contents to any

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third party, including the plaintiff and the plaintiff's counsel, except pursuant to the procedures set forth in paragraph (10) and paragraph (12), discussed infra.

Thus, the court's protective order must also provide that any documents seized from the defendant be returned, and that no information in them be retained once the court's seizure order has lapsed or the litigation has ended. Only if documents fall into any of the categories set forth in *15 U.S.C. § 1118,* relating to destruction of infringing articles, may they be retained. Ultimately, of course, any such documents would be destroyed or otherwise disposed of pursuant to section 1118.

The proscription against retention of any information in the documents does not, of course, mean that the court or the parties may not quote from the documents in filings relating to the case or otherwise use them in a manner appropriate to the course of the litigation. It simply means that the documents are the property of the defendant and, unless otherwise prohibited here, the defendant has a right to their return.

If the court believes that even these restrictions are insufficient to protect the defendant, paragraph (7) authorizes it to impose more stringent restrictions.

Paragraph (8) requires the plaintiff to post a security bond in an amount that the court determines is adequate to compensate the defendant if the seizure is later found to be wrongful and the defendant is awarded damages pursuant to paragraph (13), discussed infra. Because the defendant is not present in court to represent what his or her losses would be in the event of a wrongful seizure, the court should be careful to set an adequate bond.

Pursuant to paragraph (9), the court must order the seizure order and any supporting documents sealed until the noticed hearing is held. This is to prevent any damage to the defendant's reputation until the defendant has the chance to contest the seizure order. Obviously, though, the defendant must be provided with a copy of the order and be permitted to review the supporting documents in order to prepare for the hearing and further court proceedings.

Paragraph (10) permits either a United States marshal or another law enforcement officer to carry out the seizure. The Committee strongly prefers that the seizure be carried out by a Federal marshal, who is directly under the control of the Federal judiciary. However, it does recognize that, especially in large metropolitan areas, the Marshal's Service may not have the resources to carry out seizures of counterfeit trademarked goods as promptly as necessary. In these cases, the court may order that the seizure be executed by another law enforcement officer. The court must exercise appropriate control over such officer, to ensure that Federal standards for carrying out the seizure are upheld.

The Committee recognizes that the officer executing the seizure may not have sufficient background to determine what materials are relevant to the plaintiff's case. Thus, it may be necessary for the plaintiff to accompany the officer during the seizure. However, the plaintiff's need must be balanced against the rights of the defendant, who has not yet been heard in court, to protection of his or her trade secrets and other confidential information. Thus, where appropriate, the court must issue a protective order so that

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the defendant's trade secrets and other confidential information are not revealed. For example, the court may in its discretion preclude the plaintiff from having access to such material during the seizure. In extreme cases, the court may preclude the plaintiff from accompanying the law enforcement officer during the seizure. Once the seizure is executed, the plaintiff's access to the defendant's documents is governed by paragraph (12), discussed infra.

Finally, paragraph (10) requires the person making the seizure to follow the Federal Rules of Criminal Procedure, insofar as practicable, in executing the seizure and in making a return after the seizure has taken place. While in certain instances, a procedure applicable to a criminal case will not be readily

applicable to a civil case, the majority of the requirements of *Rule 41 of the Federal Rules of Criminal Procedure* will be appropriate and must be followed.

Paragraph (11)(A) requires the court to hold a noticed hearing on the propriety of the seizure order. The defendant will have received notice of the hearing by service of the seizure order. The hearing may be waived, if all parties agree.

The hearing must be held no sooner than 10 days, and no later than 15 days, after the issuance of the seizure order. The flexibility of the hearing date is intended to accommodate the seven day period after the issuance of the order during which the seizure may be executed. To require that the hearing be held 10 days after the order was issued would leave only three days for preparation for the hearing if the seizure was effected seven days after the issuance of the order. This would be unfair to the defendant, who presumably had no notice of the seizure order until the seizure was effectuated. The court, at the time of the application for the seizure, must determine when it is likely that the seizure will take place, and the relative abilities of the parties to prepare for the noticed hearing, in setting the date for that hearing.

