Using Creativity to Fight a $60 Billion Consumer Problem - Counterfeit Goods

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Using Creativity to Fight a $60 Billion Consumer Problem -- Counterfeit Goods

By Maxim H. Waldbaum and Xuan-Thao N. Nguyen

I. Introduction

For centuries, consumers have been willing to pay exorbitant prices for unique or premium-quality goods. Throughout the evolution of the "designer label" market, counterfeiters have lurked in the shadows of the economic landscape. Thus, the problem of counterfeit goods represents nothing new in the global economy. However, the recent onslaught of technological advances in communications and manufacturing has fueled extraordinary growth in the counterfeit goods industry. The sale of counterfeit goods costs the United States an estimated $200 billion annually, including unpaid taxes and lost jobs. Each year, domestic producers and distributors absorb an estimated $60 - $80 billion of this cost and pass most of it on to consumers in the form of higher prices.

A. Utilizing Creativity as a Weapon Against Counterfeiting

Combating this pervasive problem requires creativity. Trademark owners can use creativity to fight counterfeiters in: (1) selecting potential targets; (2) utilizing appropriate enforcement methods; and (3) pooling resources to maximize protection of trademarks.

1. Creative Target Selection

When selecting persons to pursue for counterfeiting, trademark owners should not focus all their attention on the sellers of counterfeit...
goods. Instead, trademark owners should also pursue others who form vital links in the chain of counterfeiting, such as landlords and swap meet operators. Trademark owners can maximize the success of enforcement efforts by casting a wide net covering a broad range of targets. After identifying potential targets, trademark owners must decide how best to proceed against each defendant.

2. Using Appropriate Enforcement Techniques

Some trademark enforcement mechanisms have proven most effective against sellers of counterfeit goods. For example, the treble damages provision in 15 U.S.C. §1117(b) exposes sellers of counterfeit goods to substantial penalties. In Section III(A), this article analyzes how trademark owners have utilized this weapon in bringing counterfeiters to justice. Similarly, ex parte seizures allow trademark owners to collect and preserve evidence of counterfeiting before sellers of counterfeit goods can destroy, move, or hide it. Section III(B) of this article examines how trademark owners employ this device without violating the alleged counterfeiters' Constitutional rights.

Several enforcement techniques are not useful in directly pursuing sellers of counterfeit goods. However, these devices are effective tools in proceeding against individuals, such as landlords and flea market operators, who furnish facilities and support to sellers of counterfeit goods. In New York, for example, trademark owners can bring summary holdover proceedings against a landlord who knowingly rents to tenants utilizing the premises to conduct counterfeiting operations. This device voids the lease and allows the landlord to evict the tenant from the premises. The New York statutes subject the landlord to stiff civil penalties and attorney's fees if he fails to take possession in a timely manner. Section IV(A) of this article explores how trademark owners utilize summary holdover as a powerful weapon in pursuing landlords harboring counterfeiters.

Similarly, the doctrine of contributory liability provides trademark owners with another powerful tool against individuals who provide the facilities where counterfeiting takes place. Section IV(B) analyzes how trademark owners utilize contributory liability doctrine against swap meet operators or flea market owners.

II. Outline of the Legal Framework

A. Using the Lantham Act to Fight Counterfeiting

To protect trademark owners and consumers from the evils of counterfeiting, the United States Congress enacted a comprehensive statute in 1946 governing trademarks. This statute, commonly known as the Lanham Act, defines a counterfeit as "a spurious mark which is identical with, or substantially indistinguishable from, a registered mark." Although this article does not purport to contain a detailed or exhaustive analysis of the Lanham Act, two portions of the statute merit specific mention at the outset, the treble damages provision and the provision allowing ex parte seizure orders.

1. The Treble Damage Provision - 15 U.S.C. §1117(b) In 1984, Congress amended the Lanham Act to provide for treble damages against defendants in actions for trademark infringement. Section IV(A) of this article explores how trademark owners utilize summary holdover as a powerful weapon in pursuing landlords harboring counterfeiters.

Similarly, the doctrine of contributory liability provides trademark owners with another powerful tool against individuals who provide the facilities where counterfeiting takes place. Section IV(B) analyzes how trademark owners utilize contributory liability doctrine against swap meet operators or flea market owners.
dants who "intentionally use[e] a mark or designation, knowing such mark or designation is a counterfeit mark . . . in connection with the sale, offering for sale, offering for sale, or distribution of goods or services." The 1984 amendment thus enhanced the potential recovery of trademark owners who could establish a defendant's intentional and knowing sale of counterfeit goods. Accordingly, §1117(b) serves as a powerful weapon in the fight against counterfeiters.


