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## **How the Seizure of Counterfeit Goods Can Go Bad: *Waco International v. KHK Scaffolding, et. al.***

**Michael Coblenz\***

### INTRODUCTION

In 1984 Congress amended the Lanham Act to allow for the seizure of counterfeit goods.<sup>1</sup> This was part of a larger anti-counterfeiting act<sup>2</sup> that also created criminal penalties for certain types of counterfeiting,<sup>3</sup> and provided for treble damages in cases of civil counterfeiting.<sup>4</sup> This was needed, according to the legislative history, to stem a growing business in piracy of legitimate goods.<sup>5</sup> Prior to that, it was possible, though seldom successful, for trademark owners to seize goods under Rule 65 of the Federal Rules of Civil Procedure.<sup>6</sup> Since then, practitioners have taken the seizure remedy for granted in the fight against counterfeiters.<sup>7</sup>

Often forgotten, however, is that a seizure can be obtained

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1. See 15 U.S.C. § 1116(d) (2000).

2. THE TRADEMARK COUNTERFEITING ACT OF 1984, Pub.L.No. 98-473, 98 Stat.2178 (1984). This was part of the omnibus Crime Control Act of 1984.

3. See 18 U.S.C. § 2320 (2001).

4. See 15 U.S.C. § 1117(b) (2000).

5. See Joint Statement on Trademark Counterfeiting Legislation, 130 CONG. REC. 31673 (1984); S. REP. NO. 98-526, reprinted in 1984 U.S.C.C.A.N. 3627. The Senate Report accompanied the original version of the bill that added the criminal counterfeiting provisions, 18 U.S.C. § 2320. As originally proposed, this bill included the *ex parte* seizure provision now found at 15 U.S.C. § 1116(d), within the criminal provision. The two provisions were separated in the Joint Conference Committee.

6. See, e.g., *In re Vuitton, et Fils S.A.*, 606 F.2d 1 (2nd Cir. 1979).

7. See, e.g., TRADEMARK COUNTERFEITING 5-16 (George W. Abbott, Jr., and Lee S. Sporn, eds.) (1999 & Supp. 2000).

improperly, and in that situation the wronged party can recover for "wrongful seizure."<sup>8</sup> Even less well known is that punitive damages are available "in instances where the seizure was sought in bad faith."<sup>9</sup> Since the seizure statute was enacted there has been a relative handful of reported wrongful seizure cases.<sup>10</sup>

In June, 2000, a jury in the Southern District of Texas, in the case *Waco International Inc., v. KHK Scaffolding et al.*,<sup>11</sup> found a seizure to be both wrongful and in bad faith, and awarded punitive damages against the party that improperly obtained an *ex parte* seizure. This article will analyze that case to elucidate some of the hidden dangers in the seizure statute as a guide to others to avoid having a good seizure go bad.

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8. 15 U.S.C. § 1116(d)(11) (2000) (providing in relevant part: "A person who suffers damage by reason of a wrongful seizure . . . shall be entitled to recover such relief as may be appropriate. . .").

9. *See id.*

10. *See* *Martin's Herend Imps., Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296 (5th Cir. 1997); *Gucci Am., Inc. v. Accents*, 955 F. Supp. 279 (S.D.N.Y. 1997); *Tommy Hilfiger Licensing, Inc. v. Tee's Ave., Inc.*, 924 F. Supp. 17 (S.D.N.Y. 1996); *Time Warner Entm't Co. v. Jane Does # 1-2 and John Does # 1-10*, 876 F. Supp. 407 (E.D.N.Y. 1994); *Clorox Co. v. Inland Empire Wholesale Grocers, Inc.*, 874 F. Supp. 1065 (C.D. Cal. 1994); *Hsu Terabyte Int'l, Inc. v. Intel Corp.*, 8 F.3d 27 (9th Cir. (Cal.) 1993); *Elec. Lab. Supply Co. v. Cullen*, 977 F.2d 798 (3rd Cir. 1992); *Major League Baseball Promotion v. Colour-Tex, Inc.*, 729 F. Supp. 1035 (D.N.J. 1990); *Gen. Elec. Co. v. Speicher*, 877 F.2d 531 (7th Cir. 1989); *Gen. Elec. Co. v. Speicher*, 676 F. Supp. 1421 (N.D. Ind. 1988); and *Skierkewiecz v. Gonzalez*, 711 F. Supp. 931 (N.D. Ill. 1989).

11. *See* C.A. No. H-98-1309. On January 17, 2002, the Fifth Circuit decided *Waco Int'l Inc., v. KHK Scaffolding et al.* *See* C.A. No. 00-20741. F.3d. (5th Cir. 2002). The Fifth Circuit affirmed the trial court in all regards, most notably for this article finding that Waco's seizure was wrongful because it had seized legitimate, non-infringing merchandise. *See id.* The Court also rejected Waco's arguments that (1) the Judge's statement that the court had previously held on Summary Judgment that the seizure was wrongful was an erroneous "jury instruction," (2) that an experienced trademark attorney's expert testimony of the normal procedures for obtaining an *ex parte* seizure was impermissible testimony regarding the law, and (3) that KHK could not recover attorney's fees because it had not been awarded "actual" damages. *See id.* The Court, however, also rejected KHK's claim that the trial court erred in not finding this an "exceptional case" and awarding all of KHK's attorney's fees. *See id.*

## I. THE LAW

### A. THE SEIZURE STATUTE

The eleven paragraphs of the seizure statute are a virtual checklist of steps to follow to obtain a seizure of counterfeit trademarked goods. Congress intentionally drafted it in this manner to ensure “ample procedural protections for persons against whom such orders are issued.”<sup>12</sup> This section sets out that checklist, with some elucidating commentary from the legislative history.

#### 1. 15 U.S.C. § 1116(d)(1): Counterfeits.

Seizures are only available in cases of where a counterfeit mark is used.

In the case of a civil action arising under [15 U.S.C. § 1114(1)(a)] . . . with respect to a violation that consists of using a counterfeit mark in connection with the sale, offering for sale, or distribution of goods or services, the court may, upon *ex parte* application, grant an order under subsection (a) of this section pursuant to this subsection providing for the seizure of goods and counterfeit marks involved in such violation and the means of making such marks, and records documenting the manufacture, sale, or receipt of things involved in such violation.<sup>13</sup>

The statute defines “counterfeit mark” as:

a counterfeit of a mark that is registered on the principal register in the United States Patent and Trademark Office for such goods or services sold, offered for sale, or distributed and that is in use, whether or not the person against whom relief is sought knew such mark was so registered.<sup>14</sup>

The Senate report to an early draft of the bill provides some guidance as to the scope of seizures in this regard. “First, because the bill addresses only the use of spurious marks that are ‘identical to or substantially indistinguishable from’ a registered mark, it does not reach routine business disputes

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12. See Joint Statement on Trademark Counterfeiting Legislation, 130 CONG. REC. 31673 (1984), at 2080.

13. 15 U.S.C. § 1116(d)(1)(A).

14. 15 U.S.C. § 1116(d)(1)(B)(i).

about arguable instances of trademark infringement.”<sup>15</sup> The bill also “does not include within its coverage so-called ‘gray market’ goods – i.e., authentic trademarked goods that have been obtained from overseas markets.”<sup>16</sup> Finally, “the bill does not extend to imitations of trade dress or packaging, unless those features have been registered as trademarks on the principal register in the U.S. Patent and Trademark Office.”<sup>17</sup>

## 2. 15 U.S.C. § 1116(d)(2): Notice to U.S. Attorney

The court shall not receive an application under this subsection unless the applicant has given such notice of the application as is reasonable under the circumstances to the United States attorney for the judicial district in which such order is sought. Such attorney may participate in the proceedings arising under such application if such proceedings may affect evidence of an offense against the United States. The court may deny such application if the court determines that the public interest in a potential prosecution so requires.<sup>18</sup>

Many counterfeiting cases involve criminal activity and are often investigated by law enforcement agencies. Therefore, “under some circumstances, a privately obtained seizure order might interfere with an ongoing criminal investigation.”<sup>19</sup> Because of this, Congress has required that a civil applicant notify the U.S. Attorney before obtaining a seizure.

## 3. 15 U.S.C. § 1116(d)(3): Application Requirements

The application for an order under this subsection shall -

(A) be based on an affidavit or the verified complaint establishing facts sufficient to support the findings of fact and conclusions of law required for such order; and

(B) contain the additional information required by paragraph (5) of this subsection to be set forth in such order.<sup>20</sup>

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15. S. REP. NO. 98-526, reprinted in 1984 U.S.C.C.A.N. 3627, at 3.

16. *Id.* See also *Martin’s Herend Imps., Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296 (5th Cir. 1997); *infra* note 80 and accompanying text (discussing gray market versus counterfeit goods).

17. S. REP. NO. 98-526, at 3.

18. 15 U.S.C. § 1116(d)(2).

19. S. REP. NO. 98-526, at 18.

20. 15 U.S.C. § 1116(d)(3).

