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INTELLECTUAL PROPERTY



COPIED: A stainless steel Cartier watch (right) altered by a defendant was deemed a counterfeit of a white gold Cartier watch (left).



COUNTERFEITS BEYOND THE KNOCKOFF

Courts are ruling that some goods are counterfeit even when they bear 'legitimate' trademarks.

By Grant P. Fondo and Emily F. Burns
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COUNTERFEITING IS AN ENORMOUS PROBLEM for businesses, consumers and law enforcement. The federal government estimates that counterfeit goods account for approximately \$500 billion in sales each year, or

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roughly 7% of global trade, and cost the United States an estimated \$200 billion each year. In addition to the monetary impact, deficient counterfeit pharmaceuticals, nutritional supplements and industrial equipment can cause serious personal harm. Trafficking in counterfeit goods is an old problem, but Congress, the courts and litigants are increasingly thinking outside the box to bring new solutions to the problem by expanding upon traditional notions of what is "counterfeiting" and by giving civil and criminal enforcement new weapons and remedies to combat this growing problem.

In March, Congress enacted the Stop Counterfeiting in Manufactured Goods Act (SCMGA). Congress, in enacting this

landmark legislation, sought to update criminal counterfeiting laws and put more bite into enforcement actions by expanding the scope of actions deemed illegal and adding several new remedies, including destruction of the property used to produce the counterfeit products and restitution to the injured mark owner.

First, the SCMGA filled in a gap of prior counterfeit law, which had permitted the creation and shipment of counterfeit labels and packaging so long as they were not attached to any goods. The new law now makes criminal the trafficking "of labels, patches, stickers, wrappers, badges, emblems, medallions, charms, boxes, containers, cans, cases, hangtags, documentation, or packaging of any type or nature, knowing that a counterfeit mark has been applied thereto." 18 U.S.C. 2320(a).

By classifying these items as counterfeit, Congress explicitly overruled the decision of *U.S. v. Giles*, 213 F.3d 1247 (10th Cir. 2000), which held that the trademark laws did not prohibit counterfeit labels, packaging and the like when the item bearing the registered marks was not attached to the sold goods. H.R. Rep. No. 109-68, at 215 (2005). Thus, counter-

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feiters would take advantage of this loophole in the law by making labels or packaging bearing registered trademarks (such as a robin's egg blue Tiffany box) and then use that box to sell inferior products downstream. *Id.* at 213.

Second, SCMGA, although a criminal statute, requires that if a court finds that the government has proven by a preponderance of the evidence that counterfeiting has occurred, it must order the forfeiture of

the counterfeit product as well as any property used to commit or facilitate the counterfeiting, and the destruction of the counterfeit product. 18 U.S.C. 2320(b)(1)-(2). Before, these remedies were left up to the discretion of the court.

Third, if a court imposes a criminal sentence against a counterfeiter, then the court must order the forfeiture and destruction of “any property constituting or derived from any proceeds” as a result of the offense; “any of the person’s property used, or intended to be used,...to commit, facilitate, aid, or abet the commission of the offense;” and “any article that bears or consists of a counterfeit mark used in committing the offense.” *Id.* at § 2320(b)(3).

Fourth, the counterfeiter must provide the mark owner restitution. *Id.* at § 2320(b)(5). In addition to serving as a disincentive for counterfeiters, the SCMGA now gives the injured mark owner an opportunity to recoup at least some of its lost sales without the need to bring a separate, and often expensive, civil action.

The SCMGA’s enactment gives prosecutors and trademark owners a multitude of new approaches and remedies to combat counterfeiting. Yet, the SCMGA is but one part of a trend of expanding trademark owners’ rights.

Historically, references to counterfeit goods invoke thoughts of cheap imitations of Rolex watches and Louis Vuitton bags. However, recent court decisions have expanded upon these traditional notions by broadening the concept of what is a “counterfeit” trademark and providing owners with remedies to more broadly protect their marks. These cases illustrate the emerging tendency of the federal courts to think outside the box, and permit legitimate companies and their counsel to creatively enforce a trademark owner’s important intellectual property. These cases also reaffirm a trademark owner’s fundamental right to exert quality control over goods bearing its marks, and also allow mark owners to avail themselves of the special remedies available in counterfeit trademark litigation, including *ex parte* seizure and impoundment of goods bearing the counterfeit marks, statutory damages of up

to \$1 million per mark and attorney fees.