Of course, either party may request a delay in the hearing. The plaintiff must show good cause for a continuance, since at this point in the proceedings the hardship is with the defendant whose goods have been seized. For the same reason, it is not necessary to require the defendant to show cause for a continuance.

At the hearing, the plaintiff, of course, has the burden of showing that the seizure order was justified and that it continues to be justifiable to hold the defendant's goods. It may be the case that certain facts or circumstances that apparently existed at the time the seizure order was issued no longer exist, or the defendant can prove that they never existed. Nevertheless, if the plaintiff can continue to show enough evidence to satisfy the requirements of proposed subsection (d)(4), continuance of the seizure order is justified. Otherwise, the seizure order must be dissolved or modified.

Of course, the court has the power to retain goods that are proven to be counterfeit. If the defendant does not contest this issue, the court should deal with the goods pursuant to *15 U.S.C. § 1118.*

Subparagraph (B) permits the court to modify normal discovery time limits, if necessary, to accommodate the short hearing schedule.

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Paragraph (12) dictates the procedure for protecting confidential documents that are seized pursuant to subsection (d). Those documents must be placed in the court's custody. The court must then determine whether any of the documents are relevant and material to the case and, to protect their confidentiality, shall do so without disclosing the material to any of the parties. There is one exception to this restriction: where the court does not have enough facts to make a decision about the relevance or materiality of any document, it may consult with the parties and, if necessary, disclose its contents to them.

The court may, of course, delegate the responsibility for making such a determination. For instance, in cases where a large number of documents must be reviewed, the court might appoint a special master pursuant to *Rule 53 of the Federal Rules of Civil Procedure.* If there are only a few documents, the court may wish to make the determination itself.

In any case, once any documents have been ruled relevant and material, they shall be turned over to the parties to use to prepare for the hearing required by paragraph (11) and for the rest of the case.

Given the short amount of time between the seizure and the paragraph (11) hearing, the court should make the determination quickly, so that the parties will have sufficient time to review the disclosed documents and prepare for the hearing.

The Committee has created detailed procedures governing, and stringent protections for defendants who are subject to, seizures on an ex parte basis. It has done so to ensure full due process protections to absent defendants. To complete the necessary protections, paragraph (13) permits a defendant who is the subject of a wrongful seizure, and who suffers damage as a result, to recover appropriately in a civil action.

A defendant who successfully proves that he or she has suffered damage from a wrongful seizure is entitled to recover damages for lost profits, cost of materials, unjust enrichment, loss of good will, and whatever other relief the court deems appropriate. The defendant may also recover a reasonable attorney's fee.

The term "wrongful seizure" is deliberately not defined in the statute. The court must determine whether the circumstances of a particular case constitute a "wrongful seizure." The Committee intends, however, that the term encompass at least three situations. First, a seizure will be considered wrongful if the applicant acts in bad faith in seeking it. For example, it would constitute bad faith for an applicant to seek a seizure order in an effort to maintain retail prices at a certain level, and to prevent the discounting of those prices.

Second, a seizure must be considered "wrongful" when the matter seized is not counterfeit. In such a case, it does not matter that the plaintiff believed in good faith that the matter was counterfeit. As between two relatively innocent parties, the defendant is the more innocent. The plaintiff initiated the seizure action and must suffer the consequences.

Third, a seizure must be considered "wrongful" to the extent that it is executed improperly. Even if the goods are counterfeit, and even if the defendant has acted in bad faith in copying the

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plaintiff's trademark, if, for instance, the law enforcement officer executing the search unnecessarily destroys the defendant's property, or the plaintiff violates a court order prohibiting access to confidential business records, the seizure is "wrongful" to this extent and the defendant is entitled to recover damages and other relief.

The result of the wrongful seizure action is, of course, independent of the result of the plaintiff's civil suit against the defendant.

The second part of Section 3 of the bill amends *15 U.S.C. § 1117,* which relates to recovery of profits, damages, and costs. That section now leaves it to the court's discretion whether to increase the plaintiff's recovery beyond actual profits or damages. It does not, however, give the court guidelines for its decision whether to order an increased recovery.

