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MEMORANDUM

TO: Mr. Donald E. deKieffer
FROM: Christopher R. Childs
DATE: May 15, 2002
SUBJECT: Disclaimer by seller of counterfeit goods

Question Presented

Under the Lanham Act, is a seller of counterfeit goods protected from liability to the trademark holder if the seller has disclosed their non-authenticity to the purchaser (i.e. – either informed the buyer the goods were not real or the buyer knew they were not real because of low price or another indicator)?

Brief Answer

Probably no. The Lanham Act protects not only the immediate seller against confusion resulting from copying of registered trademarks, but also protects against confusion in the post sale context. Courts that have considered the question have held that virtually any type of confusion that results from the sale of counterfeit goods in the marketplace can constitute a violation of the Lanham Act, thus leaving the seller of such goods vulnerable to suit regardless of whether or not his or her purchaser is aware that the goods are not authentic.

Discussion

It is not likely that a seller of counterfeit goods would be able to escape civil liability under the Lanham Act merely because the purchaser of his or her fake items was aware that the items were not authentic. The Lanham Act gives the owner of a registered trademark civil remedies against any person who uses “in commerce any reproduction, counterfeit, copy or colorable imitation of a registered mark” in connection with the distribution, sale, offering to sell, or advertising of goods or services without the consent of the mark holder, if “such use is likely to cause confusion, or to cause mistake, or to deceive.” 15 U.S.C.A. §1114(1)(a) (West 1997). Remedies available to trademark holders include a judgment for the amount of the defendant’s profits, a monetary judgment for damages sustained by the plaintiff, the plaintiff’s costs associated with the action, the destruction of infringing items and anything used to produce those items, and injunctive relief. 15 U.S.C.A. §§1117(a), 1118, 1125(a) (West 1997).

Nevertheless, in some instances sellers of counterfeit goods have sought to avoid civil liability for the sale of infringing goods under the Lanham Act by claiming that the necessary confusion, mistake, or deception has not occurred. *See, e.g. Rolex v. Canner*, 645 F. Supp. 484 (S.D.Fla. 1986); *Polo Fashions, Inc. v. Samuel Schlesinger, Inc.*, No. 83-4394SA, 1984 U.S. Dist. LEXIS 5863, at*4 (D.N.J. Aug. 2, 1984); *Cartier Incorporated v. Bags ‘N’ Things, Inc.*, No. C-82-341A (N.D. Ga. July 30, 1982). They argue that because their immediate purchaser knew the item being purchased was not an authentic item bearing original trademarks, no confusion, mistake or deception has occurred within the meaning of the Lanham Act. However, the courts that have been asked to decide the issue have rejected this argument. These courts hold that the Lanham Act protects not only the immediate purchaser from confusion or deception, but protects the general public and trademark holder from confusion as well even

when the immediate purchaser is fully aware that the item he or she is purchasing is not authentic.

In an unreported case, the United States District Court for the District of New Jersey was faced with the issue of whether the sale of Polo shirts, “with full disclosure of their non-authenticity, can constitute trademark infringement and unfair competition.” *Polo Fashions, Inc. v. Samuel Schlesinger, Inc.*, No. 83-4394SA, 1984 U.S. Dist. LEXIS 5863, at*4 (D.N.J. Aug. 2, 1984). In *Polo Fashions*, several defendants were sued by Polo, a producer of men’s clothing, for selling shirts that bore a likeness of the Polo trademark. One of the defendants claimed that because he made no representation to any of the purchasers that the shirts were authentic, no deception occurred. *Id.* at *5. He argued that as long the immediate purchaser knows the goods are counterfeit, no trademark violation occurs. *Id.*

The court, however, was unconvinced by the defendant’s contention and held in favor of Polo Fashions. The court explained that the “concept of confusion is open-ended, and any kind of confusion will support an action for trademark infringement.” *Id.* Because the garments bore the Polo trademark, the symbols themselves could cause confusion apart from any representations made by the seller of the items. *Id.* Regardless of whether the immediate purchaser believes the goods to be genuine, “others that may buy or receive the garments will very likely conclude from the presence of the marks that the garments are genuine garments” made by Polo. *Id.* Actionable trademark infringement results even if the immediate customer is not deceived.

The Northern District of Georgia considered a similar argument when a defendant who was selling fake watches that bore the Cartier trademark displayed a sign disclosing that the watches were not real. *Cartier Incorporated v. Bags ‘N’ Things, Inc.*, No. C-82-341A (N.D. Ga.