Similar to the treble damages provision, §1116 also provides trademark owners with an effective tool: ex parte seizure orders. Trademark owners use seizures to gather evidence of alleged counterfeiting. By seizing records and counterfeit goods before the defendant can destroy or hide them, trademark owners preserve key evidence. Typically, parties seeking court approval for a seizure must give a defendant notice of the proceedings. The court usually hears evidence from both sides before deciding whether to grant these requests. In the counterfeit goods context, however, notice can alert defendants to an impending seizure; counterfeiters can then take advantage of this opportunity to move, destroy, or hide all evidence of their infringing activities. The ex parte seizure order is designed to alleviate this problem by allowing trademark owners to seek judicial authorization to seize goods without notifying the defendants.

Section 1116 authorizes ex parte seizure of counterfeit goods and related documents to prevent counterfeiters from destroying or concealing counterfeit goods in anticipation of litigation. To grant an ex parte seizure order, court must find that: (1) no adequate alternative remedy is available; (2) the trademark owner has not publicized the requested seizure; (3) the trademark owner is likely to succeed in showing that the alleged counterfeiter used a counterfeit mark; (4) immediate and irreparable injury will result if the court denies the seizure; (6) the harm to the trademark owner outweighs the harm to the alleged counterfeiter; and (7) the alleged counterfeiter would destroy, move, hide, or otherwise make the alleged counterfeit goods inaccessible if the trademark owners provide notice. Section 1116 thus preserves the element of surprise for trademark owners by enabling them to secure authorization to seize goods without notifying the alleged counterfeiter and is a valuable tool in creative enforcement of anti-counterfeiting laws.

B. Mechanisms for Reaching Other Individuals Involved in Counterfeiting — Provisions and Contributory Liability

State legislatures have also tackled the counterfeiting problem by enacting legislation targeting individuals, such as landlords, who provide facilities for counterfeiters. New York's "summary holdover" statutes illustrate this approach.

A "summary" proceeding is a type of lawsuit in which courts dispense with most of the legal formalities and focus on resolving the issue at hand quickly. The term "holdover tenancy" signifies a tenancy at sufferance, which comes into existence when a tenant who at first lawfully possesses the premises "holds over" beyond the term of the lease, or occupies the premises without legal authority. New York's summary holdover statutes permit landlords to initiate eviction proceedings in summary fashion when the tenant utilizes the
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premises to carry on an illegal activity.\textsuperscript{15} If the landlord fails to initiate such proceedings in a timely fashion, the New York statute exposes the landlord to forfeiture proceedings.\textsuperscript{16} Landlords can protect against such proceedings by using summary holdover proceedings to evict tenants who use the premises for illegal activities. Trademark owners should encourage landlords to use these types of summary proceedings in their creative enforcement.

Courts have also taken the initiative in pursuing individuals, such as flea market operators, who do not sell counterfeit merchandise, but who provide facilities and support to counterfeiters. For example, in Inwood Laboratories, Inc. v. Ives Laboratories, Inc.,\textsuperscript{17} the Supreme Court first recognized contributory trademark liability. The Inwood court established that:

if a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorily [sic] responsible for any harm done as a result of the deceit.\textsuperscript{18}

Since the decision in Inwood, courts have applied the contributory trademark liability doctrine to reach more remote links in the counterfeiting chain, such as flea market operators or swap meet owners.\textsuperscript{19} Accordingly, trademark owners should employ this device when pursuing these more remote links in the counterfeiting chain.

III. Pursuing Sellers of Counterfeit Merchandise

A. Willful Blindness as a Basis for Imposing Treble Damages

As explained above, Congress enacted § 1117(b), the treble damages provision in 1984. This provision allows trademark owners to recover treble damages when they can prove that a defendant intentionally used a mark, knowing the mark was counterfeit, in connection with the sale, offering for sale, or distribution of goods or services.\textsuperscript{20} Although this provision offers trademark owners the potential bonanza of treble damages, it also imposes substantial hurdles. Proving that the defendant knew the mark was counterfeit represents the most significant hurdle. In 1989, the United States Court of Appeals for the Seventh Circuit decided Louis Vuitton S.A. v. Lee; the court’s well-reasoned opinion in that case identified the knowledge required to establish a shop owner’s “knowing” use of a counterfeit mark.\textsuperscript{21}