The amendment to section 1117 requires the court to grant the plaintiff treble damages or profits, and a reasonable attorney's fee, where the defendant has violated section 1114(a) of title 15 and has done so by "intentionally using a mark or designation knowing that the mark or designation is counterfeit." The use must also be "in connection with the sale, offering for sale, or distribution of goods or services."

The mandate to the court is not, however, without an important limitation. The court has the discretion to deny a plaintiff's request for treble damages or profits if extenuating circumstances exists. What constitutes extenuating circumstances will depend on the particular case. For instance, it may not be appropriate to impose treble damages where

the defendant is an unsophisticated individual operating on a small scale, whose conduct posed no risk to the public's health or safety, and the imposition of treble damages would destroy the defendant financially, thus impairing any ability to support his or her family.

This amendment responds to the concerns of trademark owners that, even where manifestly appropriate, courts have not routinely increased the recovery under section 1114. See discussion supra.

The third part of section 3 of the bill amends *15 U.S.C. § 1118,* which relates to destruction of infringing articles. It is similar in purpose to proposed subsection (d)(2) of section 1116 of title 15, discussed above. The amendment to section 1118 requires any party seeking an order for destruction of infringing articles to notify the United States Attorney of the request. The prosecutor may seek a hearing on the request or, if a hearing has already been requested, may participate in it. The standard governing whether the Government may intervene is the same as that required in the comparable amendment to *15 U.S.C. § 1116:* intervention is warranted when the destruction "may affect evidence of an offense against the United States."

As with proposed section 1116(d)(2), the applicant for a destruction order must give the United States Attorney "timely notice." Once again, this term should be interpreted to mean "reasonable under the circumstances." However, while an application for a seizure on an ex parte basis may need to be heard on an emergency basis, it is not likely that there will be an urgency to an application for destruction. "Timely notice" under section 1118, then, will generally mean whatever the normal requirement for notice of a hearing in a civil case is.

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OVERSIGHT FINDINGS The Committee makes no oversight findings with respect to this legislation. In regard to clause 2(1)(3)(D) of rule XI of the Rules of the House of Representatives, no oversight findings have been

submitted to the Committee by the Committee on Government Operations.

NEW BUDGET AUTHORITY

In regard to clause 2(1)(3)(B) of rule XI of the Rules of the House of Representatives, H.R. 6071

creates no new

budget authority or increased tax expenditures for the Federal Government.

INFLATIONARY IMPACT STATEMENT

In regard to clause (1)(4) of rule XI of the Rules of the House of Representatives, the Committee finds

that the bill will

have no foreseeable inflationary impact on prices or costs in the operation of the national economy.

FEDERAL ADVISORY COMMITTEE ACT OF 1972

The Committee finds that this legislation does not create any new advisory committees within the

meaning of the

Federal Advisory Committee Act of 1972.

COST ESTIMATE

In regard to clause 7 of rule XIII of the Rules of the House of Representatives, the Committee agrees

with the cost

estimate of the Congressional Budget Office. STATEMENT OF THE CONGRESSIONAL BUDGET

OFFICE

U.S. CONGRESS,
CONGRESSIONAL
BUDGET OFFICE,
Washington, DC, August
28, 1984.

Hon. PETER W. RODINO, Jr.
Chairman, Committee on the
Judiciary, House of
Representatives, Washington,
DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed H.R. 6071, the Trademark Counterfeiting Act of 1984, as ordered reported by the House Committee on the Judiciary, August 8, 1984.

We estimate that no significant costs to the federal government, or to state or local governments will result from enactment of this bill.

H.R. 6071 provides criminal penalties and increased civil penalties for persons who knowingly use a counterfeit mark.

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 would face up to 15 years in prison and up to $1 million in fines for repeated offenses. Corporation convicted of a repeat offense would face a fine of up to $5 million. The bill provides that the court may order the seizure of items involved in a violation. Claimants in civil

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actions may recover the greater of triple the claimant's damages or triple the defendant's profits, plus a reasonable attorney's fee.

Based on information provided by the Department of Justice, we expect that enactment of this bill will not result in any significant 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, althoughthere is no reliable basis for estimating these amounts.