To obtain a seizure the applicant must supply the court with both legal and factual information that supports the seizure. This section sets forth the basic requirements, but with reference to the two subsequent sections. Congress noted that an application for seizure is “an *ex parte* proceeding” and “the court will have no choice but to rely on the representations of the applicant.”<sup>21</sup>

#### 4. 15 U.S.C. § 1116(d)(4): Additional Application Requirements

The court shall not grant such an application unless -

(A) the person obtaining an order under this subsection provides the security determined adequate by the court for the payment of such damages as any person may be entitled to recover as a result of a wrongful seizure or wrongful attempted seizure under this subsection . . .<sup>22</sup>

The first part of this section requires posting of a bond as security “to ensure that the defendant will be made whole if the seizure should prove to have been wrongful.”<sup>23</sup> Congress also stated that the “provision of a bond is one of the critical procedural protections designed to ensure that the defendant’s rights are adequately protected during the course of an *ex parte* seizure.”<sup>24</sup> Because of this, Congress recommended that in “setting the amount of security, courts should err on the side of caution – that is, towards larger bonds – in light of the need to protect the unrepresented defendant.”<sup>25</sup>

The court shall not grant such an application unless – . . .

(B) the court finds that it clearly appears from specific facts that -

(i) an order other than an *ex parte* seizure order is not adequate to achieve the purposes of [15 U.S.C. § 1114];

(ii) the applicant has not publicized the requested seizure;

(iii) the applicant is likely to succeed in showing that the person against whom seizure would be ordered used a counterfeit mark in connection with the sale, offering for sale, or distribution

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21. See Joint Statement on Trademark Counterfeiting Legislation, 130 CONG. REC. 31673 (1984), at 2080.

22. 15 U.S.C. § 1116(d)(4).

23. See 130 CONG. REC. 31673, at 2080.

24. *Id.*

25. *Id.*

of goods or services;

(iv) an immediate and irreparable injury will occur if such seizure is not ordered;

(v) the matter to be seized will be located at the place identified in the application;

(vi) the harm to the applicant of denying the application outweighs the harm to the legitimate interests of the person against whom seizure would be ordered of granting the application; and

(vii) the person against whom seizure would be ordered, or persons acting in concert with such person, would destroy, move, hide, or otherwise make such matter inaccessible to the court, if the applicant were to proceed on notice to such person.<sup>26</sup>

The second part of this section requires that the court make rather extensive findings of fact and conclusions of law. The court's findings by necessity are dependent upon the information supplied by the applicant. As the Senate Committee noted, the

court must find a sufficient basis for concluding, based upon sworn statements submitted by the applicant, that: (1) there are counterfeit goods or other listed materials at the place identified by the applicant, and (2) the applicant will suffer immediate and irreparable harm if the goods or materials are not seized through an *ex parte* order.<sup>27</sup>

The legislative history highlights subsection (vii), which requires a showing that the defendant would not comply with ordinary judicial procedures, as "the key to obtaining an *ex parte* seizure order."<sup>28</sup> This subsection requires, "in essence, that the applicant show that if he or she were to proceed on notice to the defendant, the defendant or persons associated with the defendant would destroy, transfer, or hide the materials in question, or otherwise make them inaccessible to the court's jurisdiction."<sup>29</sup> Congress noted that this type of behavior is common among "fly-by-night" counterfeiters, but it "would not be appropriate to order such a seizure against a reputable merchant, absent unusual circumstances."<sup>30</sup> This is because a "reputable businessperson would not be likely to conceal or destroy evidence when notified of a pending lawsuit, and the

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26. 15 U.S.C. § 1116(d)(4).

27. S. REP. NO. 98-526, reprinted in 1984 U.S.C.C.A.N. 3627, at 16.

28. 130 CONG. REC. 31673, at 12081.

29. *Id.*

30. *Id.*

issuance of an *ex parte* seizure order against such a person would therefore be wholly inappropriate.”<sup>31</sup>

5. 15 U.S.C. § 1116(d)(5): Requirements of Seizure Order.

An order under this subsection shall set forth -

(A) the findings of fact and conclusions of law required for the order;

(B) a particular description of the matter to be seized, and a description of each place at which such matter is to be seized;

(C) the time period, which shall end not later than seven days after the date on which such order is issued, during which the seizure is to be made;

(D) the amount of security required to be provided under this subsection; and

(E) a date for the hearing required under paragraph (10) of this subsection.<sup>32</sup>

This subsection sets forth the contents of the seizure order issued by the court. One of the requirements, that the goods to be seized and the location of the goods, be set out with some particularity, is designed to meet the requirements of the Fourth Amendment.<sup>33</sup>

6. 15 U.S.C. § 1116(d)(6): Limitation on Publicity.

“The court shall take appropriate action to protect the person against whom an order under this subsection is directed from publicity, by or at the behest of the plaintiff, about such order and any seizure under such order.”<sup>34</sup>

Congress noted that because “the unfairness of publicizing a seizure order obtained without the defendant’s knowledge forms the basis for limiting the plaintiff’s efforts to publicize the seizure, the need for protection will primarily exist before and during the seizure.”<sup>35</sup> This subsection appears to be designed to complement subsection 8, which requires the sealing of the record until after the seizure hearing.

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31. *Id.*

32. 15 U.S.C. § 1116(d)(5) (2000).

33. *See infra* notes and accompanying text.

34. 15 U.S.C. § 1116(d)(6).

35. 130 CONG. REC. 31673, at 12082.



7. 15 U.S.C. § 1116(d)(7): Disposition of the Seized Goods.

Any materials seized under this subsection shall be taken into the custody of the court. The court shall enter an appropriate protective order with respect to discovery by the applicant of any records that have been seized. The protective order shall provide for appropriate procedures to assure that confidential information contained in such records is not improperly disclosed to the applicant.<sup>36</sup>

This subsection is also designed to protect the defendant. Congress noted that the seizure of business “records poses particularly difficult issues, since such documents may contain sensitive business information. If any records have been seized, therefore, the court should enter an appropriate protective order with respect to discovery of the records.”<sup>37</sup>

8. 15 U.S.C. § 1116(d)(8): Sealing the Record.

An order under this subsection, together with the supporting documents, shall be sealed until the person against whom the order is directed has an opportunity to contest such order, except that any person against whom such order is issued shall have access to such order and supporting documents after the seizure has been carried out.<sup>38</sup>

This subsection is a further effort to protect the defendant should the seizure prove unwarranted. To this end, Congress decided that the record should be sealed until “the defendant has been given an opportunity to contest [the order].”<sup>39</sup> The Senate Committee was “particularly concerned that the good will of the defendants not be unfairly injured before they have had their day in court.”<sup>40</sup>

9. 15 U.S.C. § 1116(d)(9): Service of Seizure by Law Enforcement.

The court shall order that service of a copy of the order under this subsection shall be made by a Federal law enforcement officer

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36. 15 U.S.C. § 1116(d)(7) (2000).

37. 130 CONG. REC. 31673, at 12082.

38. 15 U.S.C. § 1116(d)(8).

39. S. REP. NO. 98-526, reprinted in 1984 U.S.C.C.A.N. 3627, at 16.

40. *Id.*

(such as a United States marshal or an officer or agent of the United States Customs Service, Secret Service, Federal Bureau of Investigation, or Post Office) or may be made by a State or local law enforcement officer, who, upon making service, shall carry out the seizure under the order. The court shall issue orders, when appropriate, to protect the defendant from undue damage from the disclosure of trade secrets or other confidential information during the course of the seizure, including, when appropriate, orders restricting the access of the applicant (or any agent or employee of the applicant) to such secrets or information.<sup>41</sup>

This subsection is also included, in part, for the protection of the defendant. The Senate Committee stated that “for the maintenance of public order, it is important that law enforcement officials, and not private citizens, enforce seizure orders.”<sup>42</sup> However, this subsection also requires the court to “issue appropriate orders to ensure that trade secrets or other confidential data are not improperly disclosed during the course of the seizure.”<sup>43</sup>

#### 10. 15 U.S.C. § 1116(d)(10): Hearing.

(A) The court shall hold a hearing, unless waived by all the parties, on the date set by the court in the order of seizure. That date shall be not sooner than ten days after the order is issued and not later than fifteen days after the order is issued, unless the applicant for the order shows good cause for another date or unless the party against whom such order is directed consents to another date for such hearing. At such hearing the party obtaining the order shall have the burden to prove that the facts supporting findings of fact and conclusions of law necessary to support such order are still in effect. If that party fails to meet that burden, the seizure order shall be dissolved or modified appropriately.

(B) In connection with a hearing under this paragraph, the court may make such orders modifying the time limits for discovery under the Rules of Civil Procedure as may be necessary to prevent the frustration of the purposes of such hearing.<sup>44</sup>

Finally, Congress required that a hearing be held to

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41. 15 U.S.C. § 1116(d)(9).