July 30, 1982). The defendant argued that because his customers knew the watches were not real, the jury ought to decide whether any confusion was created when his customers purchased them. The court rejected this argument and granted summary judgment in favor of Cartier on the issue of liability for trademark infringement.

In another Lanham Act action brought by Rolex Watch U.S.A., Inc. against defendants who were selling counterfeit Rolex watches, the United States District Court for the Southern District of Florida addressed this issue. The court followed the Fifth Circuit in deciding the case by applying seven factors that the Fifth Circuit has used to analyze whether confusion (within the meaning of the Lanham Act) is likely between an authentic mark and a fake mark. *Rolex Watch U.S.A., Inc. v. Canner*, 645 F. Supp. 484, 488 (S.D.Fla. 1986). The factors applied include the “type of trademark, the similarity of design, the similarity of the product, the identity of retail outlets and purchasers, the similarity of advertising media used, defendant’s intent and actual confusion.” *Id.* at 488 (quoting *Exxon Corp. v. Texas Motor Exchange, Inc.*, 628 F.2d 500, 504 (5th Cir. 1980). The defendants focused on confusion at the initial sale and argued that because there was no confusion at the sale of the counterfeit item, confusion is not likely to result. *Id.*

The court, however, did not agree with this point of view, calling it an example of “statutory myopia.” *Id.* “What occurs in the mind of a particular seller or in the mind of a single buyer within the narrow arena of a flea market is simply irrelevant to the real and broader inquiry required of a court faced with the task of determining liability in a trademark infringement case.” *Id.* Instead, the court held that, in determining whether confusion is likely to result, courts “must decide whether counterfeit goods have been injected into *commerce* or have become part of the interchange of goods in the market place.” *Id.* (emphasis in original).

Accordingly, the court determined that the sale of counterfeit watches by the defendants

had caused confusion as required by the Lanham Act. *Id.* In analyzing the factors outlined above, the court made comments about their application with respect to the defendant's initial sale argument. Of special application to the question of whether lack of confusion at the initial sale constitutes a violation of the Lanham Act was the court's explanation and application of the defendant's intent and actual confusion factors listed above.

First, the court explained that it could "not abide by the Defendants' contention that the absence of an intent to pass off the \$25.00 imitations as the genuine Rolex watches precludes th[e] Court from finding that the Plaintiff has established the requisite element of intent." *Id.* at 492. The court reasoned that a violation of the Lanham Act occurs when a defendant intends "to derive benefit from the Plaintiff's reputation." *Id.* This degree of intent, which was present in *Canner*, is enough to trigger the protection of the act.

The second factor discussed that is relevant to answering the question presented in this memo is the "actual confusion" element. The court considered but dismissed the defendant's argument that because there was no confusion at the point of sale and because no one would ever expect to purchase a genuine Rolex for \$25 at a flea market, no actual confusion resulted. In striking down the defendant's contention, the court explained that such an interpretation of the actual confusion factor "ignores the interest in protecting the consumer at large, denies the very manner in which products move through the market place, slights the goal of securing to the owner of the trademark the goodwill of the business, and loses sight of the center stage on which these cases must be played. The essence of trademark law is commerce." *Id.*

Confusion results when a fake good is placed in commerce; the Act "endeavors not just to protect the purchaser, but instead aims to prevent mistake, deception and confusion in the market place at large. *Id.* The fact that the immediate purchaser knew the good purchased was fake

provides no protection to others that may see or purchase the good, believing it to be genuine. “Once a product is injected into commerce, there is no bar to confusion, mistake, or deception occurring at some future point in time.” *Id.* at 493. Thus, when a seller introduces a counterfeit good into the stream of commerce that is “capable of being sold and re-sold in a variety of contexts and is able to enter and move through commerce,” his or her actions constitute an actionable violation of the Lanham Act. *Id.* at 494.

Besides the fact that confusion results in the marketplace when a seller of counterfeit goods injects his wares into the marketplace, the court also pointed out that the purpose of the Lanham Act is to protect not only the public, but also “serves to protect the associations between the mark and the product and guard against the cheapening of the product itself.” *Id.* at 494-95. Potential purchasers may be unimpressed with a counterfeit Rolex, believing it to be real, and thereby be discouraged from purchasing the original. *Id.* Cheapening of the mark may also occur when potential purchasers see the watch on too many wrists, thus not wishing to purchase a watch that no longer carries the prestige it once did. *Id.*