A trio of Cartier cases

Three recent cases in the U.S. District Court for the Southern District of New York involving the famed jeweler Cartier illustrate that even though a manufacturer may place a “legitimate” trademark on its noncounterfeit goods, subsequent actions by others that lessen the mark owner’s ability to exert quality control over the goods may later render the mark a counterfeit. See *Cartier v. Symbolix*, 386 F. Supp. 2d 354 (S.D.N.Y. 2005); *Cartier v. Aaron Faber Inc.*, 396 F. Supp. 2d 356 (S.D.N.Y. 2005); and *Cartier v. Bertone Group Inc.*, No. 05 Civ. 7230, 2005 WL 3502121 (S.D.N.Y. Dec. 21, 2005).

In ‘Cartier’ cases, watches were found to deceive the public.

Cartier manufactures watches made of stainless steel, yellow gold and white gold. Cartier also sells a more expensive watch with diamonds and yellow or white gold. Cartier does not manufacture stainless steel watches with diamonds. In three separate cases, Cartier determined that a defendant had placed diamonds on the bezel of a stainless steel watch and polished the stainless steel to make it appear more like white gold. The defendants in *Faber* and *Symbolix* sold these watches at stores, while the defendant in *Bertone* sold them on eBay. All of the stainless steel watches with the diamonds placed on the bezel bore the “Cartier” trademark, as each of the “new” watches was created from an authentic Cartier stainless steel watch.

In each instance, the court enjoined the selling of the stainless steel-diamond encrusted watch, even though the defendant had not placed the allegedly “counterfeit” mark on the watch. The court in *Faber* found this fact to be of no consequence, stating: “When an original mark is attached to a product in such a way as to deceive the public, the product itself

becomes a ‘counterfeit’ just as it would if an imitation of the mark were attached.” *Faber*, 396 F. Supp. 2d at 359-60 (quoting *Westinghouse Elec. Corp. v. General Circuit Breaker & Electric Supply Inc.*, 106 F.3d 894, 900 (9th Cir. 1997)). A customer or secondary purchaser or viewer could directly attribute to Cartier any flaws in the workmanship or quality of the watch resulting from the defendant’s alteration. Because Cartier neither undertook the alterations, nor had the opportunity to inspect the goods between alteration and sale, the defendant’s actions deprived Cartier of the essential ability to control the quality of its goods, thus rendering the mark a counterfeit.

In *Symbolix*, the defendant insisted that the modifications were at the customer’s request and that as such, there could be no likelihood of confusion, since the customer was aware that the watch had been altered. The court rejected that argument, stating that the sale of “enhanced” stainless steel Cartier watches designed to simulate the look of the more expensive watches constituted trademark counterfeiting because the defendants concealed the fact that the alterations were unauthorized, and thus, unsupervised, by Cartier.

In this trio of Cartier cases, the courts pushed the envelope of what can be considered a “counterfeit” by permitting a trademark owner to seek counterfeit damages even when the mark owner itself had placed the mark on the goods, and although the mark itself was not an “imitation” of a trademark. Here, Cartier’s loss of control over the quality of the work performed on the watches and, thus, the potential for low quality of the ultimate product, was the linchpin of trademark protection that, once lost, turned a legitimate mark into a counterfeit.

Similar ruling in ‘Abercrombie’

Another district court, the Southern District of Ohio, in *Abercrombie & Fitch v. Fashion Shops of Kentucky Inc.*, 363 F. Supp. 2d 952 (S.D. Ohio 2005), applied a similar rationale as in the Cartier cases to find that the sale of goods manufactured for but not approved by a trademark holder constitutes the sale of nongenuine and, therefore,

counterfeit products.

Abercrombie & Fitch is a mid- to high-end retail clothing store that markets to a younger clientele. It manufactures all of its clothing overseas and inspects the clothing in its distribution center in Ohio. Only articles that pass the inspection process are permitted to be sold in Abercrombie stores. Abercrombie allows its manufacturers to sell the rejected merchandise under certain restrictions, according to Abercrombie's "Sell-Off Compliance Agreement." Under this agreement, rejected merchandise may not be sold in the United States, and Abercrombie must approve the final destination. Also, the agreement required all brand names on labels and hangtags to be removed or blacklined, thus distancing the inferior goods from the "Abercrombie" brand.