In Louis Vuitton, the French manufacturer of luxury handbags and swank luggage sought an injunction and treble damages against shop owners who sold counterfeit goods. To combat counterfeiters, Louis Vuitton’s counsel hired a private investigator to visit K-Econo, a shop owned by the defendant. The investigator and a Gucci employee purchased counterfeit Louis Vuitton and Gucci camera cases at a fraction of the price of the genuine items and paid for them with a credit card.\textsuperscript{22} Armed with credit card evidence and the testimony of the purchasers, Louis Vuitton filed the suit and obtained an ex parte order to seize articles of counterfeit Louis Vuitton and Gucci merchandise from the shop.\textsuperscript{23} The defendant shop owners admitted that they sold counterfeit goods, but argued that they were innocent infringers.\textsuperscript{24}
The factual twist in this case occurred at trial when Vuitton's investigator, Melvin Weinberg, testified. The defendant shop owners attacked Weinberg's credibility because he was unable to describe the shop on cross-examination. The district court found Weinberg "lacked credibility and actually came close to committing perjury" and entered judgment for the shop owners.

In entering judgment for the shop owners, the trial court focused on Weinberg's colorful history. An "ex-criminal-turned-informant who continued to commit felonies while in the government's employ," Weinberg's "talent for fraud, perjury, and other misconduct drew considerable comment" in the 1970's Abscam scandal. Abscam involved an undercover FBI sting operation in which Weinberg and three FBI agents posed as representatives of Abdul Enterprises, Ltd., an organization purportedly backed by two wealthy Middle Eastern sheiks. The undercover operatives "let it be known" that the sheiks were "interested in investing money in . . . and immigrating to [the United States]." To further this fictitious purpose, the undercover operatives bribed several U.S. Congressmen to introduce special immigration bills designed to permit the sheiks to remain in the country and to intervene with the State Department on the sheiks' behalf. The Abscam sting involved extensive use of concealed videotape cameras and microphones. Where the use of videotape was not feasible, Weinberg and the FBI utilized audio recordings. In Louis Vuitton, this background information reinforced the trial court's distrust of Weinberg. Weinberg also attracted criticism for his sporadic memory and dubious motives, leading another court to brand him "dishonest and deceitful."

On the legal issues, the lower court found for the shop owners upon determining that they did not "intentionally use[e] a mark or designation [was] a counterfeit mark." Thus, the lower court denied Louis Vuitton's request for treble damages under Section 1117(b). Unfortunately, most courts are reluctant to apply Section 1117(b) against counterfeiters. The trial court in Louis Vuitton provides an excellent example; it sympathized with the infringer and found extenuating circumstances including the "small, unsophisticated" nature of the defendant shop owners. Accordingly, the lower court refused to allow Louis Vuitton to "use the laws as a sword, and their millions as a mace . . . to crush" such infringing merchants, and denied Louis Vuitton's request for injunction and monetary relief.

On appeal, Judge Posner of the Seventh Circuit, writing for the majority, articulated the classic dilemma trademark owners face daily: Most of the [infringers] are small retailers, such as K-Econo. Obtaining an injunction against each and every one of them would be infeasible. Trademark owners cannot hire investigators to shop every retail store in the nation. And even if they could and did, and obtained injunctions against all present violators, this would not stop the counterfeiting. Other infringers would spring up, and would continue infringing until enjoined.

Furthermore, Posner explained that Congress had addressed the ordeal trademark owners must confront in their battles against counterfeiting. Specifically, Congress enacted 15 U.S.C. § 1117(b), the treble damage provision. According to the court, this provision armed trademark owners with a "suitable remedy in cases where surreptitious violations are possible, for in such cases simple damages will underdeter [sic]."
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Judge Posner exhibited no reluctance in reversing the trial court. He found that the trial court committed clear error in finding the defendant shop owner’s use of the mark was not a knowing use. Furthermore, Posner held that willful blindness can support a treble damage award. A person is willfully blind when he “suspect[s] wrongdoing and deliberately fail[s] to investigate.” The Seventh Circuit explained that the shop owner must have known that the goods she was peddling displayed counterfeit Louis Vuitton and Gucci marks.

Knowing as she must have that Vuitton and Gucci are expensive brand-name goods unlikely to display poor workmanship, to be lined with purple vinyl, and to be sold by itinerant peddlers at bargain-basement prices, [the shop owner] was obligated at the very least to ask her supplier whether the items he was selling her were genuine Vuitton and Gucci merchandise or counterfeit.

Thus, according to the Seventh Circuit, “willful blindness is [thus] equivalent to actual knowledge for purposes of the Lanham Act” and can support treble damages awarded under Section 1117(b).

