

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** CS/HB 1417 Counterfeit Goods

**SPONSOR(S):** Safety & Security Council; Gardiner

**TIED BILLS:** **IDEN./SIM. BILLS:**

| REFERENCE                                                    | ACTION                  | ANALYST                 | STAFF DIRECTOR  |
|--------------------------------------------------------------|-------------------------|-------------------------|-----------------|
| 1) <u>Committee on Homeland Security &amp; Public Safety</u> | <u>10 Y, 0 N</u>        | <u>Cunningham</u>       | <u>Kramer</u>   |
| 2) <u>Safety &amp; Security Council</u>                      | <u>14 Y, 0 N, As CS</u> | <u>Cunningham/Davis</u> | <u>Havlicak</u> |
| 3) <u>Policy &amp; Budget Council</u>                        | <u></u>                 | <u></u>                 | <u></u>         |
| 4) <u></u>                                                   | <u></u>                 | <u></u>                 | <u></u>         |
| 5) <u></u>                                                   | <u></u>                 | <u></u>                 | <u></u>         |

### SUMMARY ANALYSIS

In 2005, the federal government passed the "Stop Counterfeiting in Manufactured Goods Act," which strengthened federal laws against counterfeit labels and packaging and strengthened penalties for counterfeiters. In response, the United States Chamber of Commerce prepared a model *state* anti-counterfeiting statute which targets those who manufacture, distribute, or possess counterfeit goods with the intent to sell, as well as those who counterfeit goods which cause bodily injury.

CS/HB 1417 re-organizes the provisions of ss. 831.03 and 831.05, F.S., relating to counterfeiting, and creates new sections of statutes relating to counterfeiting based upon the above-described model legislation. Specifically, the bill:

- Provides definitions;
- Provides that proof that a person possesses more than 25 pieces of property that bear a counterfeit mark gives rise to an inference that such property is being possessed with the intent to offer it for sale or distribution;
- Provides a tiered penalty system based on the quantity or total retail value of counterfeited goods that are knowingly sold, manufactured, distributed, or transported;
- Increases the penalty for counterfeiting offenses if a person, during the commission of the offense or as a result of the offense, knowingly, or by culpable negligence, causes bodily injury, serious bodily injury, or death; and
- Increases the penalty for repeat offenders of counterfeiting.

On March 14, 2008, the Criminal Justice Impact Conference determined that this bill would have an insignificant prison bed impact. See "fiscal comments" section.

## FULL ANALYSIS

### I. SUBSTANTIVE ANALYSIS

#### A. HOUSE PRINCIPLES ANALYSIS:

Promote Personal Responsibility – CS/HB 1417 increases the penalty for counterfeiting offenses if a person, during the commission of the offense or as a result of the offense, knowingly, or by culpable negligence, causes bodily injury, serious bodily injury, or death. The bill also increases the penalty for repeat counterfeiting.

#### B. EFFECT OF PROPOSED CHANGES:

##### *Current Situation*

##### Definitions

Sections 831.03 and 831.05, F.S., define the term “forged or counterfeit trademark or service” as a mark:

- That is identical with or an imitation of a mark registered for those goods or services on the principal register in the United States Patent and Trademark Office or the trademark register for the State of Florida or any other state, or protected by the Amateur Sports Act of 1978<sup>1</sup>, whether or not the offender knew such mark was so registered or protected; and
- The use of which is unauthorized by the owner of the registered mark.

##### Section 831.03, F.S. - Forging or Counterfeiting Private Labels

Section 831.03, F.S., provides that a person commits the crime of counterfeiting if they:

- Knowingly and willfully forge or counterfeit, or cause or procure to be forged or counterfeited, upon or in connection with any goods or services, the trademark or service mark of any person, entity, or association, which goods or services are intended for resale; or
- Knowingly possess tools or other reproduction materials for reproduction of specific forged or counterfeit trademarks or service marks.

