

# **BUST THE BAD GUYS – HOW TO HARNESS CRIMINAL INTELLECTUAL PROPERTY LAWS TO PROTECT YOUR COMPANY’S VALUABLE IP ASSETS**

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## **A. INTRODUCTION.**

Defending intellectual property assets is big business. Companies, concerned about gaining and maintaining a competitive edge, spend millions of dollars each year developing, protecting, and enforcing various intellectual property rights, including copyrights, trademarks, trade secrets, and patents. While a company traditionally resorts to the civil justice system to enforce and defend its valuable IP rights, if serious about protecting its IP, the company should consider the United States’ criminal IP laws.

An IP asset holder cannot simply decide on its own to institute a criminal prosecution. Criminal laws in the United States are generally enforced by a prosecutorial entity, such as the Department of Justice/United States Attorney, or a state’s attorney or district attorney. Nevertheless, an IP asset holder can and should play a significant role in presenting its case to the proper prosecutorial entity for criminal IP enforcement action.

How does a company enlist the United States’ criminal IP laws? First, the company must generally understand the details and complexities of these laws. Most importantly, the company must appreciate the criteria by which a prosecutor decides

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whether or not to commence a prosecution. Second, the company should prepare an “IP Theft Victim’s Statement” for presentation to the appropriate prosecutorial entity. This documentary package will be intended to persuade the prosecutor to begin a criminal prosecution. Finally, the company must assist the prosecutor and its staff in any way appropriate to ensure the successful prosecution of the thieves of the company’s valuable IP. Done properly, the company will benefit from the substantial sanctions available through a criminal enforcement action, and from the possible preclusive effect a criminal conviction will have on a subsequent civil enforcement action.

**B. CRIMINAL IP LAWS.**

There presently exist in the United States a number of statutes that criminalize various acts of IP infringement. A victim of IP infringement should carefully review these criminal IP statutes and their elements to determine which laws apply to their particular situation. Generally, however, most of the traditional acts of IP infringement – including copyright infringement, trademark infringement, and trade secret misappropriation – constitute criminal behavior under certain circumstances.

Copyright infringement, for example, can be a civil infraction or a criminal act. Copyright infringement is regarded as criminal act when the following conditions are satisfied:

- 1) A copyright exists;
- 2) The copyright is infringed by the defendant through the reproduction or distribution of the copyrighted work;
- 3) The defendant acted willfully; and
- 4) The defendant infringed at least 10 copies of one or more copyrighted works with a total retail value of more than \$2,500 within a 180-day period.

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17 U.S.C. § 506(a) and 18 U.S.C. § 2319.

Similarly, trademark infringement may constitute a criminal act under certain circumstances. Federal law requires the following elements to be proved for a defendant to be convicted of criminal trademark infringement:

- 1) The defendant trafficked or attempted to traffic in goods or services;
- 2) The trafficking or attempt to traffic was “intentional”;
- 3) The defendant used a “counterfeit mark” on or in connection with such goods or services; and
- 4) The defendant “knew” that the mark was counterfeit.

18 U.S.C. § 2320(a).

Finally, trade secret theft, or misappropriation, is a crime when the following elements are proved:

- 1) The defendant stole, or without authorization of the owner, obtained, destroyed or conveyed information;
- 2) Knowing or believing the information misappropriated was a trade secret;
- 3) The information was in fact a trade secret.
- 4) The defendant intended to convert the trade secret to the economic benefit of anyone other than the owner;
- 5) The defendant knew or intended that the owner of the trade secret would be injured; and
- 6) The trade secret was related to or was included in a product that was produced or placed in interstate or foreign commerce.

18 U.S.C. § 1832.

The elements of the various IP crimes set forth above appear straightforward. However, the elements and necessary proofs involve a number of complexities and challenges for a prosecutor concerned about his/her ability to prove a crime. For example, for criminal copyright infringement, the precise boundaries of what constitutes “willful” action is not necessarily clear, and will be highly fact specific. While the particular challenges of each element of proof are beyond the scope of this article, it is

important to note that these legal requirements and challenges will be forefront in the mind of any prosecutor whom a company attempts to persuade to institute criminal proceedings on its behalf.

**C. PERSUADING A PROSECUTOR TO PURSUE IP CRIMINALS.**

In the United States, many IP rights are governed by federal law. In many respects, then, the Department of Justice, through its United States Attorney's offices, will be the prosecutorial authority to which a company will want to turn to seek criminal action against IP pirates.

U.S. Attorneys are guided in their prosecutorial decision-making relating to IP by a manual titled the *Prosecuting Intellectual Property Crimes Manual*, available at <http://www.usdoj.gov/criminal/cybercrime/ipmanual.htm> ("The IP Manual"). The IP Manual sets out the decision factors that a U.S. Attorney must evaluate to determine whether to pursue an IP criminal. Thus, a company should carefully consider this Manual prior to preparing its "IP Theft Victim's Statement" ("Statement") and should strive to address each of the decision factors in its Statement.