Fortunately for Louis Vuitton, Weinberg’s notoriety intrigued the Seventh Circuit, which disagreed with the district court’s findings about his credibility. Judge Posner noted that after Abscam, Weinberg found a new career as an undercover agent fighting trademark counterfeiters, and courts had held his testimony in trademark cases credible. Thus, the court proclaimed “[w]e await [Weinberg’s] next performance with interest,” and held Weinberg’s testimony credible in the present case.

The Seventh Circuit’s Louis Vuitton holding arms trademark owners with a powerful weapon for combating counterfeiters. According to the court, retailers’ willful blindness can justify a treble damage award, even if their acts were unintentional. Willful blindness prohibits retailers from turning a blind eye to all indications of counterfeit products and infringement. Thus, this device evens the playing field between trademark owners and shop owners peddling counterfeit goods.

B. Proper Ex Parte Seizures Preserve the Element of Surprise

Trademark owners frequently use seizures of merchandise to obtain and preserve evidence of a defendant sellers’ counterfeiting activity. Ex parte seizures occur only when the complaining party has presented evidence to the court. A court may grant an ex parte seizure order to a plaintiff in a counterfeit claim when the plaintiff presents some evidence of counterfeiting and seeks further proof. The issuing court usually grants authority to a United States Marshal, a deputy Marshal, or a private investigative company to enter the premises of the alleged counterfeiters to search for, seize, and impound counterfeit merchandise and materials used in producing the counterfeit goods. These seizures are governed by 15 U.S.C. § 1116, which requires the plaintiffs requesting ex parte seizure orders to ensure that the order will not violate the Fourth Amendment’s prohibition against unreasonable searches and seizures. In addition, ex parte seizure orders often involve challenges based on the Fifth Amendment, which protects defendants against self-incrimination.

Recently, in Time Warner Entertainment Co., L.P. v. Does #1-2, Judge Sifton of the Eastern District of New York denied a request for an ex parte order because the proposed
seizure violated the Fourth Amendment. This case dealt with alleged copyright and trademark infringement of the “Looney Tunes” and “Mighty Morphin Power Rangers” characters. In the requested ex parte order, Time Warner sought authorization to search defendants’ premises and any inventory and to seize infringing products that were like plaintiffs’ copyrighted designs and trademarks. Time Warner also sought authorization to seize material or equipment that could be used to manufacture infringing products and any business records “believed to concern the manufacture, distribution, purchase, advertising, sale or offering for sale of any labels, tags, logos, decals, emblems, or other markings and any products bearing [Time Warner’s] Copyrighted Designs and/or Trademarks.” Furthermore, Time Warner requested authorization for the investigators to break into the premises, “including locked or unlocked vehicles, rooms, closets, cabinets, containers, and desks.”

In considering Time Warner’s request for an ex parte seizure order, the court cited a well-settled rule that “seizures pursuant to civil actions are subject to Fourth Amendment scrutiny.” After subjecting Time Warner’s request to strict scrutiny, the court held that Time Warner’s proposed order violated the Fourth Amendment in several respects.

First, the court found that seizures must be effected by a United States Marshal or other law enforcement officer. The court held that plaintiffs’ request for a search and seizure conducted by private investigators would violate the Fourth Amendment and directly contravene the Second Circuit’s recommendation in Warner Bros. Inc. v. Dae Rim Trading, Inc. In Dae Rim Trading, the Second Circuit expressed its disapproval of a search and seizure conducted by a private agent in a search and seizure. Thus, Dae Rim Trading suggests that a private investigator conducting the search should enlist the help of a U.S. Marshal or other law enforcement officer to ensure a lawful seizure. In Time Warner Entertainment, the court adopted this reasoning in finding that Time Warner’s proposed seizure order violated the Fourth Amendment.

Second, the court in Time Warner Entertainment concluded that Time Warner failed to identify with sufficient particularity the premises to be searched. Furthermore, the court held that the proposed order also violated 15 U.S.C. § 1116(d)(4)(B)(v), which requires the request for seizure to contain a statement that the counterfeit goods will be found at the location specified. Time Warner failed to specifically identify the premises to be searched, and its declarations indicated personal knowledge of only two locations (those of Jane Does #1 and 2) where infringing goods were known to be produced or stored. Nonetheless, Time Warner sought an order allowing its agents to seize infringing items at any location in New York which defendants possessed or controlled. For example, Time Warner asked for permission to search a specific private residence. However, Time Warner failed to state in its affidavit that infringing merchandise was located there. The court found this search request too broad and explained that “physical entry of the home is the chief evil against which the wording of the Fourth Amendment is directed.”