42. S. REP. NO. 98-526, at 17.

43. Joint Statement on Trademark Counterfeiting Legislation, 130 CONG. REC. 31673 (1984), at 12082.

44. 15 U.S.C. § 1116(d)(10) (2000).

determine “the propriety of the seizure order.”<sup>45</sup>

At the hearing, the plaintiff will have the burden of showing that the seizure order was justified and that it continues to be justifiable to hold the defendant’s goods or other materials. . . If the plaintiff is unable to show that continuation of the seizure order is justified, however, the seizure order should be dissolved or modified appropriately.<sup>46</sup>

#### 11. 15 U.S.C. § 1116(d)(11): Wrongful Seizure.

A person who suffers damage by reason of a wrongful seizure under this subsection has a cause of action against the applicant for the order under which such seizure was made, and shall be entitled to recover such relief as may be appropriate, including damages for lost profits, cost of materials, loss of good will, and punitive damages in instances where the seizure was sought in bad faith, and, unless the court finds extenuating circumstances, to recover a reasonable attorney’s fee. The court in its discretion may award prejudgment interest on relief recovered under this paragraph, at an annual interest rate established under section 6621 of title 26, commencing on the date of service of the claimant’s pleading setting forth the claim under this paragraph and ending on the date such recovery is granted, or for such shorter time as the court deems appropriate.<sup>47</sup>

If it turns out that the seizure was not justified, the defendant may bring a claim against the applicant to recover any damages as a result of the seizure. Congress specifically stated that, “a person who is subject to a wrongful *ex parte* seizure should be fully compensated by the party who obtained the seizure order.”<sup>48</sup>

In the years since the seizure statute was enacted, seizures have become a relatively commonplace tool in the fight against counterfeiters. While common, they are not routine. As one practitioner’s guide explained: “It would be a fundamental and possibly fatal mistake for counsel or mark owners to treat such applications as anything other than incredibly extraordinary proceedings.”<sup>49</sup> The legislative history for the seizure statute

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45. 130 CONG. REC. 31673, at 12082.

46. *Id.*

47. 15 U.S.C. § 1116(d)(11) (2000).

48. 130 CONG. REC. 31673, at 12080.

49. TRADEMARK COUNTERFEITING, *supra* note 7, at 5-16.

supports this contention, stating that a seizure is considered to be an “extraordinary remedy.”<sup>50</sup> Courts agree: “*Ex parte* seizures are dangerous weapons, which, if not carried out with utmost care and restraint, create a potential for great abuse. They must be extremely limited in scope and seizures which go beyond such limits must be deemed wrongful, entitling defendant to relief under section 1116(d)(11).”<sup>51</sup>

The legislative history provides some limited guidance as to the confines of an *ex parte* seizure. The term wrongful seizure “was intentionally left undefined . . . in the belief that the courts will best be able to interpret this phrase under the circumstances of each individual case, and in light of precedents under Rule 65 of the Federal Rules of Civil Procedure.” Congress does, however, set out a few “rules of thumb” for determining whether a seizure might be wrongful:

The first is that the mere fact that a few legitimate items may have been seized does not make the seizure as a whole wrongful. . . . The second is that the seizure will be considered wrongful if the applicant acted in bad faith in seeking it. For example, it would obviously constitute bad faith for an applicant to seek a seizure order in an effort to prevent the sale of legitimate merchandise at discount prices. Similarly, it would constitute bad faith for an applicant deliberately to defy a court order limiting its access to confidential documents seized from the defendant. Third, a seizure must be considered ‘wrongful’ if the matter seized is legitimate, noninfringing merchandise. In such a case, even if the plaintiff acted in good faith, the defendant should be compensated for his or her losses caused by the plaintiff’s use of an *ex parte* process.<sup>52</sup>

The Senate report, which preceded the Joint Committee report, adds some details to the proposal behind the wrongful seizure provision, and fleshes out some requirements for a bad faith seizure:

The Committee wishes to discourage frivolous of [sic] nuisance suits under the bill, and to help prevent an allegation or [sic] counterfeiting from becoming a “boiler plate” pleading in every trademark suit. Should a party bring a suit in bad faith under this bill – for example, as part of an effort to control the resale prices of

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50. 130 CONG. REC. 31673, at 12082.

51. Gen. Elec. Co. v. Speicher, 676 F. Supp. 1421, 1436 (N.D. Ind. 1988).

52. 130 CONG. REC. H12083 (comprising the only mention of “bad faith” in the legislative history of this statute).

authentic trademarked goods – this subsection provides that the victimized defendant will be entitled to an award of damages, including punitive damages when appropriate, and the costs of defending the action, including reasonable attorney’s and investigator’s fees. The Committee believes that if a defendant can show that the plaintiff pleaded or pursued a suit against him or her in bad faith, an award of substantial punitive damages will usually be appropriate. . . . [A] plaintiff need not have conclusive proof that the defendant has intentionally trafficked in known counterfeits in order to file a suit under this bill. Should a plaintiff plead or pursue a suit when it is clear that the suit is baseless, however, this provision would make the plaintiff liable in damages to the victimized defendant. For example, should the plaintiff learn as a result of discovery that any claim of counterfeiting is meritless, continued pursuit of such a claim would be in bad faith.<sup>53</sup>

## B. SEIZURE CASES

Since the statute was enacted there have been about a dozen seizure cases, but only a handful involving a counterclaim for wrongful seizure. Most were unsuccessful, and none was found a seizure to be in bad faith. However, these cases do provide some additional guidance regarding the proper way to obtain a seizure.

### 1. Basic Seizure Cases.

At least three cases have upheld the seizure of clearly counterfeit goods<sup>54</sup> but none of them analyzed the seizure statute in any detail. In one case, the court noted that the applicant had fully investigated the counterfeiter, and fully supported its seizure application with believable evidence.<sup>55</sup> In a second case, the court upheld the seizure on a 12(b)(6) motion, and noted that a counterclaim under Section 1116 (d)(11) would be a more appropriate remedy for allegation that the seizure was wrongful.<sup>56</sup> One court, the district court of Puerto Rico, went

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53. S. REP. NO. 98-526, reprinted in 1984 U.S.C.C.A.N. 3627, at 19.

54. See *Sega Enters., Ltd. v. Maphia*, 857 F. Supp. 679 (N.D. Cal. 1994) (seizure of counterfeit computer programs); see also *Tommy Hilfiger Licensing, Inc. v. Tee’s Ave., Inc.*, 924 F. Supp. 17 (S.D.N.Y. 1996) (seizure of counterfeit Hilfiger clothing); *Gucci Am., Inc. v. Accents*, 955 F. Supp. 279 (S.D.N.Y. 1997) (seizure of counterfeit Gucci handbags).

55. See *Gucci Am.*, 955 F. Supp. 279, at 955.

56. See *Tommy Hilfiger Licensing, Inc.*, 924 F. Supp. 17.

beyond the literal scope of the seizure statute, and allowed the seizure of T-shirts that probably were not technically counterfeit.<sup>57</sup>

In upholding the seizure of counterfeits, the Third Circuit noted that Congress considered 'ex parte seizures a necessary tool to thwart the bad faith efforts of fly by night defendants to evade the jurisdiction of the court,' and intended seizure orders to be available whenever a temporary restraining order and the threat of contempt for a violation thereof are unlikely to result in preservation of the evidence and the removal of the counterfeit merchandise from commerce.<sup>58</sup>

At least one court held that the seizure of business records is not wrongful.<sup>59</sup> The court allowed the seizure of counterfeit Reebok athletic shoes, froze the defendant's assets, and allowed the seizure of defendant's business records. The court noted that this was within the equitable powers of the court, and, without detailed analysis, found that "the Seizure Order was properly granted in accordance with the Trademark Counterfeiting Act of 1984."<sup>60</sup>

A number of courts have addressed the Fourth Amendment issues raised by the seizure statute, and have found that a properly conducted seizure satisfies the Constitutional requirements. In two cases, the seizures were upheld.<sup>61</sup> In at least two cases, the courts denied the seizures based on Fourth Amendment concerns. In the first, *Sports Design and Dev., Inc., v. Schonebaum*, the court denied the seizure because the location of the allegedly offending goods was not adequately described.<sup>62</sup> In the second case, *Time Warner Entm't Co. v. Doe*,<sup>63</sup>

57. See *Pepe (U.K.) Ltd. v. Ocean View Factory Outlet Corp.*, 770 F. Supp. 754 (D. Puerto Rico 1991) (discussed in more detail under section on counterfeiting, *infra* and accompanying text).

58. See *Vuitton v. White*, 945 F.2d 569, 575 (3d Cir. 1991) (quoting 130 CONG. REC. H120781).

59. See *Reebok Int'l, Ltd. v. Marnatech Enter., Inc.*, 737 F. Supp. 1521 (S.D. Cal. 1989).

60. *Id.* at 1525 (citing to 15 U.S.C. § 1116 (d)(1)(A) (1988)).

61. See *Reebok Int'l, Ltd. v. Su Youn Pak*, 683 F. Supp. 929, 930 (S.D.N.Y. 1988) (The court noted briefly that the application for seizure provided sufficient facts to support the application and met the requirements of the seizure statute and Fourth Amendment.); see also *General Motors Corp. v. Gibson Chemical & Oil Corp.*, 786 F.2d 105 (2d Cir. 1986).