Other commentators have also noted, as did the court in *Rolex v. Canner*, that trademark law pursues two goals. The first is “the prevention of consumer confusion” and the second is “the protection of proprietary interests in trade marks.” Anne M. McCarthy, *The Post-Sale Confusion Doctrine: Why the General Public Should be Included in the Likelihood of Confusion Inquiry*, 67 *Fordham L. Rev.* 3337, 3340 (1999) (note). Protection of the public is important because otherwise consumers would be unable to distinguish between marks and would have to re-educate themselves each time they purchased a branded product. *Id.* at 3341. Protecting the good will of the trademark holder, the second goal of trademark law, is likewise important because use by another represents “the misappropriation of [the trademark holder’s] efforts.” *Id.*

The Trademark Counterfeiting Act (TCA), the statute that criminalizes the production and sale of counterfeit trademarks, also contains a confusion element that has been interpreted similarly to the confusion element of the Lanham Act. The statute criminalizes trafficking or attempts to traffic in goods or services that bear a counterfeit mark. §18 U.S.C.A. §2320(a) (2000). A counterfeit mark is described as a mark “that is identical with, or substantially indistinguishable from, a mark registered for those goods or services” in the United States, “the use of which is likely to cause confusion, to cause mistake, or to deceive.” *Id.* at §2320(A)(ii)-(iii).

The United States Court of Appeals for the Second Circuit considered the question of whether the TCA’s confusion element included members of the non-purchasing public in *U.S. v. Hon*, where a defendant was convicted for selling counterfeit wristwatches. 904 F.2d 803 (2d Cir. 1990). The court concluded that the TCA’s confusion element embraces anyone who might be confused, including casual observers who were unable to examine the watch closely or merely glanced at the watch in passing. *Id.* at 805. The court thus extended the confusion element to the public at large.¹

Other federal circuit courts agree with this interpretation. The Fifth Circuit, in a case that also involved the sale of counterfeit watches, stated that the TCA is “not restricted to instances in which direct purchasers are confused or deceived by counterfeit goods.” *U.S. v. Yamin*, 868 F.2d 130, 132 (5th Cir. 1989). The statute also protects against post-sale confusion and “expressly requires only likelihood of confusion.” *Id.* at 133. The Eleventh Circuit also

¹ The court notes that other courts outside the second circuit have extended Lanham Act confusion to the public at large. *See AMP Inc. v. Foy*, 540 F.2d 1181, 1183 (4th Cir. 1976); *Koppers Co. v. Krupp-Koppers GmbH*, 517 F. Supp. 836, 844 (W.D.Pa. 1981); *T & T Mfg. Co. v. A. T. Cross Co.*, 449 F. Supp. 813, 823 (D.R.I.), *aff’d*, 587 F.2d 533 (1st Cir. 1978), *cert. denied*, 441 U.S. 908, 60 L. Ed. 2d 377, 99 S. Ct. 2000 (1979); *Rolls-Royce Motors*,

concluded, in case involving counterfeit watches, that the confusion element includes members of the non-purchasing public. *U.S. v. Torkington*, 812 F.2d 1347 (11th Cir. 1987). The court held that the TCA is satisfied not only where it is shown that members of the purchasing public would be likely to be “confused mistaken or deceived” but also when confusion might occur in a “post-sale context.” *Id.* at 1348.

Finally, while it is outside the scope of this memorandum to make a complete survey of state trademark statutes and their application to the question considered herein, it should be noted that at least one state, New Jersey, has interpreted a state statute that is similar to the federal TCA to protect not only the seller’s immediate customers from confusion, but to protect other persons, the trademark holder, and future customers from confusion as well. *New Jersey v. Marchiani*, 336 N.J. Super. 541 (2001). In *Marchiani*, the court reasoned that although the seller of the counterfeit goods may have disclosed the fact that the goods were counterfeit to his immediate customers, no such “disclaimer follow[s] the goods into the marketplace.” *Id.* Thus, confusion is likely and consumers, trademark holders, and future consumers are protected regardless of whether the original purchaser knew the item purchased was counterfeit or not.

Conclusion

Past interpretation of the confusion element of the Lanham Act and the Trademark Counterfeiting Act suggest that a seller of counterfeit goods is not insulated from an action by the trademark holder even when the buyer knows the goods are not real. Most courts hold that such conduct still creates confusion in the marketplace and that to hold otherwise is contrary to the primary purposes of trademark law: protection of consumers and protection against

Ltd. v. A & A Fiberglass, Inc., 428 F. Supp. 689, 694 & n.10 (N.D.Ga. 1977).

cheapening of the trademark. Thus, if a seller peddles counterfeit goods, the fact that his buyer knows they are not the real thing will not protect him from liability to the trademark holder.