The statute specifies that all defenses, affirmative defenses, and limitations on remedies that would be applicable in an action under the Lanham Act<sup>2</sup>, or to an action under s. 495.131, F.S.<sup>3</sup>, shall be applicable in a counterfeiting prosecution.<sup>4</sup>

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<sup>1</sup> 36 USC 380

<sup>2</sup> 15 USC 1051

<sup>3</sup> Section 495.131, F.S., provides that a person shall be liable in a civil action by the owner of a registered mark if they, without the consent of such owner:

- (1) Use any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, to cause mistake, or to deceive; or
- (2) Reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles, or advertisements intended to be used upon or in connection with the sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, to cause mistake, or to deceive.

The statute specifies that in regards to subsection (2) above, the owner of a registered mark shall not be entitled to recover profits or damages unless the acts have been committed with knowledge that such mark is intended to be used to cause confusion or mistake or to deceive.

Counterfeiting is a 1<sup>st</sup> degree misdemeanor<sup>5</sup> if the goods or services to which the forged or counterfeit trademarks or service marks are attached, affixed, or used in connection with, or to which the offender intended they be attached, affixed, or used in connection with, have a retail sale value of less than \$1,000.<sup>6</sup> However, the crime of counterfeiting is a 3<sup>rd</sup> degree felony<sup>7</sup>:

- If the goods or services to which the forged or counterfeit trademarks or service marks are attached, affixed, or used in connection with, or to which the offender intended they be attached, affixed, or used in connection with, have a retail sale value of \$1,000 or more, the offender commits a felony of the third degree; or
- When an offender has in the last 5 years been convicted of counterfeiting or vending counterfeit goods under s. 831.05, F.S., and is convicted of counterfeiting goods or services, irrespective of their retail sale value.<sup>8</sup>

In addition to providing criminal penalties, s. 831.03(4), F.S., states that any goods to which forged or counterfeit trademarks or service marks are attached or affixed, or any tools or other reproduction materials for the reproduction of any specific forged or counterfeit trademark or service mark, which are unlawfully produced or possessed may be seized by any law enforcement officer. Such goods must be destroyed upon the written consent of the offender or by judicial determination that the seized goods, tools, or other reproduction materials have attached or affixed to them a forged or counterfeit trademark or service mark, unless the owner of the registered or protected trademark or service mark which has been forged or counterfeited approves a different disposition.<sup>9</sup> The owner of the registered or protected trademark is responsible for the actual costs incurred in the disposition of such forged or counterfeited goods.<sup>10</sup>

Section 831.03(4), F.S., also provides that certain personal property, including, but not limited to, any item, object, tool, machine, or vehicle of any kind, employed as an instrumentality in the commission of, or in aiding or abetting in the commission of, the crime of counterfeiting may be seized and is subject to forfeiture<sup>11</sup>.

#### Section 831.05, F.S. – Vending Goods or Services with Counterfeit Trademarks or Service Marks

Section 831.05, F.S., provides that a person commits the crime of selling or offering for sale counterfeit goods or services if they:

- Knowingly sell or offer for sale, or knowingly purchase and keep or have in his or her possession, with intent that the same shall be sold or disposed, or vend any goods having thereon a forged or counterfeit trademark; or
- Knowingly sell or offer for sale any service which service is sold in conjunction with a forged or counterfeit service mark, of any person, entity, or association, knowing the same to be forged or counterfeited.

The statute specifies that all defenses, affirmative defenses, and limitations on remedies that would be applicable in an action under the Lanham Act<sup>12</sup>, or to an action under s. 495.131, F.S., shall be applicable in a counterfeiting prosecution.<sup>13</sup> Additionally, no owner, officer, employee, or agent who

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<sup>4</sup> s. 831.03(2), F.S.

<sup>5</sup> A first degree misdemeanor is punishable by a term of imprisonment not exceeding 1 year and a \$1,000 fine. *See* ss. 775.082 and 775.083.

<sup>6</sup> s. 831.03(1), F.S.