62. 871 F. Supp. 1158, 1166 (N.D. Iowa 1995) (noting that the plaintiff's investigation never determined that counterfeit goods were in the defendant's home, and therefore, seizure should be denied).

the court determined that a seizure application did not meet the specificity requirements of the Fourth Amendment. The plaintiff sought the seizure of T-shirts bearing counterfeit depictions of Looney Tunes characters (Bugs Bunny, Daffy Duck, etc.) from unknown defendants presumed to be operating from a building in Brooklyn, New York. The court set out the provisions of the statute, and noted the requirement specifying the location of the goods to be seized:

With respect to requirement that the application identify the place where the matter to be seized may be found, Congress acknowledged that courts will have to be flexible – “but should require as great a degree of specificity as is possible under the circumstances, and should not grant orders, for example, permitting seizure to take place ‘anywhere in downtown Washington, DC.’”<sup>64</sup>

The court then noted that the broad seizure application requested by the plaintiff would not satisfy the particularity requirement of the Fourth Amendment, and quoted from the Supreme Court to explain the purpose of the particularity requirement:

The manifest purpose of this particularity requirement was to prevent general searches. By limiting the authorization to search to the specific areas and things for which there is probable cause to search, the requirement ensures that the search will be carefully tailored to its justifications, and will not take on the character of the side-ranging exploratory searches the Framers intended to prohibit. Thus, the scope of a lawful search is “defined by the object of the search and the place in which there is a probably cause to believe that it may be found.”<sup>65</sup>

The plaintiff’s seizure application asked to seize the inventory of the defendants (whose identity was unknown) at any location in New York. The court determined that this was grossly overbroad.<sup>66</sup>

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63. See *Time Warner Entm’t Co. v. Jane Does # 1-2 and John Does # 1-10*, 876 F. Supp. 407, 407 (E.D.N.Y. 1994).

64. *Id.* at 411 (quoting 130 CONG. REC. H12076 (1984)).

65. *Id.* at 413 (quoting *Maryland v. Garrison*, 480 U.S. 79, 84 (1987)).

66. See *Time Warner Entm’t Co.*, 876 F. Supp. 407, at 413.

## 2. Wrongful Seizure Cases

A finding of wrongful seizure most frequently occurs when the goods seized were not in fact counterfeits. For example, in *Clorox Co. v. Inland Empire Wholesale Grocers, Inc.*, the defendant was accused of placing counterfeit “Pine-Sol”® labels on generic pine cleaners.<sup>67</sup> In fact, the defendant produced generic cleaners that it occasionally shipped without labels for purchasers who would attach their own labels. The defendant counter-sued for wrongful seizure, and the plaintiff sought to dismiss the counterclaim. The court noted that the goods were not counterfeits, and refused to dismiss the counterclaim. An *ex parte* seizure order has been called a “drastic” remedy which should be ordered only as a last resort. There are statutory safeguards present in 15 U.S.C. § 1116 (d)(4), (7), and (11). A seizure is wrongful:

if the applicant acted in bad faith in seeking it. For example, it would obviously constitute bad faith for an applicant to seek a seizure order in an effort to prevent the sale of legitimate merchandise at discount prices. . . [A] seizure must be considered “wrongful” if the matter seized is legitimate, noninfringing merchandise.<sup>68</sup>

In a second case, the trial court initially determined that the goods were not counterfeits because they did not bear counterfeit marks, even though they were placed in a box with the counterfeit marks.<sup>69</sup> The Seventh Circuit Court of Appeals reversed, determining that the goods were counterfeits.<sup>70</sup> Finally, in a third case, a court determined that it would be wrongful to seize non-counterfeit goods, but without an actual seizure there can be no claim for wrongful seizure.<sup>71</sup> In that case, the defendant – who had been contracted by an authorized distributor to make “Budweiser” T-shirts – voluntarily turned over the shirts. The defendant argued that even though there

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67. See *Clorox Co. v. Inland Empire Wholesale Grocers, Inc.*, 874 F. Supp. 1065, 1065 (C.D. Cal. 1994).

68. *Id.* at 1071 (citing *Gen. Elec. Co. v. Speicher*, 681 F. Supp. at 1342, and quoting *Major League Baseball Promotions v. Colour-Tex*, 729 F. Supp. 1035, 1048 (D.N.J. 1990).

69. *Gen. Elec. Co. v. Speicher*, 676 F.Supp 1421 (N.D. Ind. 1988), *upheld on reh'g*, 681 F. Supp. 1337 (N.D. Ind, 1988).

70. See *Gen. Elec. Co. v. Speicher*, 877 F.2d 531, 531 (7th Cir. 1989); see also *infra* Part IV.A.

71. See *Major League Baseball Promotion Corp. v. Colour-Tex, Inc.*, 729 F. Supp. 1035 (D.N.J. 1990).



was no actual seizure, invalid application made the seizure wrongful. The court disagreed, and determined that the wrongful seizure statute applied only in cases of actual seizures.<sup>72</sup>

In a second line of wrongful seizure cases, aggrieved defendants sought to bring a wrongful seizure action against the attorney who obtained the seizure as well as the plaintiff represented by that attorney. In one early seizure case, a Federal court in Illinois determined that the attorney for the applicant could be sued for wrongful seizure.<sup>73</sup> The court noted numerous errors in the seizure application, and allowed the party whose goods had been seized to sue the plaintiff's attorneys for wrongful seizure, abuse of process, trespass to land, and trespass to chattel. This holding was directly contradicted by the Third Circuit in *Elec. Lab Supply Co. v. Cullen*.<sup>74</sup> The plaintiff ("ELSCO") was in the business of disposing of electronic parts and retrieving the valuable portions for companies like Motorola. When Motorola found that Hong Kong companies were selling electronic equipment that contained Motorola semiconductors, they suspected ELSCO might be involved, but an investigation determined that this was highly unlikely. Despite its own investigation, Motorola obtained an *ex parte* seizure order under 15 U.S.C. §1116 (d), but was unable to find any evidence that ELSCO was selling its semiconductors. ELSCO countersued for wrongful seizure, and Motorola settled. ELSCO then sued the attorneys that had obtained the seizure order, claiming they had withheld information, and misled the court in the seizure application. The court went through the seizure statute point by point, but determined that the term "applicant" in the seizure statute does not include the applicant's attorneys.<sup>75</sup>

Finally, it should be noted that in at least one case, the victim of a wrongful seizure successfully brought sanctions against the attorneys who wrongfully brought the seizures, though the sanctions were later vacated. In *Super Power Supply, Inc. v. Macase Indus. Corp.*, the court initially awarded sanctions against the seizure applicant's attorney because of numerous misstatements he made in the seizure application and

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72. See *id.* at 1051 (citing 15 U.S.C. § 1116 (d)(11)).

73. See *Skierkewicz v. Gonzalez*, 711 F. Supp. 931, 931 (N.D. Ill. 1989).

74. See *Elec. Lab. Supply Co. v. Cullen*, 977 F.2d 798, 798 (3d Cir. 1992).

75. See *id.* at 808.

at subsequent hearings.<sup>76</sup> The court noted that it in *ex parte* proceedings it must rely on the applicant to be truthful. "Where such extraordinary relief as an unnoticed, *ex parte* seizure order is sought, the court necessarily relies upon the diligence, honesty, and forthrightness of the represented party's counsel to ensure that the rights of the unrepresented party are not unduly infringed."<sup>77</sup> The court then imposed sanctions on the applicant's attorney because he should have known there was no basis for the *ex parte* seizure, he misrepresented facts to the court, and did not correct these errors once he became aware of them.<sup>78</sup>

### 3. Bad Faith Wrongful Seizure

Finally, there is at least one case that deals with the issue of whether a seizure was sought or obtained in bad faith such that it would warrant punitive damages. This issue was addressed by the Fifth Circuit twice in *Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.*<sup>79</sup> Martin's Herend was the exclusive importer for Herendi porcelain.<sup>80</sup> Diamond & Gem sold Herendi porcelain that the proprietor had purchased in Hungary and the United States.<sup>81</sup> Martin's Herend sued Diamond & Gem for trademark infringement and trademark counterfeiting, and sought an obtained an *ex parte* seizure order, seizing Diamond & Gem's stock of Herendi porcelain.<sup>82</sup> At trial, the court granted Martin's Herend's motion for summary judgment for trademark infringement, and dismissed Diamond & Gem's counterclaim for wrongful seizure.<sup>83</sup>

In *Martin's Herend I*, the Fifth Circuit held that the district court erred in dismissing the defendant's counterclaim for wrongful seizure. "Given the draconian nature of this *ex parte*

76. 154 F.R.D. 249 (C.D. Cal. 1994) *vacated in part*, 1995 US Dist Lexis 22276 (C.D. Cal. Jan 31, 1995).

77. *Id.* at 256.

78. *See id.*

79. *See Martin's Herend Imps., Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296, 1296 (5th Cir. 1997) (*aff'd in part after remand*, 195 F.3d 765 (5th Cir. 1999)). Only the first iteration of Martin's Herend (*Martin's Herend I*) was available when Waco filed suit. The second case (*Martin's Herend II*) was decided just before the original trial date of the Waco case.

80. *See id.*, at 1299.

81. Herendi manufactures high quality tableware and figurines in Hungary. *See id.*

82. *See id.*

83. *See id.* at 1300.

remedy, providing for the seizure of defendant's wares and records without prior notice . . . we believe that it should be narrowly construed."<sup>84</sup> The court remanded, noting that the statute specifically excludes gray market goods like the defendant's; therefore, the district court erred in dismissing the defendant's counterclaims.<sup>85</sup>

The Fifth Circuit's decision in *Martin's Herend II*,<sup>86</sup> was decided after Waco had filed suit, but provided guidance directly on the issue of a bad faith wrongful seizure. Martin's Herend – the exclusive U.S. distributor of Hungarian Herendi porcelain – obtained an *ex parte* seizure of “gray market” Herendi porcelain distributed by Diamond & Gem. Diamond & Gem asserted at trial on remand “that the standard for bad faith is an objective one that can be evinced by ‘anticompetitive motive’ coupled with ‘knowing lack of need for a seizure.’”<sup>87</sup> The Fifth Circuit affirmed the legal standard applied by the trial court, “namely, whether Martin's sought the seizure knowing it was baseless.”<sup>88</sup> The appellate court also noted that a good faith belief that an operation is selling counterfeit goods need not even be true: “[A] plaintiff need not have conclusive proof that the defendant has intentionally trafficked in known counterfeits in order to file suit.” S.REP. NO. 98-526, at 19, 1984 U.S.C.C.A.N. at 3645. Accordingly, the [district] court used the right standard for finding bad faith.”<sup>89</sup>

This was the general state of counterfeiting and seizure law that existed in June 1998, before Waco Scaffolding went to court and obtained a seizure order. A simple reading of the statute provides a road map of how to conduct a seizure; the legislative history provides some insight as to the outside boundaries of an acceptable seizure, and the case law adds real world examples. The law in this regard is fairly clear. So what happened with

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84. *See id.* at 1306.