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

Sincerely,

ERIC HANUSHEK

(For Rudolph G. Penner).

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of Rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

TITLE 18, UNITED STATES CODE

*****

PART 1 CRIMES

*****

CHAPTER 113 STOLEN PROPERTY

Sec.

2311. Definitions.

*****

2320. Use of counterfeit marks.

*****

§ 2320. Use of counterfeit marks

(a) *Whoever engages or attempts to engage in conduct for which section 32(1)(a) of the Lanham Act (15 U.S.C. 1114(1)(a)) or section 110 of the Olympic Charter Act (36 U.S.C. 380) provides a civil remedy, by internatinally using a mark or designation, knowing such mark or designation is a counterfeit mark, in connection with the sale, offering for sale, or distribution of goods or services shall, if an individual, be fined not more than $250,000 or imprisoned not more than five years, or both, and, if a person other than an individual, be fined not more than $1,000,000. In the case of an offense by a person under this section which occurs after that person is convicted of another offense under this section, the person convicted, if an individual, shall be fined not more than $1,000,000 or imprisoned not more than fifteen years, or both, and if other than an individual, shall be fined not more than $5,000,000.*

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(b) Any documents seized and held by an agency or otherity of the Federal Government in connection with a prosecution under this section are exempt from disclosure under section 552 of title 5 of the United States Code (commonly referred to as the "Freedom of Information Act").

(c) Upon a showing that any articles in the possession of a defendant inprosecution under this section bear counterfeit marks or designations, the United States may obtain an order for the destruction of such articles.

(d) For the purposes of this section

(1) the term "counterfeit mark" means

(A) a spurious mark which is used in connection with the sale, offering for sale, or distribution of goods or services and which is identical with, or substantially indistinguishable from, a mark registered for those goods or services on the principal register in the United States Patent and Trademark Office; or

(B) a spurious designation which is identical with, or substantially indistinguishable from, a designation as to which the remedies of the Lanham Act are made available by reason of section 110 of the Olympic Charter Act;.

but such term does not include any mark or designation used in connectiowith goods or services of which the manufacture or producer was, at the time of the manufacture or production in question or a reasonable time before such manufacture or production, in a contractual or other relationship, permitting the use of the mark of designation for the type of goods or services so manufactured or produced, with the holder of the right to use such mark or designation, unless the user has knowledge of the termination of the relationship; and

(2) the term "Lanham Act" means the Act entitled "An Act to provide for the registration and protection of trademarks used in commerce, to carry out the provisions of certain international conventions, and for other purposes," approved July 5, 1946 (15 U.S.C. 1051 et seq.); and

(3) the term "Olympic Charter Act" means the Act entitled "An Act to incorporate the United States Olympic Association," approved September 21, 1950 (36 U.S.C. 371 et seq.)

*****ACT OF JULY 5, 1946

AN ACT To provide for the registration and protection of trade--marks used in commerce, to carry out the provisions of certain international conventions, and for other purposes

*****

TITLE VI REMEDIES

*****

SEC. 34. (a) The several courts vested with jurisdiction of civil acarising under this Act shall have power to grant injunctions, according to the principles of equity and upon such terms as the court may deem reasonable, to prevent the violation of any right of

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the registrant of a mark registered in the Patent and Trademark Office. Any such injunction may include a provision directing the defendant to file with the court and serve on the plaintiff within thirty days after the service on the defendant of such injunction, or such extended period as the court may direct, a report in writing under oath setting forth in detail the manner and form in which the defendant has complied with the injunction. Any such injunction granted upon hearing, after notice to the defendant, by any district court of the United States, may be served on the parties against whom such injunction is granted anywhere in the United States where they may be found, and shall be operative and may be enforced by proceedings to punish for contempt, or otherwise, by the court by which such injunction was granted, or by any other United States district court in whose jurisdiction the defendant may be found.

(b) The said courts shall have jurisdiction to enforce said injunction, as herein provided, as fully as if the injunction had been granted by the district court in which it is sought to be enforced. The clerk of the court or judge granting the injunction shall, when required to do so by the court before which application to enforce said injunction is made, transfer without delay to said court a certified copy of all papers on file in his office upon which said injunction was granted.