Abercrombie determined that the defendant was selling goods that had been rejected in the inspection process. Since the defendant had not signed a sell-off compliance agreement, and had not blacklined the "Abercrombie" name on any of the merchandise, Abercrombie sought damages for trademark infringement and counterfeiting.

The court's decision in *Abercrombie* hinged on the concept of "genuine" goods. The defendant argued that Abercrombie could not preclude it from selling merchandise manufactured by a legitimate Abercrombie supplier, citing the trademark truism that there can be no trademark infringement when an alleged infringer sells genuine goods, even if the trademark owner has not authorized the sale of such goods. In enjoining the sale of the rejected goods, the court focused on the quality-control aspects of Abercrombie's inspection process, and its importance to Abercrombie's brand and goodwill. The court found it important that the quality of the goods that were subject to the sell-off compliance agreement was materially different from the quality of the goods that passed inspection. This material difference, and its consequences for quality control, were punctuated by the fact that the agreement required blacklining of the "Abercrombie" brand so as to distance the goodwill behind

the brand from the poor quality of the rejected goods.

Thus, similar to the Cartier cases, the court looked beyond the typical counterfeiting paradigm of blatant knockoffs. It instead focused on the need for a trade-

Court focused on quality-control interests of owner.

mark owner to control the quality of the goods sold under its mark, and the consequences of the representation that a mark makes to the consuming public when the underlying goods have been altered, or fail to meet the quality standards set forth by the mark owner.

Certification marks

The 9th U.S. Circuit Court of Appeals recently held in a case of first impression that the unauthorized use of a certification mark entitled the certifying entity to remedies available under anti-counterfeiting law. See *State of Idaho Potato Commission v. G&T Terminal Packaging Inc.*, 425 F.3d 708 (9th Cir. 2005). By expanding the protection of the counterfeiting law to certification marks, this case reflects a natural progression of the connection between counterfeit marks and quality control in the expansion of this doctrine.

A certification mark is distinct from an ordinary service mark or trademark in that it does not serve to distinguish a specific producer of goods, but rather represents a certification of some characteristic that is common to the goods or services of many different producers. A certification mark informs purchasers that the goods or services of a person or entity meet certain qualifications or standards established by another person or entity, a well-known example being the "Good Housekeeping Seal of Approval."

The 9th Circuit in *State of Idaho Potato Commission* recognized that this unique quality-control function of certification marks had a natural impact upon the expanding notion of a "counterfeit" mark.

In this case, the plaintiff, the Potato Commission, was a statutorily created agency formed for the purpose of promoting Idaho potatoes. The commission financed its work by licensing several certification marks for Idaho potatoes including "Idaho" and "Grown in Idaho." The defendant, a former licensee of the commission's certification marks, continued to sell potatoes in bags bearing the certification marks after its license had expired.

The court noted that, in the certification context, the mark owner's ability to institute and maintain quality control measures was vital for the certification mark to serve its unique purpose. This is especially so when the entire purpose of a certification mark is to represent to the public that the goods upon which the mark appears meet a certain set of qualifications or standards. The court concluded that the defendant's use of the certification mark represented that its potatoes had been produced and distributed in accordance with the commission's guidelines, when in fact the potatoes had not been certified to comply with those guidelines. The court concluded that this use of the mark struck at the heart of the unique function of a certification mark, stating: "Thus, the qualities that distinguish a certification mark from a trademark weigh in favor of making § 1117's statutory penalties [counterfeit penalties] available in cases like this one, where an ex-licensee intentionally makes unauthorized use of a certification mark." *Id.* at 722.

Congress and the courts are not sitting idly by while sophisticated counterfeiters and other trademark infringers use the conveniences of a modern age to ply their trade. By expanding the notion of what is a "counterfeit," and by arming both law enforcement and civil litigants with new tools for fighting counterfeiters, Congress and the courts have better enabled trademark owners to creatively protect their rights. **NLJ**

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