85. *See id.*

86. 195 F.3d 765 (5th Cir. 1999). The party bringing the claim of wrongful seizure has the burden of proof to show that the seizure was wrongful and, if applicable, obtained in bad faith. *See id.* Diamond & Gem had argued that because the applicant had the burden in obtaining the seizure, they retained the burden of showing that the seizure was not wrongful. *See id.* The Court of Appeals rejected this argument. *See id.*

87. 195 F.3d at 773.

88. *Id.* (citing S. REP. NO. 98-526, at 19). “Should a plaintiff plead or pursue a suit when it is clear that the suit is baseless, however, this provision would make the plaintiff liable in damages to the victimized defendant.” *Id.*

89. 195 F.3d at 773.

Waco seizure? What did Waco do to engage in a “bad faith wrongful seizure”? A brief discussion of the facts, both operative and merely interesting, sets the stage.

### III. BACKGROUND

Both the plaintiff, Waco Scaffolding, and the defendant, KHK Scaffolding, manufacture and sell scaffolding. Waco has been making scaffolding in the United States since the late 1940's.<sup>90</sup> Its main product line is “frame scaffolding,”<sup>91</sup> although it also sells some “system scaffolding.”<sup>92</sup> The colors red and blue are Waco's primary choice for its frame scaffolding.<sup>93</sup>

KHK has been making and selling scaffolding in Europe and the Middle East since the late 1970s.<sup>94</sup> In the mid 1990s KHK began selling system scaffolding in the United States from an office in Houston, Texas. In 1997, KHK expanded its line of scaffolding to include frame scaffolding.<sup>95</sup> KHK sold frame scaffolding in red and blue, which are common colors in the scaffolding industry.<sup>96</sup>

As is undoubtedly appreciated by anyone who has ever seen

90. The name Waco is an acronym for the name of the original company, the Wilson-Albrecht Company. Background information on Waco Scaffolding was obtained from Waco's web site at <<http://www.wacoscaf.com>>.

91. Frame scaffolding consists of a two rectangular end frames attached by two cross braces to form a frame box. Planks are then placed on the top of the frames to create a work platform. These are the most commonly seen scaffolding on the sides of buildings. See *Waco Int'l, Inc. v. KHK Scaffolding, et al.*, C.A. No. H-98-1309, (Plaintiff Trial Exhibit 23, “Waco's Guide to Scaffolding”).

92. System scaffolding consists of bars and connectors, similar to an Erector Set<sup>®</sup>, that allows the creation of irregular shaped scaffolding structures. *Id.*

93. Paint color was a major point of contention in the case, and the evidence revealed that most major scaffolding companies sell their product in certain colors. For example, Vanguard is generally blue, Safway is generally gray, and Waco is generally red. However, it has been standard practice in the industry for many years to paint scaffolding to match a customers existing stock, so there can be no trademark rights in the colors.

94. Information regarding the history of the two companies was not presented at trial.

95. *Waco Int'l, Inc.*, C.A. No. H-98-1309, (Defendant's Answer and Counterclaims, ¶ 26).

96. Evidence at trial proved that many other manufactures use red and blue as primary colors, and most manufacturers will paint to match a customers existing stock of frame scaffolding. See, e.g., *Waco Int'l, Inc.*, C.A. No. H-98-1309, (Testimony of Frank Shemek, Trial Transcript, 835 – 837 (June 20, 2000)).

scaffolding, there are only a handful of possible configurations for frame scaffolding. Most of these configurations were developed by scaffolding companies well over twenty years ago.<sup>97</sup> Most scaffolding companies now make frames in these configurations, and it is common to refer to these configurations by the name of the first company to develop them. So, for example, there is a Safway style frame, a Vanguard style frame, and a Waco style frame. Most companies accept this fact, but Waco has attempted for years to stop people in the industry from using the term “Waco style” scaffolding.

When KHK entered the frame scaffolding market, it sent out introduction letters and brochures for its products stating that it sells most major styles, and that its frames are compatible with “Safway, Vanguard, and Waco” style frames. Thousands of these letters were sent out in late 1997 and early 1998. Letters were sent to most scaffolding manufacturers, sellers, renters, and users throughout the United States. Letters and brochures were even sent to Waco and its many distributors. In early 1998, when KHK began to actually sell frame scaffolding, its salesmen (either by error or force of habit based on common industry practice) sent out a handful of solicitation and quotation letters,<sup>98</sup> and a number of invoices,<sup>99</sup> that referred to KHK’s product as “WACO” scaffolding.

A Waco distributor in Ohio received a quotation stating: “here is a quote for your Waco Red Scaffolding.”<sup>100</sup> The distributor forwarded the letter to Waco, who in turn notified its attorney in Houston, Texas. Concerned that KHK might be attempting to pass off KHK goods as genuine Waco scaffolding, Waco’s Houston attorney sent KHK a “cease and desist” letter. When KHK received the letter, its manager distributed a memo to company salesmen explaining proper sales terminology, and instructing employees to tell customers that they sold scaffolding compatible with major manufacturers, including Waco. Unfortunately, KHK did not otherwise respond to the letter to either Waco or its attorneys until nearly a month later

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97. And, therefore, any patent on the configuration has long expired. The configurations are in the public domain, and any company can copy the configuration.

98. Waco submitted approximately six into evidence at trial.

99. Approximately thirty were submitted into evidence at trial.

100. The KHK salesman who made the quote testified in his deposition that he only quoted what the customer asked for, so in this case he claims the customer asked for a quote on “Waco Red and Blue” scaffolding. The distributor disputed this at trial.

because the president of the company was traveling in the Middle East on business.

In the interim, and concerned by the lack of response to the cease and desist letter, Waco's attorneys hired an investigator to go to KHK and buy some of the frame scaffolding. The investigator was given a list of frames that were described as "Waco compatible" in the KHK sales brochure.<sup>101</sup> The investigator's report stated that he was taken through the facility by a salesman who explained that KHK did not currently stock the "WB" (or "Waco blue" style frame), but they did have the "WR" ("Waco red" style) frame. The investigator stated that the KHK salesman never use the term "Waco" during his visit.

After showing the investigator the red frame scaffolding, the salesman filled out an order sheet that listed the frames by part number. He gave this sheet to a shipping clerk who filled out a shipping report form for the warehouse to bring the proper frames to the loading dock for the investigator to pick up. This shipping report referred to the frames as "Waco 5' x 6'7" frames." The investigator picked up the frames and shipped them the Waco's headquarters in Cleveland, Ohio. Later that day the KHK salesman realized that the investigator had not received an invoice for the goods, so mailed him a copy. The invoice referred to the scaffolding frames by the part number and did not mention "Waco" at all.

This information was turned over the Waco's local counsel in Houston. The attorney stated that it was her impression from these documents and the investigator's report, that KHK was selling counterfeit "Waco" scaffolding. She also inferred from the variance between the shipping report and the invoice that KHK was either trying to hide their activities, or actively altering documents. Based on this interpretation, Waco applied for an *ex parte* seizure order. Waco asserted that KHK's goods were "counterfeit" because the Waco terminology had been used "in connection with" the sale of the KHK scaffolding.<sup>102</sup> Waco obtained the seizure order on April 30, 1998, and carried out the seizure on May 5, 1998.

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101. The investigator was directed to purchase scaffolding by the item number listed in the KHK brochure for the compatible product.

102. See *Waco Int'l, Inc.*, C.A. No. H-98-1309, (Plaintiff's Original Verified Complaint, ¶ 42).

#### IV. ANALYSIS

As set forth above, the state of the law was fairly clear, as were the facts available to Waco when it filed the application for a seizure. The application set in motion a chain of events that ultimately led to a jury determining that Waco's seizure was wrongful, and conducted in bad faith.

How did that happen? What did Waco do that turned its case against an alleged "counterfeiter" onto its head, resulting in an award against Waco? The answer and the analysis will start with Waco's erroneous definition of counterfeiting.<sup>103</sup> For the sake of clarity and logic, the analysis of Waco's actions, and how they were found to be in bad faith, will follow the basic requirements of the seizure statute. It is important to note that Waco did not *improperly* follow every step in the seizure checklist, and therefore, not every statutory section will be addressed. However, each of the errors will be described in the order they arise within the statute.