As noted in the IP Manual, federal prosecutors will generally take into account the same considerations in determining whether to charge an intellectual property crime as they would with respect to all federal crimes. IP Manual, sec. VI (A), *citing U.S. Attorneys' Manual* § 9-27.220. Thus, the prosecutor will evaluate, among other things, the sufficiency of the evidence of a crime, the likelihood of success at trial, and the probable deterrent effect of a criminal prosecution. *Id.*

The focal point for a company in preparing its Statement, then, is to set out for the prosecutor the precise nature and extent of the evidence of the crime(s) at issue. The

Statement should demonstrate to the prosecutor the likely success that the prosecutor will have at trial based on the admissible evidence available to the prosecutor. The Statement should also address the effects, in terms of probable deterrence of future criminal conduct, that the requested prosecution will have on the perpetrator and others in the relevant industry.

In order to accomplish this in the Statement, of course, the company will need to thoroughly investigate the crime(s) at issue before hand, and develop and collect the necessary admissible evidence that will form the basis of the desired prosecution. The more persuasive the evidence, and the more clearly a prosecutor can envision a significant conviction, the more likely the company will succeed in convincing the prosecutor to take the case.

In preparing its Statement, a company should keep in mind three situations in which the prosecutor may properly decline to take action, even if he/she has admissible evidence sufficient to obtain and sustain a conviction. These include: (1) when no substantial federal interest would be served by prosecution; (2) when the perpetrator is subject to effective prosecution in another jurisdiction; or (3) when there exists an adequate non-criminal alternative to prosecution. *Id.* The IP Manual addresses each these three factors, and sets out in detail various criteria and considerations that the prosecutor must weigh in deciding whether to institute criminal proceedings.

Perhaps the most important of these three factors that a company should focus its efforts on is the first - federal interest. To have any hope of convincing a prosecutor to start a criminal case against an IP thief, a company must demonstrate to the prosecutor that there exists a substantial federal interest in the company's situation.

In evaluating federal interest, the prosecutor must consider, among other things, the nature and seriousness of the offense, the perpetrator's culpability in connection with the offense, the perpetrator's history with respect to criminal activity, and the probable sentence or other consequences if the perpetrator is convicted. *Id.*, citing *U.S. Attorneys' Manual* § 9-27.230. Again, a prosecutor is guided in determining each of these factors, by a number of additional factors. For example, in deciding the nature and seriousness of the offense, the prosecutor will consider the following:

1. Whether the counterfeit goods or services present potential health or safety issues (*e.g.*, counterfeit medications or airplane parts);
2. The scope of the infringing or counterfeiting activities (*e.g.*, whether the subject infringes or traffics in multiple items or infringes upon multiple industries or victims), as well as the volume of infringing items manufactured or distributed;
3. The scale of the infringing or counterfeiting activities (*e.g.*, the amount of illegitimate revenue and any identifiable illegitimate profit arising from the infringing or counterfeiting activities based upon the retail value of the infringed item);
4. The number of participants and the involvement of any organized criminal group;
5. The scale of the victim's loss or potential loss, including the value of the infringed item, the size of the market for the infringed intellectual property that is being undermined (*e.g.*, a best-selling software package or a famous trademark), and the impact of the infringement on that market;
6. Whether the victim or victims took reasonable measures to protect against the crime; and
7. Whether the purchasers of the infringing items were victims of a fraudulent scheme, or whether there is a reasonable likelihood of consumer mistake as a result of the subject's actions.

*Id.*

The company's Statement should focus on these factors as appropriate, highlighting for the prosecutor that a substantial federal interest is at stake. For example,

consider a company who sells spark plugs that is the victim of a counterfeiter. The counterfeiter manufactures knock-offs of the company's plugs in Asia using sub-standard materials and quality control processes. Consequently, the plugs have a tendency to explode while in use. Buyers of plugs can't tell the fakes from the authentic plugs, despite efforts by the company to educate consumers about the existence of counterfeits in the market place. Worse, the counterfeiter has captured a substantial portion of the company's market share and has reaped significant profits because the company is unable to compete with the counterfeiter's price.

In its Statement, the company should highlight a number of federal interest factors, such as factor 1 (counterfeit infringing products present a substantial safety risk to the public), factor 3 (counterfeits sold at major profit), factor 5 (substantial loss of market share to the company), factor 7 (purchasers of the products are confused by the counterfeits due to a fraudulent scheme), and factor 6 (counterfeits sold despite extensive efforts by the company to prevent the counterfeit goods from being sold). Doing so will help persuade the prosecutor to move forward.