<sup>7</sup> A third degree felony is punishable by up to five years imprisonment and a \$5,000 fine. ss. 775.082, 775.083, and s. 775.084, F.S.

<sup>8</sup> s. 831.03(1), F.S.

<sup>9</sup> s. 831.03(4), F.S.

<sup>10</sup> *Id.*

<sup>11</sup> Section 932.704, F.S., relates to forfeiture proceedings.

<sup>12</sup> 15 USC 1051

<sup>13</sup> s. 831.05, F.S.

provides, rents, leases, licenses, or sells real property that contain a forged or counterfeit trademark shall be subject to criminal penalty under this section unless he or she is proven to have actual knowledge that the mark is counterfeit and is either a principal to the offense or an accessory after the fact.<sup>14</sup>

Selling or offering for sale counterfeit goods or services is a 1<sup>st</sup> degree misdemeanor if the goods or services which the offenders sells or offers for sale have a retail value of less than \$1,000.<sup>15</sup> However, selling or offering for sale counterfeit goods or services is a 3<sup>rd</sup> degree felony if the goods or services to which the forged or counterfeit trademarks or service marks are attached, affixed, or used in connection with, or to which the offender intended they be attached, affixed, or used in connection with, have a retail sale value of \$1,000 or more.<sup>16</sup>

In addition to providing criminal penalties, s. 831.05(4), F.S., states that any goods to which forged or counterfeit trademarks or service marks are attached or affixed may be seized by any law enforcement officer. Such goods must be destroyed upon the written consent of the offender or by judicial determination that the seized goods have attached or affixed to them a forged or counterfeit trademark or service mark, unless the owner of the registered or protected trademark or service mark which has been forged or counterfeited approves a different disposition.<sup>17</sup> The owner of the registered or protected trademark is responsible for the actual costs incurred in the disposition of such forged or counterfeited goods.<sup>18</sup>

Section 831.05(4), F.S., also provides that certain personal property, including, but not limited to, any item, object, tool, machine, or vehicle of any kind, employed as an instrumentality in the commission of, or in aiding or abetting in the commission of, the crime of selling or offering for sale counterfeit goods or services may be seized and is subject to forfeiture.

### *Effect of the Bill*

In 2005, in response to an increase in counterfeiting crimes, the federal government passed the “Stop Counterfeiting in Manufactured Goods Act” (the Act)<sup>19</sup>. The Act strengthened federal laws relating to counterfeit labels and packaging and strengthened penalties for counterfeiters.<sup>20</sup> However, according to the United States Chamber of Commerce, many states do not provide similar heightened protections.<sup>21</sup> As a result, the United States Chamber of Commerce and the International AntiCounterfeiting Coalition prepared a model state anti-counterfeiting statute which targets those who manufacture, distribute, or possess counterfeit goods with the intent to sell, as well as those who counterfeit goods which cause bodily injury.<sup>22</sup> Currently, six states have introduced legislation based in part on the model statute.

CS/HB 1417 re-organizes the provisions of ss. 831.03 and 831.05, F.S., and creates new sections of statutes relating to counterfeiting based upon the above-described model legislation.

### Definitions

The bill amends s. 831.03, F.S., to remove language relating to the offense of forging or counterfeiting private labels and replacing such language with the following definitions:

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<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

<sup>16</sup> *Id.*

<sup>17</sup> s. 831.05(4), F.S.

<sup>18</sup> *Id.*

<sup>19</sup> Public Law No. 109-181

<sup>20</sup> <http://www.whitehouse.gov/news/releases/2006/03/20060316-6.html>

<sup>21</sup> “Model State Trademark Bill Factsheet” provided by the United States Chamber of Commerce.

