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Combating Online Counterfeiting with Help from the Lanham Act

By Geoffrey R. Kaiser

Widespread use of the internet has provided a powerful business channel for counterfeiters. Through the relative anonymity of the internet, counterfeiters are able to illegally exploit the trademarks of the world's most famous brands by trading in counterfeit versions of their products. Among those being victimized are many well-known Italian brands such as Gucci, Prada, Giorgio Armani, Dolce & Gabbana and Ferrari, to name just a few.

In the past, brand owners who found themselves being victimized by online counterfeiters typically responded either by seeking to delist their advertisements from auction websites like Alibaba.com or, in the case of separately operated websites, sending out "cease and desist" letters with stern warnings to the counterfeiters. However, delisted vendors often relisted a short time later and warnings were often ignored. Follow-up litigation was not routinely attempted.

Now, brand owners are with increasing frequency pursuing a more aggressive strategy against counterfeit e-commerce sites by initiating specialized litigation under the Lanham Act, an American law that enables the brand owners to attack the counterfeiters' business relationships and seize their assets. Under this law, in cases of intentional trademark counterfeiting, brand owners may elect to recover statutory damages of up to \$2,000,000 for each counterfeited mark per type of good offered. This approach sends a powerful message that the brand owner will vigorously defend its rights. It is an approach calculated to maximize the deterrence of future counterfeit sales by putting the counterfeiter at risk of significant financial loss.

The strategy has two prongs: (1) a targeted investigation of websites selling counterfeit versions of the brand owner's products to obtain evidence in support of a request to the court for relief; and (2) litigation aimed at obtaining court orders shutting down the websites and seizing their assets.

The investigation, conducted under the direction of counsel and thus protected by privilege, targets e-commerce sites selling counterfeit versions of the brand owner's products, and includes website analysis to examine site content, domain registration information, customer communication and payment methods, as well as product purchases, all to establish the counterfeit nature of the items sold online. With this information, the brand owner can go to court without having to bring in the counterfeiting party, asking the court to do the following:

1. Prohibit the operation of the infringing website and require that companies assisting the websites by providing hosting, advertising or shopping cart services stop providing such assistance;
2. Freeze any assets of the websites that are on deposit in payment system accounts like PayPal or other merchant bank accounts and require credit card processors and banks to stop processing sales for the websites; and
3. Require banks, credit card processors, internet service providers and others to provide, on an expedited basis, financial and other records related to the counterfeiters' business operations.

This strategy can be implemented against any online counterfeiter that utilizes a U.S.-based payment processor like PayPal or that transacts business through identifiable merchant bank accounts subject to the jurisdiction of a U.S. court. The website operators are typically not based in the U.S., often ignoring court-ordered notices and failing to defend the action. Consequently, the legal action will frequently result in a default judgment that awards any seized assets to the brand owner, which can potentially pay the entire cost of the litigation strategy.

It is also possible to obtain an order granting the brand owner continuing authority, without further court approval, to seize other assets and domain names associated with the defendant website operators that are discovered by the brand owner after the judgment is entered.

Gucci, Chloé, Alfred Dunhill, Tory Burch, The North Face, and Polo Ralph Lauren are just some of the brand owners who have successfully obtained the kinds of remedies described above.

Brand owners need not settle for the same old routine of issuing delisting requests or sending out cease and desist letters, and then hoping for the best. The Lanham Act offers a proactive and potentially more cost-effective way to protect your brand from online counterfeiters. Consult your attorney.

About the Author

Geoffrey R. Kaiser is a shareholder at the law firm of Anderson Kill & Olick, P.C. Mr. Kaiser co-chairs the firm's Anti-Counterfeiting and Brand Protection group and his practice concentrates in anti-counterfeiting and brand protection, corporate and commercial litigation, business frauds, internal investigations, white collar crime, the False Claims Act and health care fraud. For more information about Anderson Kill's Anti-Counterfeiting and Brand Protection group, please contact Mr. Kaiser at (212) 278-1806 or gkaiser@andersonkill.com.

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