(c) It shall be the duty of the clerks of such courts within one month after the filing of any action, suit, or proceeding arising under the provisions of this Act to give notice thereof in writing to the Commissioner setting forth in order so far as known the names and addresses of the litigants and the designating number or numbers of the registration or registrations upon which the action, suit, or proceeding has been brought, and in the event any other registration be subsequently

included in the action, suit, or proceeding by amendment, answer, or other pleading, the clerk shall give like notice thereof to the Commissioner, and within one month after the decision is rendered, appeal taken or a decree issued the clerk of the court shall give notice thereof to the Commissioner, and it shall be the duty of the Commissioner on receipt of such notice forthwith to endorse the same upon the file wrapper of the said registration or registrations and to incorporate the same as a part of the contents of said file wrapper.

(d)(1)(A) In the case of a civil action arising under section 32(1)(a) of this Act (15 U.S.C. 1114) or section 110 of the Act entitled "An Act to incorporate the United States Olympic Association," approved September 21, 1950 (36 U.S.C. 380) with respect to a violation which consists of using a mark or designation in connection with the sale, offering for sale, or distribution of goods or services, if the user knew or should have known that such mark or designation is a counterfeit mark the court may, upon ex parte application, grant an order under subsection (a) of this section pursuant to this subsection.

(B) Such order may provide for the seizure of goods and marks and designations involved in such violation and the means of making such marks and designations, and documents relating to the manufacture, sale, or receipt of things involved in such violation.

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(C) As used in this subsection the term "counterfeit mark" means

(i) a counterfeit of a mark registered on the principal register in the United States Patent and Trademark Office for such goods or services sold, offered for sale, or distributed; or

(ii) a spurious designation which is identical with, or substantially indistinguishable from, a designation as to which the remedies of this Act are made available by reason of section 110 of the Act entitled "An Act to incorporate the United States Olympic Association," approved September 21, 1950 (36 U.S.C. 380);

but such term does not include any mark or designation used in connection with goods or services or which the manufacturer or producer was, at the time of the manufacture or production in question or a reasonable time before such manufacturer or production, in a contractual or other relationship, permitting the use of the mark or designation for the type of goods or services so manufactured or produced, with the holder of the right to use such mark or designation, unless the user has knowledge of the termination of the

relationship.

(2) The court shall not receive an application under this subsection unless the applicant has given timely notice of the application to the United States attorney for the judicial district in which such order is sought. Such attorney may participate in the proceedings arising under such application if such proceedings may affect evidence of an offense against the United States.

(3) The application for an order under this subsection shall

(A) be based on affidavit or the verified complaint establishing facts sufficient to support the findings of fact and conclusions of law required for such order; and

(B) contains the additional information required by paragraph (5) of this subsection to be set forth in such order.

(4) The court shall not grant such an application unless the court finds that it clearly appears from specific facts that

(A) an order other than an order issued under this subsection is not a dee to achieve the purposes of section 32 of this Act (15 U.S.C. 1114):

(B) the applicant has not publicized the requested seizure;

(C) success on the merits by the applicant is likely;

(D) an immediate and irreparable injury will occur if such seizure is noordered;

(E) the matter to be seized will be located at the place identified in application;

(F) the harm to the applicant of denying the application outweighs the to the person against who seizure would be ordered of granting the application;

(G) the public interest would not be seriously adversely affected by granting the application; and

(H) the matter subject to such an order will be destroyed, moved, hidden, or otherwise made inaccessible.

(5) An order under this subsection shall set forth

(A) the findings of fact and conclusion of law required for order;

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(B) a particular description of the matter to be seized and a description of each place at which such matter is to be seized;

(C) the time period, which shall end not later than seven days after the date on which such order is issued, during which the seizure is to be made;

(D) the amount of security required to be provided under this subsection; and

(E) a date for the hearing required under paragraph (11) of this subsection

(6) The court shall take appropriate action to protect the person against whom an order under this subsection is directed from publicity, by or at the behest of the plaintiff, about such order and any seizure under such order until the end of the hearing required under paragraph (11) of this subsection and may continue such action in the court's discretion after such hearing.

