CORPORATE COUNSEL

Business as Usual

Think of the battle against counterfeiting simply as a normal expense.

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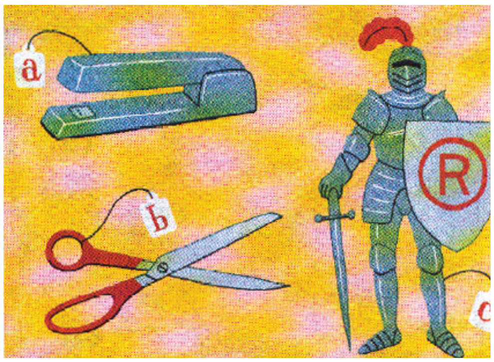

Technology has taken counterfeit ing from a back-alley business to a $500 billion-a-year enterprise. While counterfeiting has existed for thousands of years, the Internet, ease of global shipping, and online payments have brought counterfeiting into every consumer's living room. Indeed, unfettered counterfeit sales are among the most powerful detrimental market forces to a manufacturer. Counterfeits hamper profit, force rapid price erosion, and tarnish the brand's image. What makes a counterfeit seller so dangerous to a manufacturer is the fact that a counterfeiter can sell the manufacturer's product at a price below that manufacturer's cost and still be profitable. With a competitor this strong and disruptive in the marketplace, no longer are counterfeits a localized nuisance; they are the ultimate competitor to today's brand owner.

The foreign or judgment-proof defendant has long been the bane of counterfeit litigation. Companies have exhausted entire legal budgets chasing defendants in mainland China with little or no chance of recovery. While foreign strategies are not without merit, they are expensive and transform the enforcement/legal department into an expensive cost center within a company.

Instead, in-house counsel must resist the urge to view counterfeiting as a legal problem and begin viewing it as an ongoing business problem. Once they recast counterfeiting as an ongoing business reality, in-house counsel should look at their budget and allocate resources toward targets that will have the greatest overall impact.

Rather than attempting to end the battle against counterfeits with the filing of a single knock-out lawsuit, companies should instead counterpunch by raising the costs of doing business for the counterfeiters. A company's goal should not be to put an end to global counterfeiting, but rather to put an end to those ripping off its own brand name. When properly refined, a brand owner's anticounterfeiting program should frustrate the counterfeiters' business model while selecting the most nefarious targets for high impact/deterrence litigation.

It isn't cost-effective to file lawsuits against every counterfeiter. A Web site with 200 page views registered to an individual in Singapore should be a lower priority than a Web site purchasing Google keywords, registered to an individual in Brooklyn. While litigation has its time and place, the consistent use of targeted demand letters to the registrants and Internet service providers (ISPs) for infringing Web sites is a more cost-effective means of deterring low-priority counterfeit behavior. Upon receipt of a demand letter, all reputable ISPs will immediately remove the counterfeit Web page. While this does not stop the manufacturer of counterfeits, it forces sellers to rehost the Web site, with the threat of having it constantly removed. With his business model frustrated, the counterfeiter is now incentivized to counterfeit products of a less vigilant brand owner. Using form demand letters, a manufacturer can cost-effectively knock off low-level counterfeiters, reserving its legal budget for more important targets.

Congress has provided a brand owner with a powerful weapon to wield against counterfeiting. The Lanham Act allows the brand owner to recover up to $2 million in statutory damages for every trademark that is counterfeited. However, many brand owners are clumsy with the weapon and wave it around wildly by filing lawsuits directly against counterfeiters with certainty of liability but not of recovery.

Such tactics usually result in expensive litigation, little return on investment, and a diminished appetite for what is an ongoing fight. But recent trends in counterfeiting jurisprudence are proving that targeted lawsuits, specifically planned to utilize the powerful statutory damages provided by Congress, cannot only prove a valuable means of eradicating counterfeit sales, but can also result in significant collectible judgments for a company.

The trend in anticounterfeiting jurisprudence has been to pursue those who make the global sale of counterfeits possible, i.e., "Internet intermediaries." Courts have begun to take notice of the effect of the counterfeit problem and are adapting laws to fit the problem. Therefore, when a brand owner identifies the most brazen counterfeiters, there are likely to be powerful, yet nontraditional legal tools available to remedy the situation. Recent lawsuits have successfully argued and collected large judgments from ISPs (Louis Vuitton v. Akanoc —a $32 million judgment); search engine optimization companies (Cleveland Golf v. Prince —a $770,000 judgment); and even payment processors (Gucci v. Frontline — judgment pending).

Similarly, courts are now beginning to freeze and place liens against domestic bank accounts and seize infringing domain names; remedies that strike the counterfeiter's wallet and storefront. These nontraditional remedies all attack the counterfeiter's ability to sell the product through the Internet. By deterring Internet intermediaries from dealing with those who sell counterfeits, a brand owner realizes the dual achievements of a counterfeiter that cannot sell his products on a global scale and

having successfully combated counterfeiters without ever stepping foot in the counterfeiter's home country.

While certainly not every Internet intermediary can be held liable solely for being loosely tied to a counterfeit-selling Web site, the law imposes liability on those who knew or should have known that they are contributing to trademark infringement through the sale of counterfeit goods. Thus, when investigating a new counterfeiter, a manufacturer should not pigeonhole the investigation into solely the direct infringer. A prudent manufacturer will investigate how the products are being sold and what entities are making it possible for this seller of counterfeit products to promote his products to consumers around the world.

After analyzing how the counterfeiter is bringing products to market, a manufacturer should decide what entities "knew or should have known" about this counterfeiting behavior. If it discovers such an entity, a manufacturer can then decide which of the powerful, nontraditional legal tools are available to remedy the situation. It is how the manufacturer employs these various legal remedies that determines whether the litigation adds value or whether the litigation has no return on investment.

In viewing counterfeiting as a business problem rather than a legal problem, in-house counsel will be better able to distinguish entities that are seriously harming their business from those that are a mere nuisance. Through separating the wheat from the chaff, a business decision can be made as to whether the remedy is to simply drive the competitor out of the market through raising their costs or to open the counterfeit remedy toolbox in an effort to immediately stop the behavior and obtain monetary damages for the same.

Counterfeiters are constantly evolving and forever changing how they bring their competing products to market. A successful anticounterfeiting and enforcement program must evolve with them. So long as in-house counsel recognize counterfeiters as an ongoing problem and develop a consistent business strategy to combat them, the brand owner will be able to mitigate the impact of counterfeits to their brand.