Next, the court held that Time Warner’s requested order identified the items to be seized in an broad fashion. The proposed order covered all of plaintiffs’ trademarks and did not contain specific references to the “Looney Tunes” or “Power Rangers” marks. Accordingly, the court held that this defect also violated the Fourth Amendment.

Time Warner Entertainment also raised a Fifth Amendment issue. In its request for an ex parte seizure order, Time Warner specifically...
named Jane Does #1-2 under seal. However, Time Warner did not know the identities of John Does #1-10. Time Warner described these unknown parties entities or individuals who were principals, supervisory employees, or suppliers of defendants Jane Does 1 and 2. In its request for the order, Time Warner asked the court to direct the defendants to provide the unknown defendants’ correct names, residential addresses, and telephone numbers. The defendants complained that such disclosure would violate their Fifth Amendment right against self-incrimination. The court rejected this defense on other grounds, but noted that it could raise a Fifth Amendment issue.

The decision in *Time Warner Entertainment* highlights the risk of Constitutional problems, which accompany the use of *ex parte* seizure orders. Even though *ex parte* seizure orders raise some Constitutional issues, they can still be a valuable tool in the creative enforcement of anti-counterfeiting laws. Trademark owners should still include these orders in their arsenal of attack against counterfeiters; however, trademark owners should be careful to draft their proposed *ex parte* orders so that they do not violate the court's directives in *Time Warner Entertainment*. To utilize this tool effectively, trademark owners must exercise caution to avoid Constitutional violations which could invalidate the proposed seizure.

### IV. Exposing Other Links in the Counterfeiting Chain

In the fight against counterfeiters, trademark owners should target all individuals involved in counterfeiting activity, not just sellers of counterfeit merchandise. Two theories of liability allow trademark owners to pursue these "secondary" links in the counterfeiting chain:

- Contributory trademark liability and summary holdover.

#### A. Targeting Landlords with Summary Holdover

Trademark owners should be familiar with summary holdover, another powerful tactic utilized in fighting counterfeiters. This approach to fighting counterfeiting via eviction is demonstrated by a recent New York case, *1165 Broadway Corp. v. Dayana of N.Y. Sportswear, Inc.* In this case, Judge Bransten held that a landlord can commence summary holdover proceedings against tenants when tenants use commercial premises for the illegal manufacture and sale of counterfeit goods. This constitutes a new ground for eviction pursuant to New York's Real Property Law.

In *1165 Broadway Corp.*, the landlord sought possession of several rooms at 1165 Broadway, New York City, after police officers purportedly recovered counterfeit goods valued in excess of $1,000 in each room. The landlord asserted that, pursuant to New York’s law, the possession for sale of counterfeit trademark items is an illegal trade, manufacturer, or business which voids any lease with the tenant counterfeiters.

Prior to the summary holdover proceeding, the New York County District Attorney’s Office brought a forfeiture proceeding against the landlord on the ground that 1165 Broadway was being used for the manufacture, distribution, sale and/or storage of illegal, unauthorized and counterfeit items. The landlord entered into a settlement with the District Attorney’s Office, agreeing to cooperate with the Office in pursuing the tenant counterfeiters. At the Office’s request, the landlord commenced a summary holdover action against the tenants. The tenants moved to dismiss the case by contending that the New York legislature did
not intend the statutes in question to be applied when landlords allege that premises are being used for the illegal manufacture and sale of counterfeit trademark goods. Contrary to the tenants' contention, Judge Bransten found nothing in the case law or legislative history preventing application of the statutes to an illegal business involving sale and storage of counterfeit goods. Therefore, the judge denied the tenants' motion to dismiss.

1165 Broadway Corp. highlights the results that trademark owners can achieve by using creativity as a weapon. Before this case, no trademark owner had ever utilized summary holdover to reach landlords harboring counterfeiters. However, the trademark owner in 1165 Broadway Corp. did not allow this lack of precedent to obstruct its efforts. As a result of this creative use of summary holdover, the trademark owner achieved protection of its mark, and consumers ultimately benefited by avoiding the ultimate cost of the tenants' counterfeiting activities.

B. Using Contributory Liability to Reach Flea Market Operators

As explained above, the Supreme Court's Inwood Laboratories decision established contributory trademark liability as a tool for individuals who represent more remote links in the chain of counterfeiting. Unfortunately, the clear ruling in Inwood Laboratories does not explain how contributory trademark liability applies to individuals like an owner of a swap meet, who does not actually manufacture or distribute the counterfeit products. In 1992 the United States Court of Appeals Seventh Circuit shed some light on this gap by deciding Hard Rock Cafe Licensing Corp. v. Concession Services, Inc.