In short, to convince a U.S. Attorney to initiate criminal IP proceedings against an infringer, a company should consider the following basic steps:

1. Thoroughly investigate and document the identities of the IP criminal(s), their background(s), and history of prior and other criminal activities;
2. For each participant in the criminal activities, thoroughly investigate and document details of the participant's involvement in the criminal activities, relationship to others involved in the criminal activities, and the overall scope and extent of criminal activities; and
3. Analyze and document the impact, economic and otherwise, that the IP criminal's acts have had and continue to have on the company, market, and national commerce generally.

Once the company completes these steps, it can prepare its Statement to present to a prosecutor, to assist the prosecutor in evaluating the potential case and convince the prosecutor to move forward with a prosecution.

**D. ASSISTING IN THE PROSECUTION.**

Once a prosecutor has decided to initiate action, the company's efforts are not over. As noted in the IP Manual, "Indeed, as with other white-collar crimes, victims often are intimately involved in the investigation and prosecution of intellectual property crimes..." *IP Manual*, sec. VI(D). The Manual goes on to note that "[s]uch cooperation is not only desirable but often of critical importance. Indeed, in many intellectual property cases, the victim rights holder is a necessary witness to testify with regard to the legitimate, infringed upon item." *Id.* The company, then, can expect to be called upon to provide evidence, testimony, and potentially other kinds of assistance to the prosecutor and its investigators that may be used against the IP criminal.

The company must keep in mind, however, that limits to its involvement will apply, and the prosecutor will be mindful of these limitations. The IP Manual notes, for instance, that "Prosecutors should ... be mindful of the risks of such intimate association [with an IP criminal victim]. In every case, government attorneys must make independent, discretionary decisions during all stages of a criminal case and should exercise care that victim involvement does not complicate the case or, in extreme situations, jeopardize the prosecution itself.... In intellectual property investigations and prosecutions, government attorneys should be cognizant of possible undue victim involvement and its ramifications. Such involvement could create an appearance of

impropriety for the law enforcement institution as well as for the individual cases.” *IP Manual*, sec. VI(D).

In short, the company should not plan to direct, control, or otherwise dictate the prosecution. These actions are properly for the U.S. Attorney. Nevertheless, the company’s assistance will prove extremely helpful and in many instances critical to the prosecution’s success. Careful coordination throughout the prosecution is therefore required to ensure that the IP criminals are brought to justice.

**E. THE END RESULTS.**

So why would a company want to go to the trouble and expense of convincing a U.S. Attorney to prosecute an IP criminal? The reasons are many. The threat of jail time for an IP criminal, not to mention substantial fines and the stigma of a criminal conviction, serve as a strong industry deterrent to stop infringement. The potential for monetary restitution to the company as the victim of IP crime is important as well.

To be sure, criminal sanctions for IP crimes can be severe. The statutory maximum penalty for a financially motivated copyright infringer, for example, is five years imprisonment and a fine of \$250,000 for an individual, or up to \$500,000 for an organization. A defendant convicted of trademark counterfeiting is subject to 10 years imprisonment and a fine up to \$2 million for an individual, or up to \$5 million for a corporation. Trade secret theft results in a maximum prison term of 10 years and fine up to \$250,000 for an individual, or up to \$5 million for a corporation. These ranges are subject to a number of complexities that can significantly increase the total sanction that the criminal faces. For example, a prosecutor may charge and the perpetrator may be

convicted of multiple counts of a particular crime, each separate count potentially subject to the above range and thus cumulating to a much more significant total sanction.

In addition to seeing the IP criminal punished, a company that has been victimized by a criminal is entitled to restitution for monetary amounts lost. *See* 18 U.S.C. §3663A. Restitution is limited to the actual loss caused to the victim by the IP criminal's offense, and the company, as a victim of IP crime, is permitted to submit to the prosecutor a victim-impact statement that includes a verified assessment of the company's losses. *See IP Manual, sec. VII(B), citing* 18 U.S.C. §§ 2319(d), 2319A(d), 2320(d). Importantly, the fact that the company obtained restitution does not later bar the company from seeking compensatory damages in civil action. However, the restitution award recovered in the criminal action may later be reduced (i.e., set-off) by any amount that the company recovers in a later civil action. *See* 18 U.S.C. § 3664(j)(1)-(2).

Finally, the IP criminal's conviction or guilty plea may be used by the company in a later civil lawsuit, and may entitle the company to a summary judgment of infringement liability. Thus, a favorable verdict in a criminal prosecution has the potential to significantly reduce the time, expense and risk of a later civil action. Notably, an unfavorable verdict in the criminal case (i.e., an acquittal) is not controlling in a later civil suit.

## **F. CONCLUSION.**

Civil IP litigation is time consuming and expensive. A company facing extensive, sustained, market-critical infringement of its IP rights should consider harnessing the power of the United States' criminal IP laws to deter and punish those who would steal its

valuable IP assets. A thorough, well prepared IP Theft Victim's Statement, presented appropriately to a prosecutor, may be just the bullet to take down an IP criminal.