<sup>22</sup> *Id.*

- “Bodily Injury” means a cut, abrasion, bruise, burn, or disfigurement; physical pain; illness; impairment of the function of a bodily member, organ, or mental faculty; or any other injury to the body, no matter how temporary.<sup>23</sup>
- “Culpable negligence” means reckless disregard of human life or safety or consciously doing an act or following a course of conduct that the actor knew, or reasonably should have known, was likely to cause bodily injury.<sup>24</sup>
- “Forged or counterfeit trademark or service mark” refers to a mark:
  - o That is applied to or used in connection with any goods, services, labels, patches, stickers, wrappers, badges, emblems, medallions, charms, boxes, containers, cans, cases, hangtags, documentation, or packaging or any other components of any type or nature that are designed, marketed, or otherwise intended to be used on or in connection with any goods or services;
  - o That is identical with or an imitation of a mark registered for those goods or services on the principal register in the United States Patent and Trademark Office or the trademark register for the State of Florida or any other state, or protected by the Amateur Sports Act of 1978, whether or not the offender knew such mark was so registered or protected;
  - o The use of which is unauthorized by the owner of the registered mark; and
  - o The application or use of which is either likely to cause confusion, to cause mistake, or to deceive or is otherwise intended to be used on or in connection with the goods or services for which the mark is registered.

An otherwise legitimate mark is deemed counterfeit for purposes of this definition if, by altering the nature of any item to which it is affixed, the altered item bearing the otherwise legitimate mark is likely, in the course of commerce, to cause confusion, to cause mistake, or to deceive.

- “Retail value” means:
  - o The counterfeiter's regular selling price for the goods or services, unless the goods or services bearing a counterfeit mark would appear to a reasonably prudent person to be authentic, then the retail value shall be the price of the authentic counterpart; or, if no authentic reasonably similar counterpart exists, then the retail value shall remain the counterfeiter's regular selling price.
  - o In the case of labels, patches, stickers, wrappers, badges, emblems, medallions, charms, boxes, containers, cans, cases, hangtags, documentation, or packaging or any other components of any type or nature that are designed, marketed, or otherwise intended to be used on or in connection with any goods or services, the retail value shall be treated as if each component was a finished good and valued as described above.
- “Serious bodily injury” means bodily injury that involves a substantial risk of death; extreme pain; protracted and obvious disfigurement; or protracted loss or impairment of the function of a bodily member, organ, or mental faculty.

### Evidence

The bill creates s. 831.031, F.S., which provides that in counterfeiting proceedings, proof that a person is in possession of more than 25 goods, labels, patches, stickers, wrappers, badges, emblems, medallions, charms, boxes, containers, cans, cases, hangtags, documentation, or packaging or any other components of any type or nature bearing a counterfeit mark, unless satisfactorily explained, gives rise to an inference that such property is being possessed with intent to offer it for sale or distribution. A state or federal certificate of registration of trademark is prima facie evidence of the facts stated therein.

<sup>23</sup> The bill’s definition of the term “bodily injury” mirrors that of the definition in s. 914.21, F.S.

<sup>24</sup> The crime of culpable negligence has been defined as exposing another person to personal injury or inflicting actual personal injury through reckless indifference or grossly careless disregard for the safety of others. Culpable negligence has also been defined as the conscious doing of an act which a reasonable person would know is likely to result in death or great bodily harm to another person, even though done without any intent to injure anyone, but with utter disregard for the safety of another. *See* 15B Fla. Jur 2d Criminal Law § 3328

## Criminal Offenses – Penalties - Defenses

HB 1417 creates s. 831.032, F.S., which provides the following offenses:

A person commits the crime of counterfeiting if they:

- Knowingly and willfully forge or counterfeit, or cause or procure to be forged or counterfeited, manufacture, distribute, or transport, or possess with intent to distribute or transport, upon or in connection with any goods or services, the trademark or service mark of any person, entity, or association, which goods or services are intended for resale; or
- Knowingly possess tools or other reproduction materials for reproduction of specific forged or counterfeit trademarks or service marks.