In Hard Rock Cafe, the Seventh Circuit addressed this gap by looking to the common law for guidance and found that the common law imposes the same duty on landlords or licensors that the Inwood court imposed on manufacturers and distributors. Thus, the Seventh Circuit applied the Inwood test to a flea market operator. The Hard Rock Cafe case provides an excellent illustration of this process.

In Hard Rock Cafe, the trademark owner retained National Investigative Services ("NISCOR") to search for counterfeit goods. NISCOR visited flea markets owned by Concession Services ("CSI"), and observed vendors selling more than a hundred "Hard Rock Cafe" t-shirts. Further investigation revealed that CSI owned and operated several flea markets and generated revenue from space rental, admission fees from shoppers, and reservation and storage fees from vendors who reserved space on a month-to-month basis. CSI advertised on its property and provided overall management of the premises. On several occasions, investigators seized counterfeit goods at CSI's flea markets without informing or involving CSI. Although CSI later learned of these seizures, it failed to investigate any of the violations. For example, CSI's manager once observed vendors selling Hard Rock Cafe T-shirts with cut labels at reduced prices; however, the manager took no action. The court found no fault with the manager's conduct, and explained that "there does not seem to be any particular reason to believe that inexpensive T-shirts with cut labels are obviously counterfeit, no matter what logo they bear." The court noted that CSI's manager did not ask vendors whether their goods were counterfeit. Therefore, the court refused to find that the manager "suspected the shirts to be counterfeit," and labeled such a conclusion "at best, thin." Accordingly, the court held that "because the [lower court's] findings fail to
establish that CSI knew or had reason to know that [the accused seller of counterfeit merchandise] was selling counterfeits, we must vacate the judgement against CSI and remand for further proceedings.  "

Creative enforcers must absorb the lesson of Hard Rock Cafe: the plaintiff bears the ultimate burden to establish that a flea market owner knew, or should have known, of the tenant's violation, but failed to investigate. The trademark owner's investigation should focus on establishing the flea market operator's reason to know. Additionally, enforcers should put flea market operators and swap meet owners on notice so that if further activity is discovered, the enforcers can link these individuals to the counterfeiting operation through contributory liability.

V. Creative Solutions and Collective Efforts to Fight Counterfeiting

Understanding current law and its limitations represents an important first step in creative enforcement. Trademark owners will increase their success rate by pooling their resources and distributing the financial burdens of creative enforcement. Furthermore, successful creative enforcement programs require financial investment in thorough, coordinated investigations and simultaneous multiple-site raids. These devices should drastically reduce the lost profits suffered by manufacturers and the associated costs passed on to consumers in the form of higher prices. In addition, these creative efforts minimize consumer exposure to lower quality goods, and even dangerous products, peddled by counterfeiters.

A. Costs and Burdens of Creative Enforcement

Trademark owners must make substantial financial investments to craft successful anti-counterfeiting projects. These costs will inevitably be passed on to consumers. However, the financial burden of simultaneous multi-site raids and increased enforcement budgets should result in ultimate consumer benefit because of the resulting safer products and possible price reductions due to fewer profits lost to counterfeiters.

1. Simultaneous Multi-Site Raids

To be successful, investigators should conduct coordinated raids simultaneously in several locations. Additionally, creative enforcers should review phone messages and facsimiles to ensure coverage of all locations and potential defendants. Address books can prove very important and useful if promptly reviewed at the point of seizure; they reveal the identity of the counterfeiter's business associates. Furthermore, investigators should follow-up on this new evidence immediately by personally investigating new locations to obtain additional ex parte seizure orders and search warrants. Prompt and successful follow-up can maximize the effectiveness of additional seizures before counterfeiters can react by destroying evidence at these locations.

When trademark owners pool resources to coordinate their raiding efforts, the chances of success are maximized. For example, Louis Vuitton and Chanel raided six California factories and had more than twenty people arrested on suspicion of counterfeiting merchandise and possession of counterfeiting materials. In another example, federal and
local law enforcement officials in Dallas raided three locations simultaneously: a store, a nearby warehouse, and a car. The raid netted huge quantities of counterfeit goods, including: Rolex and Guess watches, Ray Ban, Oakley, and Revo sunglasses, Chanel handbags and scarves, Dooney & Burke metal key chains, Mont Blanc pens, and Polo Ralph Lauren shirts.88

Even when a trademark owner conduct multi-site, simultaneous raids on its own, the results can prove stunning. For example, Microsoft recently seized $20 million in counterfeit software in multiple raids in the Los Angeles area.89 These raids netted 37,000 blank computer disks in addition to copies of MS-DOS and Windows software.90 Investigators also discovered disk recording machines, shrink-wrap equipment, and an entire software lab.91 These examples illustrate that simultaneous multi-site raids represent an important tool trademark owners can use to uncover counterfeit operations.