##### A. COUNTERFEITING

The first paragraph of the seizure statute states that seizure is only available in cases "that consist[] of using a counterfeit mark."<sup>104</sup> Waco admitted that KHK never placed a spurious mark on its products. It was known from the beginning of the case that Waco's investigator did not purchase KHK scaffolding with a Waco trademark on them. Waco's central allegation in obtaining the seizure was the KHK was selling "counterfeit" scaffolding. This contention was based on the fact that KHK had used the "Waco" terminology<sup>105</sup> on invoices "in connection with the sale" of KHK's compatible scaffolding painted in red. The evidence at trial showed that KHK, and any other scaffolding producer, was free to sell

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103. Waco was consistent throughout the two years of litigation in its insistence that KHK's use of Waco terminology on handwritten sales documents constituted counterfeiting. See *Waco International, Inc.*, C.A. No. H-98-1309, (Plaintiff's Original Verified Complaint, ¶ 42; Plaintiff's Motion for Reconsideration of Order, For Modification of Judgment, and Alternatively for Partial New Trial, p. 4).

104. 15 U.S.C. §1116(d)(1)(A) (2000).

105. Waco never claimed that KHK used a likeness of its mark. Waco's contention dealt with the word marks "WACO" and "HI LOAD" that a KHK salesman wrote by hand on a shipping document.

compatible scaffolding in red.<sup>106</sup> The jury also determined that KHK's use of the "Waco" terminology was fair use to describe the compatibility of KHK's scaffolding frames.

Is it possible, however, that KHK's use of the "Waco" terminology on documentation in connection with the sale of scaffolding could be counterfeiting? Probably not. Waco's contention relies on a narrow, and ultimately erroneous, reading of the seizure statute, which authorizes a seizure "with respect to a violation that consists of using a counterfeit mark in connection with the sale, offering for sale, or distribution of goods. . . ."<sup>107</sup> Waco's narrow reading of the statute defies common sense, the case law, and statutory construction.

The seizure statute defines a counterfeit mark as a counterfeit of a mark that is registered on the principal register in the United States Patent and Trademark Office for such goods or services sold, offered for sale, or distributed and that is in use, whether or not the person against whom relief is sought knew such mark was so registered.<sup>108</sup>

This is in addition to the definition provided by the Lanham Act, which defines a "counterfeit mark [as] a spurious mark which is identical with, or substantially indistinguishable from, a registered mark."<sup>109</sup>

The seizure statute applies in civil actions "arising under section 32(1)(a) of this title . . . with respect to a violation that consists of using a counterfeit mark."<sup>110</sup> Such civil actions are, therefore, entirely dependant upon the statutory definitions of Section 1114, which provides the remedies for trademark infringement. Section 1114(1) states in pertinent part that any

person who shall, without the consent of the registrant –

(a) use in commerce 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, or to cause

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106. Waco's President and Vice President admitted at trial that the Waco scaffolding configuration was in the public domain, and anyone could produce and sell it. They also stated that they could not stop anyone from selling red scaffolding. Their only objection was to the description of this look-a-like product as "Waco" style scaffolding. The jury ultimately determined that this description was fair use.

107. 15 U.S.C. § 1116(d)(1)(A) (2000).

108. 15 U.S.C. § 1116(d)(1)(B).

109. 15 U.S.C. § 1127 (2000).

110. 15 U.S.C. § 1116(d) (1)(A).



mistake, or to deceive. . . shall be liable for trademark infringement.<sup>111</sup>

The definition section of the Lanham act also provides that for

purposes of this chapter, a mark shall be deemed to be in use in commerce

(1) on goods when —

(A) it is placed in any manner on the goods or their containers or the displays associated therewith or on the tags or labels affixed thereto, or if the nature of the goods makes such placement impracticable, then on documents associated with the goods or their sale.<sup>112</sup>

The Act further provides that a counterfeit mark is one that when placed in any manner on the goods makes it “identical with, or substantially indistinguishable from, a registered mark.”<sup>113</sup> Use of a mark in association with goods only applies where “the nature of the goods makes such placement impracticable.”<sup>114</sup> This definition is supported by virtually all reported cases involving counterfeits or allegations of counterfeiting. One district court stated that a “counterfeit trademark is a falsely applied mark, identical to or substantially indistinguishable from the registered trademark.”<sup>115</sup> Unfortunately, the district court did not explain the reasoning behind this statement, although it is supported by the statutory construction set out above.

Many other cases dealing with spurious marks affixed to look-a-like goods did not explicitly define the term, but applied the definition implicitly.<sup>116</sup> Because these cases deal with clear-

111. 15 U.S.C. § 1114(1) (2000) (emphasis added).

112. 15 U.S.C. § 1127 (emphasis added).

113. *Id.*

114. *Id.* While the Court did not dissect the definition of counterfeiting in this manner, it ruled at both the Preliminary Injunction and Summary Judgment that KHK did not sell “counterfeit” goods and did not engage in “counterfeiting.” *See id.*

115. *Reebok Int'l. Ltd. v. K-Mart Corp.*, 849 F. Supp. 252, 273 (S.D.N.Y. 1994) (citing 15 U.S.C. § 427; *Montroes Rolex, S.A. v. Snyder*, 718 F.2d 524, 532 (2d Cir. 1982)), *vacated as moot* 33 U.S.P.Q.2d 1864 (S.D.N.Y. 1994) (settlement by parties renders previous ruling moot).

116. *See Rolex Watch USA v. Meece*, 158 F.3d 816 (5th Cir. 1998) (refurbished Rolex watches with non-genuine parts); *Martin's Herend Imps., Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296 (5th Cir. 1997) (imported gray market Herendi porcelain which was identical to the original article); *Levi Strauss & Co. v. Shilon*, 121 F.3d 1309 (9th Cir. 1997) (look-a-like Levi jeans and counterfeit Levi tags and labels); *Westinghouse Elec. Corp. v. Gen. Circuit Breaker & Elec. Supply, Inc.*, 106 F.3d 894 (9th Cir. 1997)

cut examples of counterfeiting, they do not explicitly address the issue of whether a counterfeit mark must be placed on the goods. It is worth noting that not a single reported counterfeiting case supports the idea that use of a mark on invoices can be considered counterfeiting.

Waco relied upon three cases to support its contention of the extension of the definition of counterfeiting. First, Waco relied on the *Speicher* trilogy of cases involving “knock-off” General Electric carbon-alloy cutting inserts.<sup>117</sup> The defendant in that case made copies of GE “carbology 570” cutting inserts, which were put into authentic GE boxes marked as GE carbology “570” cutting insert.<sup>118</sup> In the first opinion, the Court determined that the knock-off cutting tools were not counterfeit because “Speicher did not copy the G.E. or Carbology marks,” but rather “Speicher used *actual* G.E. boxes which carried the authentic G.E. trademarks.”<sup>119</sup> Because the goods were not counterfeit, the court found the resulting *ex parte* seizure to be wrongful and awarded damages to Speicher. In the second opinion, the court denied G.E.’s request for reconsideration. The court noted that G.E.’s seizure application requested the seizure of “all cutting inserts marked with the number ‘570’” and “all cutting inserts bearing reproductions of any of General Electric’s trademarks,” but no such cutting inserts were found or seized.<sup>120</sup>

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(refurbished Westinghouse circuit breakers sold with the original Westinghouse mark still attached); *Intel Corp. v. Terebyte Int'l, Inc.*, 6 F.3d 614 (9th Cir. 1993) (math coprocessor computer chips that had been relabeled to indicate that they were faster than they actually were); *Vuitton v. White*, 945 F.2d 569 (3d Cir. 1991) (fake Louis Vuitton handbags bearing spurious Vuitton marks); *Interstate Battery Sys. of Am., Inc. v. Wright*, 811 F. Supp. 237 (N.D. Tex. 1993) (plaintiff's battery labels attached to batteries that were not genuine); *Sports Design and Dev., Inc. v. Schoneboom*, 871 F. Supp. 1158 (N.D. Iowa 1995) (look-a-like fishing lures sold in boxes bearing plaintiff's trademark); *Reebok Int'l. Ltd. v. Marntech Enter., Inc.*, 737 F. Supp. 1515 (discussing jurisdiction), *and* 737 F. Supp. 1521 (S.D. Cal. 1989) (look-a-like Reebok shoes – complete with trademark stripes). “When an original mark is attached to a product in such a way as to deceive the public, the product itself becomes a ‘counterfeit’ just as it would if an imitation of the mark were attached.” *Westinghouse Elec. Corp.*, 106 F.3d at 900.

117. *Gen. Elec. Co. v. Speicher*, 676 F. Supp. 1421 (N.D.Ind. 1988), *reconsideration denied*, 681 F. Supp. 1337 (N.D. Ind. 1988), *rev'd* 877 F.2d 531 (7th Cir. 1989) (noting that a cutting insert is the cutting portion of a drill bit or saw).

118. *Speicher*, 877 F.2d. at 533. Evidence and testimony conflicted regarding whether Speicher put tools into the GE boxes, or if that was done by the distributor. *See id.*

119. *Speicher*, 676 F. Supp. at 1428 (emphasis in original).

120. *Speicher*, 681 F. Supp. at 1338.

The Seventh Circuit, in an opinion by Judge Posner, disagreed with the trial court's interpretation of the term "counterfeiting," stating that the lower court's literal interpretation of counterfeiting

might be the correct one if section 1114(1)(a) was aimed just at 'counterfeiting.' But as the words 'reproduction,' 'copy,' and 'colorable imitation' suggest more clearly than 'counterfeiting,' the aim is broader: to prohibit the use of your trademark on someone else's product without your authorization. The usual violator of this prohibition copies, reproduces, imitates – or if you will 'counterfeits' – the trademark.<sup>121</sup>

The court then held that Speicher's use of the genuine GE trademarks on the boxes constituted counterfeiting.