(7) Documents may be seized under this subsection only if the court enters a protective order forbidding the disclosure of any such documents, or the contents thereof, to any third party and requiring that the documents so seized be treated as confidential and not made available to the parties except under paragraph (12) of this subsection. The protective order shall also provide that all documents so seized, other than any matter disposed of under section 36 of this Act (15 U.S.C. 1118), shall be returned to the person from whose custody such documents were seized and no information contained in such documents shall be retained after the order has lapsed or such litigation is concluded. The court may, for good cause shown, provide greater protection for the person from whom such documents were seized.

(8) A person obtaining an order under this subsection shall provide the security determined adequate by the court for the payment of such damages as any person may recover as a result of a wrongful seizure under this subsection.

(9) An order under this subsection, together with the supporting documents, shall be sealed until the party in possession of the matter seized has an opportunity to contest such order, except that any person against whom such order is issued shall have access to such order and supporting documents after the seizure has been carried out.

(10) The court shall designate a United States marshal or other law enforcement officer to serve a copy of the order under this subsection and then to carry out the seizure under such order. The court shall issue orders when appropriate to protect the defendant from undue damage from the disclosure of trade

secrets or other confidential information kept in the course of business, including an order restricting the access of the applicant (or any agent or employee of the applicant) to such secrets or information. The person carrying out the seizure shall in doing so follow, insofar as practicable, the requirements the Federal Rules of Criminal Procedure impose for the execution and return with inventory of a warrant for search and seizure, as though the seizure ordered under this subsection were pursuant to such a warrant.

(11)(A) The court shall hold a hearing, unless waived by all the parties, on the date set by the court in the order of seizure. That date shall be not sooner than ten days after the order is issued and

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not later than fifteen days after the order is issued, unless the applicant for the order shows good cause for another date or unless the party against whom such order is directed consents to another date for such hearing. At such hearing the party obtaining the order shall have the burden to prove that the facts supporting findings of fact and conclusions of law necessary to support such order are still in effect. If that party fails to meet that burden, the seizure order shall be dissolved or modified appropriately.

(B) In connection with a hearing under this paragraph, the court may make such orders modifying the time limits for discovery under the Rules of Civil Procedure as may be necessary to prevent the frustration of the purposes of such hearing.

(12) Documents seized under this subsection shall be placed in the custody of the court. The court may make such documents available to the attorneys of record for all parties in the civil action, giving due consieration to the need to protect confidential information, except that the court shall not disclose to such

attorneys any such document not determined relevant and material to such civil action unless the court finds that the participation of such attorneys is necessary to make such determination. Insofar as practicable documents to be made available under this paragraph shall be made available early enough to permit the parties to prepare for the hearing required under paragraph (11) of this subsection.

(13) A person who suffers damage by reason of a wrongful seizure under this subsection may commence a civil action against the applicant for the order under which such seizure was made, and in such civil action shall recover such relief as may be appropriate, including damages for lost profits, cost of materials, unjust enrichment, and loss of good will, and a reasonable attorney's fee.

SEC. 35. When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office shall have been established in any civil action arising under this Act, the plaintiff shall be entitled, subject to the provisions of sections 29 and 32, and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount,

and shall, unless the court finds extenuating circumstances, enter judgment for three times such profits or damages, whichever is greater, together with a reasonable attorney's fee, in the case of any violation of section 32(1)(a) of this Act (15 U.S.C. 1114(1)(a) or section 110 of the Act entitled "An Act to incorporate the United States Olympic Association," approved September 21, 1950 (36 U.S.C. 380) which consists of intentionally using a mark or designation, knowing such mark or designation is a counterfeit mark (as defined in section 34(d) of this Act (15 U.S.C. 1116(d)), in connection with the sale, offering for sale, or distribution of goods or services. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum

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as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.