2. Increased Enforcement Budgets

Companies are also expanding their legal departments to fight counterfeiters. For example, in 1995, Adidas America, Fila, and Nike increased their budgets for anti-counterfeiting measures. Specifically, Adidas hired two full-time attorneys to handle counterfeiting problems and established programs to educate independent retailers and mass marketers. Fila expanded its legal department from one attorney to four, and focused on lobbying for stricter penalties for counterfeiting in numerous states.92 Nike arranged to have private investigators at the 1996 Summer and Winter Olympics and the Euro ‘96 International Soccer Championships in England.93 By taking the initiative in preventing sales of counterfeit goods, trademark owners can minimize the damage to their profits, and thus to consumers.

B. Collective Efforts Yield the Best Results in the Fight Against Counterfeiters

In the war against counterfeiters, trademark owners should join forces to maximize their resources. This joint effort will save the companies money because investigators can be hired to look for counterfeit goods on behalf of several companies at once. Ultimately, consumers will reap the rewards of this effort in the form of lower prices, safer products, and high quality goods. The Coalition to Advance the Protection of Sports Logos (“CAPS”) has been very successful in combating counterfeiters, and provides an excellent example of collective efforts to fight counterfeiters. CAPS consists of Major League Baseball, the NFL, NBA, and NHL, as well as the Collegiate Licensing Company, a major licensee of sports apparel.94 The Coalition has worked closely with customs and state and federal law enforcement agencies and has led and participated in numerous civil and criminal actions. CAPS has staged successful raids in New York, Chicago, Florida, Los Angeles, Dallas, San Jose, Phoenix, and many other locations, and has seized more than $22 million in counterfeit merchandise.95

Joining forces also allows companies in related industries to pool their resources to target counterfeiters. Adidas, Nike, Reebok, and other manufacturers have cooperated in fighting counterfeiters by brainstorming, exchanging information, and jointly financing investigations.96 Polo Ralph Lauren Corporation and other apparel manufacturers have joined forces in a similar manner.97 The lobbying efforts of these groups have also yielded
some success. For example, Florida recently passed a bill making counterfeiting a felony instead of a misdemeanor.\textsuperscript{98} Similarly, New York recently granted statutory protection, including potential criminal litigation, against counterfeiters.\textsuperscript{99} California's laws have also become more effective in punishing counterfeiters.\textsuperscript{100}

Creative enforcers have improved, refined, and increased their anti-counterfeiting tactics in recent years. Although much has been accomplished, manufacturers and trademark owners will have to continue their efforts to educate the public and law enforcement about the extent and possibly hazardous consequences of counterfeit products. Partnering with other companies by exchanging information, launching investigations, and lobbying legislatures are some of the most effective avenues available to trademark owners in the fight to protect their interests. As creative enforcers find more effective and less expensive ways to jointly combat counterfeiters, consumers will benefit from lower prices and better-quality goods in the marketplace.

VI. Conclusion

To make a dent in the multi-billion dollar counterfeit goods industry, trademark owners must use creativity as a weapon. By casting a wide net in pursuing all the links in the counterfeiting chain, trademark owners can creatively pursue potential targets. Similarly, trademark owners should match the appropriate enforcement tactic to each target. For example, trademark owners can pursue sellers of counterfeit goods by using willful blindness to support a treble damage action. Furthermore, trademark owners can conduct proper \textit{ex parte} seizures to preserve the element of surprise against peddlers of counterfeit merchandise. Also, trademark owners should not ignore individuals forming more remote links in the counterfeiting chain such as landlords and flea market operators. Creative enforcers can utilize summary holdover proceedings to reach landlords who rent to tenants conducting counterfeiting operations on the premises. Trademark owners can expose flea market operators to contributory liability for providing selling areas and support to counterfeiters.

Trademark owners can also pool their resources to maximize protection of their marks, and preserve the ultimate benefits to consumers — lower prices, high quality goods, and safer products. Furthermore, coordinated, multi-site raids yield effective results in attacking the network of people involved in counterfeiting. Companies may jointly utilize private investigators and may share in the cost of lobbying campaigns to provide more effective enforcement of anti-counterfeit measures and stiffer penalties for counterfeiters.