A person commits the crime of selling or offering for sale counterfeit goods or services if they:

- Knowingly sell or offer for sale, or knowingly purchase and keep or have in his or her possession, with intent that the same shall be sold or disposed, or vend any goods having thereon a forged or counterfeit trademark; or
- Knowingly sell or offer for sale any service which service is sold in conjunction with a forged or counterfeit service mark, of any person, entity, or association, knowing the same to be forged or counterfeited.

The bill makes the above-described offenses 1<sup>st</sup> degree misdemeanors except that:

- It is a 3<sup>rd</sup> degree felony if the offense involves 100 or more but less than 1,000 items bearing one or more counterfeit marks, or if the goods involved in the offense have a total retail value of more than \$ 2,500, but less than \$20,000.
- It is a 2<sup>nd</sup> degree felony<sup>25</sup> if the offense involves 1,000 or more items bearing one or more counterfeit marks or if the goods involved in the offense have a total retail value of \$20,000 or more.
- It is a 3<sup>rd</sup> degree felony if the offense involves any amount of goods bearing a counterfeit mark and, during the commission or as a result of the commission of the offense, the person engaging in the offense knowingly or by culpable negligence causes or allows to be caused bodily injury to another.
- It is a 2<sup>nd</sup> degree felony if the offense involves any amount of goods bearing a counterfeit mark and, during the commission or as a result of the commission of the offense, the person engaging in the offense knowingly or by culpable negligence causes or allows to be caused serious bodily injury to another.
- It is a 1<sup>st</sup> degree felony<sup>26</sup> if the offense involves any amount of goods bearing a counterfeit mark and, during the commission or as a result of the commission of the offense, the person engaging in the offense knowingly or by culpable negligence causes or allows to be caused death to another.

The bill also specifies that any person who, having previously been convicted for an offense described above, is subsequently convicted for another offense involving goods bearing counterfeit marks, such subsequent offense shall be reclassified as follows:

- In the case of a 2<sup>nd</sup> degree felony, to a 1<sup>st</sup> degree felony.
- In the case of a 3<sup>rd</sup> degree, to a 2<sup>nd</sup> degree felony.
- In the case of a 1<sup>st</sup> degree misdemeanor, to a 3<sup>rd</sup> degree felony. For purposes of sentencing under chapter 921 and determining incentive gain-time eligibility under chapter 944, such offense is ranked in level 4 of the offense severity ranking chart.

<sup>25</sup> A second-degree felony is punishable by up to 15 years imprisonment and a \$10,000 fine. ss. 775.082, 775.083, and 775.084, F.S.

<sup>26</sup> A first degree felony is punishable by up to 30 years imprisonment and a \$10,000 fine. ss. 775.082, 775.083, and 775.084, F.S.

The bill clarifies that for purposes of sentencing under chapter 921, F.S., and determining incentive gain-time eligibility under chapter 944, F.S., a felony offense that is reclassified is ranked one level above the ranking under s. 921.0022 or s. 921.0023 of the felony offense committed.

The bill provides that in lieu of a fine otherwise authorized by law, in cases in which a person has been convicted of one of the above-described counterfeiting offenses, the court may fine such person up to three times the retail value of the goods seized, manufactured, or sold, whichever is greater, and may enter orders awarding court costs and the costs of investigation and prosecution that are reasonably incurred. The bill requires the court to hold a hearing to determine the amount of such fine.

The bill also requires the court to order persons convicted of the above-described counterfeiting offenses to pay restitution to the trademark owner and any other victim of the offense. In determining the value of the property loss to the trademark owner, the court must include expenses incurred by the trademark owner in the investigation or prosecution of the offense as well as the disgorgement of any profits realized by a person convicted of such offense.

The bill specifies that all defenses, affirmative defenses, and limitations on remedies that would be applicable in an action under the Lanham Act, or to an action under s. 495.131, F.S., shall be applicable in a counterfeiting prosecution.