SEC. 36. In any action arising under this Act, 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 limitation thereof, and all plates, molds, matrices, and other means of making the same, shall be delivered up and destroyed. *The party seeking an order under this section shall give timely notice to the United States attorney for the judicial district in which such order is sought, and such United States attorney may, if such destruction may affect evidence of an offense against the United States, seek a hearing on such destruction or participate in any hearing otherwise to be held with respect to such destruction.*

*****

ADDITIONAL VIEWS OF ROBERT W. KASTENMEIER ON H.R. 6071

The general question posed by this legislation is clear and succinct. Has an adequate showing been made that government intervention (through severe criminal penalties, augmented civil penalties, and ex parte seizures, coupled with possible treble damages) is necessary to enforce a system that theoretically should be privately enforced between proprietor and infringer. I am not confident that this question should be answered in the affirmative.

Trademark law, like copyright and patent law, is essentially a contract between proprietors and the public. In exchange for a government conferred "monopoly", the public benefits from a heightened form of consumer protection or by intellectual property passing into the public domain (either after the term of protection has expired or, in the case of trademarks, by being declared generic). The system is self--enforcing: that is, proprietors protect their own rights by suing in district court for infringement. There is rarely any need for government intervention to buttress the system. For example, the two entities charged with administering the system----the Patent and Trademark Office and the Copyright Office----do not have enforcement power nor have they requested Congress to provide it.

Proposals to extend governmental authority----either to the U.S. Department of Justice or the Federal Trade Commission----should be based on a clear finding that the existing system does not work. In the rush to legislate on this bill and several others,n1 I fear that we have failed to make this essential finding.

Absent a clear definition of the problem, formulation of an appropriate solution is very difficult. As related to trademark counterfeiting, I question whether the solution of criminal penalties to enforce the law is an appropriate response to the problem. Criminal sanctions for the violation of intellectual property rights are appropriate in the narrowest circumstances. In two copyright bills recently favorably reported by this Committee,n2 a decision was made to solve identified problems with civil and administrative remedies.

Several years ago, the Final Report of the National Commission on Reform of Federal Criminal Laws (Brown Commission) concluded that the criminal laws should establish a system of prohibitions, penalties, and correctional measures to deal with conduct that unjustifiably and inexcusably causes or threatens harm to those individual

or public interests for which federal protection is inappropriate. This recognizes, in the words of the Report's comment, that "...the criminal law serves, among other functions, as an expression of society's disapprobation of marked departures from social norms, but eschews organized vengeance as a goal of the system."n3

As a former member of the Brown Commission and also as one who has worked on intellectual property legislation during almost my entire tenure in Congress, I fear that the Commission's guiding principle is not met in the proposed legislation. H.R. 6071 appears to be based less on a finding that federal protection is necessary or appropriate than on a desire to co--opt the criminal justice system merely to enforce private economic interests. In this regard, the bill engages in overkill.

In conclusion, protection of trademarks----a meritorious goal----can better be achieved through other means than criminal penalties.

I nonetheless supported the bill in full Committee because I felt that a sustained effort was made by the Subcommittee Chairman to draw a delicate balance between the competing interests involved in the legislation.

98th Congress, 2d Session

To clarify the circumstances under which a trademark may be canceled or considered abandoned

SEPTEMBER 20, 1984

Mr. KASTENMEIER (for himself, Mr. RODINO, Mr. FISH, MOORHEAD, Mr. HYDE, Mr. DE WINE, Mr. KINDNESS, and Mr. SAWYER) introduced the following bill; which was referred to the Committee on the Judiciary

FOOTNOTES:

(n1) Footnote 1. See, e.g., H.R. 5929 (a bill that would amend the Federal Trade Commission Act to make trafficking in counterfeit goods and services a specific violation of the FTC Act. FTC authority to seize or order detention of such counterfeit goods, as ordered House Committee on Energy and Commerce.

(n2) Footnote 2. H.R. 5525 (the Semiconductor Chip Protection Act) and H.R. 5938 (the Record Rental Amendment of 1984). H.R. 5525 passed the House on June 11, 1984, by a vote of 38a decision was made to solve identified problems with civil and administrative remedies.

(n3) Footnote 3. Comment to section 102, Final Report to the National Commission on Reform of the Federal Criminal Laws (1971).