We can see no difference, so far as the objectives of section 1114(1)(a) are concerned, between doing this and making a reproduction of GE's trademark. The happenstance of having trademarks made by the owner in one's possession, so that one doesn't have to copy them, has no relevance to the purposes of the statute. . . . The more fundamental point is that the purpose of trademark law is not to guarantee genuine trademarks but to guarantee that every item sold under a trademark is the genuine trademarked product, not a substitute.<sup>122</sup>

This statement could be interpreted to support either a broad interpretation of counterfeiting (as Waco argued) or a narrow interpretation of counterfeiting (as KHK argued). The Seventh Circuit opinion can be broadly interpreted to stand for the proposition that an item placed in a box bearing a spurious trademark can be considered a counterfeit: "The more fundamental point is that the purpose of trademark law is not to guarantee genuine trademarks but to guarantee that every item sold under a trademark is the genuine trademarked product."<sup>123</sup> But it can also be fairly read to stand for the proposition that this activity is merely trademark infringement under section 1114(1): "the aim [of section 1114(1)] is broader: to prohibit the use of your trademark on someone else's product without your authorization."<sup>124</sup> Because of this inconsistency, this decision provides little assistance for our definitional inquiry.

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121. *Speicher*, 877 F.2d at 534 (citing *Louis Vuitton S.A. v. Pin Yang Lee*, 875 F.2d 584 (7th Cir. 1989)).

122. *Id.* (citing *Fendi S.A.S. de Paola Fendi e Sorelle v. Cosmetic World, Ltd.*, 642 F. Supp. 1143 (S.D.N.Y. 1986)).

123. *Id.*

124. *Id.*

Second, Waco relied on *Pepe (U.K.) Ltd. v. Ocean View Factory Outlet Corp.*<sup>125</sup> in an attempt to stretch the interpretation of counterfeiting somewhat, but again in a way that helps neither a broad nor a narrow definition of counterfeiting. *Pepe* involved a creative counterfeiter who produced and sold T-shirts bearing variations of the registered Pepe trademarks that were neither “identical with, or substantially indistinguishable from”<sup>126</sup> the registered mark. Pepe obtained an *ex parte* seizure under 15 U.S.C. §1116(d), which the defendant claimed was wrongful because the marks were not counterfeit.<sup>127</sup> The district court determined that the knock-off shirts were indeed counterfeit, and quoted the legislative history for the seizure statute to the effect that “a mark need not be absolutely identical to a genuine mark in order to be considered ‘counterfeit.’ Such an interpretation would allow counterfeiters to escape liability by modifying the registered trademarks of their honest competitors in trivial ways.”<sup>128</sup> The facts of the case support the contention that the spurious mark must be on the goods, but also supports the extension of seizures to goods other than those bearing “identical or . . . substantially indistinguishable” marks.

Third, Waco relied on *Levi Strauss & Co. v. Shilon*,<sup>129</sup> which proved equally unhelpful. This case involved the offering for sale of “knock-off” Levi jeans with counterfeit Levi tags and labels.<sup>130</sup> The defendant had offered counterfeit jeans and labels to an investigator for Levi, but did not have the products in his possession: he would deliver them from a factory in Mexico once the sale was made. Levi was not able to obtain a seizure order under the customs laws because it lacked actual counterfeits, so it brought suit under the Lanham Act instead.<sup>131</sup> The defendant claimed he could not be liable for counterfeiting under 15 U.S.C. §1114 because he did not have possession of the counterfeit goods.<sup>132</sup> The court dismissed this argument, noting that the infringement section applies equally to “offering for sale”

125. 770 F. Supp. 754 (D. Puerto Rico 1991).

126. See 15 U.S.C. §1127 (2001) (defining a “counterfeit” mark as “a spurious mark which is identical with, or substantially indistinguishable from, a registered mark” (emphasis added)).

127. See *Pepe*, 770 F. Supp. at 756-57.

128. *Id.* at 758 (citing 130 Cong.Rec. H12078 (Daily Ed. Oct. 10, 1983)).

129. 121 F.3d 1309 (9th Cir. 1997).

130. See *id.*

131. See 19 U.S.C. § 1526.

132. *Levi Strauss & Co.*, 121 F.3d at 1311.

infringing goods.<sup>133</sup> Neither the court nor the defendant addressed the question of whether the separation of the goods from the labels made the jeans counterfeit. However, the facts of this case support the contention that a product can be counterfeit where the spurious marks are provided separate from the goods the court did not state this directly.

Clearly, neither statutory construction nor case law support Waco's definition of counterfeiting. It is reassuring to note that common sense also cuts against Waco's interpretation of counterfeiting. Under Waco's definition of counterfeiting, virtually all allegations of passing off would constitute counterfeiting.

It should also be noted that trademark law in general requires use of marks on goods, where the nature of the goods allows. It is a fundamental feature of trademark law that "trademark use" requires (if the nature of the goods allow) affixation of the mark on the goods. "Because the value of a trademark arises from its association with goods of a particular quality and source, a trademark comes into existence only once it is affixed to goods in commerce."<sup>134</sup> This comports with the statutory requirements for use of the mark on the goods as set forth above. Because of this provision, courts have held that use of the mark on invoices was insufficient to show use.<sup>135</sup>

Based on this analysis, the goods sold by KHK were clearly not counterfeit. The court was, therefore, correct in determining that the seizure was wrongful. The court and jury also determined that the seizure was sought, obtained, or conducted in bad faith. Waco's conduct in the case will be scrutinized to determine what conduct constituted bad faith behavior.

## B. VERIFIED COMPLAINT

The Seizure Statute sets out three subsections that detail the legal and factual information required in the application. The statute specifically requires that the "application for an order under this subsection shall be based on an affidavit or the verified complaint establishing facts sufficient to support the

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133. *See id.* at 1312.

134. *Liebowitz v. Elsevier Sci. Ltd.*, 927 F. Supp. 688, 696 (S.D.N.Y. 1996) (citing *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97-98 (1918)).

135. *See S Indus., Inc. v. Stone Age Equip. Inc.*, 12 F. Supp. 2d. 796 (N.D. Ill. 1998); *see also In re Chicago Rawhide Mfg. Co.*, 455 F.2d 563 (C.C.P.A. 1972); *In re Dura Corp.*, 188 U.S.P.Q. 701 (P.T.O. T.T.A.B. 1975).

findings of fact and conclusions of law required for such order.”<sup>136</sup> Commentators have noted that in the *ex parte* seizure application process, “complete candor with the court is Rule One.”<sup>137</sup> In fact, the legislative history addresses this issue: in an *ex parte* proceeding, the court will have no choice but to rely on the representations of the applicant.<sup>138</sup>

Additionally, one of the few reported seizure cases specifically addressed this issue. In *Super Power Supply, Inc. v. Macase Indus. Corp.* the plaintiff’s counsel told the court that the defendant’s goods were counterfeit when in fact the defendant was a disgruntled former distributor for the plaintiff.<sup>139</sup> The court stated that where “such extraordinary relief as an unnoticed, *ex parte* seizure order is sought, the Court necessarily relies upon the diligence, honesty, and forthrightness of the represented party’s counsel to ensure that the rights of the unrepresented party are not unduly infringed.”<sup>140</sup> The court granted sanctions under Fed.R.Civ.P. 11 against the plaintiff’s counsel because (1) he “should have known after a reasonable investigation of the facts that he had . . . no basis whatsoever upon which to seek unnoticed, *ex parte* relief;”<sup>141</sup> (2) he “intentionally misrepresented certain facts to the Court;”<sup>142</sup> and (3) he “was dilatory in rectifying his mistakes and omissions once they were made known to him.”<sup>143</sup>

These holdings are particularly relevant here. Because the court was relying on Waco’s factual and legal representations in granting the seizure order, Waco owed the court (and ultimately KHK) a duty to submit a seizure order that was consistent with the statutory requirements, prior legal precedent, and the facts Waco knew to be true. Despite this, Waco’s attorney candidly admitted at trial that she saw herself not as an officer of the court, but as an advocate for her client’s interests. At trial, Waco’s attorney<sup>144</sup> was questioned about her actions in obtaining

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136. 15 U.S.C. §1116(d)(3) (2000).

137. TRADEMARK COUNTERFEITING, *supra* note 7, at 16.

138. See Joint Statement on Trademark Counterfeiting Legislation, 130 CONG. REC. 31673 (1984), at 12080.

139. See *Super Power Supply, Inc. v. Macase Indus. Corp.*, 154 F.R.D. 249, 249 (C.D. Cal. 1994).

140. *Id.* at 256.

141. *Id.*

142. *Id.*

143. *Id.*

144. Though from the same law firm, the attorney that obtained the seizure order did not participate in the trial in front of the jury. She did sit at the table

the *ex parte* seizure application:

Q: Do you understand what the duty of candor is?

A: To be candid with the court when you make an application to the Court. Is that what you are referring to?

Q: Yes. Because you are an officer of the court. Is that correct?

A: Yes.

Q: Okay. And you're also an advocate for your client. Is that correct?

A: That's right.

Q: And at some times – those two duties that you have sometimes conflict. Isn't that correct?