Of course, the more sophisticated the counterfeiters, the more creative the strategy required. Unfortunately, the natural waves of the economy work against the fight to combat counterfeiting. The more popular the sales item, the more likely it is that economics will encourage counterfeiting. These economic facts should not discourage companies from continuing to wage aggressive, creative anti-counterfeiting campaigns. Instead, these harsh realities should reinforce the need for trademark owners to double their efforts and bring creativity to bear in combating this pervasive, expensive consumer problem.

Endnotes

2. See id.


13. See id. at 220, 486.


17. Id.


20. 875 F.2d 584, 590 (7th Cir. 1989).

21. See id. at 590.

22. See id. at 586.

23. See id.

24. See id.

25. See id. at 590.


27. See id. at 912.

28. See id.


30. See U.S. v. Myers, 692 F.2d 823, 827 (2d Cir. 1982).

31. Id. at 827.

32. See id.

33. See id. at 830.

34. See id.


37. Id. at 912.

38. Id.


40. See id.

41. Id.

42. See id. at 590.

43. See id.

44. Hard Rock Cafe, 955 F.2d at 1149.

45. Louis Vuitton S.A. v. Lee, 875 F.2d at 590.
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46. Hard Rock Cafe, 955 F.2d at 1149.
47. Louis Vuitton S.A. v. Lee, 875 F.2d at 590.
48. Id.
50. See id. at 413, 415.
51. See id. at 410.
52. Id.
53. Id.
54. Id. at 412 (citing Soldal v. Cook County, Ill., 506 U.S. 56, 61 (1992)).
55. See id. at 412 (quoting Warner Bros. Inc. v. Dae Rim Trading, Inc., 877 F.2d 1120, 1125 (2d Cir. 1989)).
56. See Dae Rim Trading, 877 F.2d at 1124-26.
58. See id.
59. See id. at 413.
60. Id. (quoting Payton v. New York, 445 U.S. 573, 585 (1980)).
61. See id. at 413.
62. See id. at 414.
63. See id. at 409.
64. See id. at 410.
65. See id. at 414.
67. See id. at 725.
68. See N.Y. REAL PROP. LAW § 231(1); REAL PROP. ACTS. LAW 715 (McKinney 1997).
69. See 633 N.Y.S.2d at 725.
70. See id.
71. See id.
72. See id. at 728.
73. See id. at 729.
74. See Inwood, 456 U.S. at 854.
75. See Hard Rock Cafe, 955 F.2d 1143.
76. See id. at 1148.
77. See id.
78. See id. at 1147.
79. See id.
80. See id. at 1146.
81. See id.
82. See id.
83. See id. at 1149.
84. Id.
85. Id.
86. Id. at 1150.
90. See id.
91. See id.


93. See id.

94. See Larry Borstein, Bogus Apparel Byproduct of Boom // MERCHANDISING: But a Coalition Formed in ‘92 is Working Hard to Thwart the Growth of Unauthorized Sales, The Orange County Reg., Aug. 29, 1995, at D09.

95. See id.

96. See Feitelberg, supra note 92.

97. See id.

98. See Fla. Stat. Ann. § 831.03 (West 1997) (if the retail value of the counterfeit goods is more than $1,000, the offender commits a third degree felony, and if the retail value of the counterfeit goods is less than $1,000, the offender commits a first degree misdemeanor).

99. See N.Y. Penal Law § 165.73 (McKinney 1997) (“Trademark counterfeiting in the first degree is a class C felony ... [if] the retail value of ... [the counterfeit goods] exceeds one hundred thousand dollars”); N.Y. Penal Law § 165.71 (McKinney 1997) (“Trademark counterfeiting in the third degree is a class A misdemeanor ... [if] the retail value of ... [the counterfeit goods] is under one thousand dollars”).

100. See Cal. Penal Code § 350 (West 1997) (An individual who manufactures, possesses, or distributes less than 100 counterfeit articles incurs a fine up to $5,000, imprisonment up to six months, or both fine and imprisonment. If the offense involves less than 1000 counterfeit articles, the individual incurs punishment of a fine up to $5,000, imprisonment for up to one year, or both fine and imprisonment; a corporation guilty of the same offense incurs a fine up to $100,000. When the offense involves more than 1000 counterfeit articles, punishment against an individual is imprisonment in a county jail up to one year, or in the state prison for 16 months, or two or three years; a fine up to $250,000; or by both imprisonment and fine. If a corporation is an offender, the punishment is a fine of up to $500,000).