### Forfeiture

CS/HB 1417 creates s. 831.033, F.S., which provides that any goods to which forged or counterfeit trademarks or service marks are attached or affixed, or any tools or other reproduction materials for the reproduction of any specific forged or counterfeit trademark or service mark, which are unlawfully produced or possessed may be seized by any law enforcement officer. Additionally, certain personal property, including, but not limited to, any item, object, tool, machine, or vehicle of any kind, employed as an instrumentality in the commission of, or in aiding or abetting in the commission of, the crime of counterfeiting may be seized and is subject to forfeiture.

The bill also requires the court, in imposing a sentence on a person convicted of the above-described counterfeiting offenses, to order that the person forfeit the following:

- Any property constituting or derived from any proceeds the person obtained, directly or indirectly, as the result of the offense.
- Any of the person's property used, or intended to be used, in any manner or part, to commit, facilitate, aid, or abet the commission of the offense.
- Any item that bears or consists of a counterfeit mark used in committing the offense.

At the conclusion of all forfeiture proceedings, the court must order that any forfeited item bearing or consisting of a counterfeit mark be destroyed or alternately disposed of in another manner with the written consent of the trademark owners. The owners of the registered or protected mark are responsible for the costs incurred in the disposition of the forged or counterfeit items.

### Prosecutions

CS/HB 1417 creates s. 831.034, F.S., which specifies that notwithstanding any other provision of law, prosecution may be had for any and all violations of (newly created) ss. 831.03-831.034, F.S., and for any other criminal violations that may apply. Prosecution for violation of any such offenses shall not be construed to preclude the applicability of any other provision of law which presently applies or may in the future apply to any transaction that violates ss. 831.03-831.033, F.S., unless such provision is inconsistent with the terms of ss. 831.03-831.033, F.S.

## C. SECTION DIRECTORY:

**Section 1.** Amends s. 831.03, F.S., relating to forging or counterfeiting private labels; definitions.

**Section 2.** Creates s. 831.031, F.S., relating to evidence.

**Section 3.** Creates s. 831.032, F.S., relating to offenses involving forging or counterfeiting private labels.

**Section 4.** Creates s. 831.033, F.S., relating to forging or counterfeiting private labels; destruction; forfeiture.

**Section 5.** Creates s. 831.034, F.S., relating to prosecutions.

**Section 6.** Repeals s. 831.05, F.S.

**Section 7.** This bill takes effect October 1, 2008.

## **II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT**

### **A. FISCAL IMPACT ON STATE GOVERNMENT:**

#### **1. Revenues:**

None.

#### **2. Expenditures:**

See "Fiscal Comments."

### **B. FISCAL IMPACT ON LOCAL GOVERNMENTS:**

#### **1. Revenues:**

None.

#### **2. Expenditures:**

See "Fiscal Comments."

### **C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:**

There will be a fiscal impact on persons and entities who commit counterfeiting offenses and are ordered to pay restitution or the increased fine provided by the bill.

### **D. FISCAL COMMENTS:**

On March 14, 2008, the Criminal Justice Impact Conference determined that this bill would have an insignificant prison bed impact.

## **III. COMMENTS**

### **A. CONSTITUTIONAL ISSUES:**

#### **1. Applicability of Municipality/County Mandates Provision:**

This bill appears to be exempt from the requirements of Article VII, Section 18 of the Florida Constitution because it is a criminal law.

#### **2. Other:**

None.

**B. RULE-MAKING AUTHORITY:**

None.

**C. DRAFTING ISSUES OR OTHER COMMENTS:**

None.

**D. STATEMENT OF THE SPONSOR**

No statement submitted.

The chair of the Safety & Security Council chose not to submit any further comments regarding the council substitute.

**IV. AMENDMENTS/COUNCIL SUBSTITUTE CHANGES**

On March 19, 2008, the Homeland Security & Public Safety Committee adopted an amendment and reported the bill favorably as amended. The amendment makes technical changes clarifying language relating to counterfeiting offenses.

On March 26, 2008, the Safety & Security Council reported the bill favorably as a council substitute. This analysis is drafted to the council substitute.