A: I suppose they might. . . .

Q: Do you think that that was an – you were being an advocate for your client at that point or were you being more an officet of the court when you explained what kind of seizure application you were looking for?

A: I was an advocate for the client, sir.<sup>145</sup>

Waco made a number of misrepresentations in its application for seizure. First, Waco misrepresented the facts regarding the marks on the scaffolding. Not only did Waco obfuscate the fact that there were no “WACO” marks on the KHK scaffolding, they ignored the fact that the KHK name was on KHK's scaffolding. Waco's investigator, Robert Hardcastle, in a declaration attached to Plaintiff's Original Verified Complaint stated that, based on his personal knowledge, the scaffolding frames at the premises of KHK were not marked in any way with their source or place of origin.<sup>146</sup> Upon later cross-examination – at the preliminary injunction hearing – Mr. Hardcastle admitted that he had not looked closely at the safety sticker listing KHK's name and phone number (which were attached to the frames he purchased) prior to the seizure.<sup>147</sup>

Waco also claimed that it had “exclusive rights to the color red or the color blue on scaffolds and shores,”<sup>148</sup> and stated that

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and participated in drafting the jury charge and questions.

145. Waco Int'l, Inc. v. KHK Scaffolding, et al., C.A. No. H-98-1309, (Trial Transcript, pp. 433 - 435 (June 19, 2000)).

146. See *id.* (Plaintiff's Original Verified Complaint, Exhibit G (Docket Entry No. 5)).

147. See *id.* (Transcript of June 8, 1998 Preliminary Injunction Hearing, pp. 101-102).

148. *Id.* (Plaintiff's Original Verified Complaint, ¶ 13).

it had used the color red exclusively for fifty years.<sup>149</sup> Waco later admitted that both statements were false. In response to a Request for Admission, Waco admitted that, on April 30, 1998 (the date the Complaint and Application for Seizure were filed) “it knew that Vanguard used a dark blue color for its scaffolding products and that it did not advise the Court of that knowledge.”<sup>150</sup> The admission then attempts to distinguish the shades of the color blue as used by Waco and Vanguard, but the Complaint and Application for Seizure did not specify shade and requested the seizure of any blue scaffolding.<sup>151</sup>

In a second Request for Admission, Waco admitted that its Executive Vice President, Marty Coughlin, was aware, “beginning about three or four years prior to the filing of this suit, that A-1 Plank and Scaffolding Company would manufacture a product and would paint it red pursuant to a customer request.”<sup>152</sup> Waco again attempted to distinguish the shade of the color red used by Waco and A-1, but the Complaint and the Application for Seizure did not specify a shade of red. Additionally, Waco’s President, George Malley,<sup>153</sup> and Vice President, Marty Coughlin,<sup>154</sup> both admitted in court that other companies paint scaffolding red, and there is nothing that Waco can do about it. Clearly Waco did not have the “exclusive use” of the colors red or blue, and therefore, it misled the court in its Verified Complaint.

Additionally, Waco misled the Court regarding the nature of KHK’s business. One requirement for obtaining a seizure is to show that the alleged “counterfeiter” would destroy the evidence of his misdeeds if given notice of a lawsuit.<sup>155</sup> Courts, and the

149. *See id.* at paragraph 15.

150. *Id.* (Waco’s Response to KHK’s 1st Req. For Admission, Request No. 24).

151. Despite this admission, Waco did not drop its claims to blue until well into the trial. At the first charge conference the Judge asked Waco about an infringement question concerning red and blue scaffolding. He noted that Waco had not presented any evidence concerning blue scaffolding, and asked if they planned to do so. At that point Waco’s attorney dropped all claims relating to blue.

152. *Waco Int’l, Inc. v. KHK Scaffolding, et al.*, C.A. No. H-98-1309, (Waco’s Response to KHK’s 1st Req. For Admission, Request No. 20).

153. *Id.* (Testimony of George Malley, Trial Transcript, pp. 730, (June 20, 2000)).

154. *Id.* (Testimony of Marty Coughlin, Trial Transcript, pp. 136 – 137, (June 15, 2000)).

155. *See* 15 U.S.C. §1116(d)(4)(B) (2000). “The court shall not grant such an application unless . . . the person against whom seizure would be ordered, or



legislative history, state that this type of behavior generally applies only to “fly-by-night” operators, and presumptively does not apply to legitimate businesses.<sup>156</sup> In its seizure application, Waco glossed over the fact that KHK had a permanent facility in Houston with over three million dollars in inventory on the lot. Given this investment, it would be highly unlikely that KHK would destroy or abandon its facility simply to avoid a lawsuit. Instead, Waco made the conclusory accusation that KHK would destroy evidence.

Finally, Waco had the opportunity (and perhaps a duty) to amend its complaint to conform to the facts, as they became known. Waco’s failure to do so could also constitute bad faith, and in fact both the legislative history and *Super Case v. Macase* (discussed above), support this contention. The legislative history states “should the plaintiff learn as a result of discovery that any claim of counterfeiting is meritless, continued pursuit of such a claim would be in bad faith.”<sup>157</sup>

### C. SECURITY

Another important element in obtaining a seizure is that the applicant posts bond “adequate . . . for the payment of such damages as any person may be entitled to recover as a result of a wrongful seizure.”<sup>158</sup> Congress described the security requirement as “the heart of the *ex parte* seizure provisions,”<sup>159</sup> and noted that the “provision of a bond is one of the critical procedural protections designed to ensure that the defendant’s rights are adequately protected during the course of an *ex parte*

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persons acting in concert with such person, would destroy, move, hide, or otherwise make such matters inaccessible to the court, if the applicant were to proceed on notice to such person.” *Id.*

156. See Joint Statement on Trademark Counterfeiting Legislation, 130 CONG. REC. 31673 (1984), at 12081. H12081, ¶ 7 states:

A reputable businessperson would not be likely to conceal or destroy evidence when notified of a pending lawsuit, and the issuance of an *ex parte* seizure order against such a person would therefore be wholly inappropriate . . . . Rather, the sponsors believe that *ex parte* seizures are a necessary tool to thwart the bad faith efforts of *fly by night* defendants to evade the jurisdiction of the court.

*Id.*

157. S. REP. NO. 98-526, reprinted in 1984 U.S.C.C.A.N. 3627, at 19.

158. 15 U.S.C. §1116(d)(4)(A).

159. See 130 CONG. REC. 31673 (1984), at 12080. (“This subsection is the heart of the *ex parte* seizure provisions.”)

seizure.”<sup>160</sup>

On May 5, 1998, after obtaining the seizure order and immediately before proceeding with the seizure, Waco filed an indemnity bond in the amount of \$25,000. In determining the amount of the bond, Waco’s attorney’s made no attempt to determine the effect of a seizure on a scaffolding business like KHK’s. At trial, Waco’s attorney candidly admitted that the amount of the bond was based on a seizure of counterfeit Gucci handbags that she had conducted fifteen years before.

Q: Okay. Well, how did you arrive at [\$]25,000?

A: It was just the number I used in the past of other seizures – that I think we used in the Gucci case.

Q: So, it had no relationship to the actual value of the goods that you were going to go out and seize. Is that correct?

A: That’s correct.<sup>161</sup>

The bond, therefore, was grossly inadequate to compensate KHK in the event that the seizure went wrong. The bond was also titled an “Injunction Bond” and was specifically for damages that KHK Scaffolding Houston, Inc. “may sustain by reason of the Injunction order in this action, if it be finally decided that the said Preliminary Injunction order in this action ought not have been granted.” There was no reference whatsoever in the bond to the Seizure Order or to coverage for Waco’s liability for damages for the specifically enumerated cause of action for “wrongful seizure” set out in 15 U.S.C. §1116(d)(11). The bond was, therefore, most likely defective on its face. Taken together, these two facts indicate that Waco was not concerned about the bond – it was merely a step to be taken – and not the vital protection that Congress presumed.

#### D. GOODS TO BE SEIZED AND THE LOCATION

The seizure statute requires that the seizure order set forth “a particular description of the matter to be seized.”<sup>162</sup> This section, as mentioned previously, is designed to prevent broad-based searches that would violate a defendants Fourth Amendment rights. As the Supreme Court stated regarding the specificity requirement: “the requirement ensures that the

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160. *Id.*

161. Waco Int’l, Inc. v. KHK Scaffolding, et al., C.A. No. H-98-1309, (Trial Testimony, p. 441).

162. 15 U.S.C. § 1116(d)(5)(b).

search will be carefully tailored to its justification, and will not take on the character of the wide-ranging exploratory searches the Framers intended to prohibit.”<sup>163</sup> Despite this requirement of specificity, the seizure order in this case allowed for the seizure of “all scaffolding and shoring frames and parts bearing the paint color red and the paint color blue” located at KHK’s Houston facility.<sup>164</sup> Pursuant to this order, Waco’s attorneys and two United States Marshals entered KHK’s facility and impounded all red and blue scaffolding, and most of KHK’s business records.<sup>165</sup>

Evidence at trial indicated that a total of 7525 pieces of frame scaffolding were seized by placing yellow police tape on and around stacks of frames in KHK’s yard. The seized scaffolding included 600 red 5’x6’7” walk through frames (which KHK referred to as “Waco Style” frames), 3400 red shoring frames, 1925 blue 5’x6’4” walk through frames (which KHK referred to as “Safway Style” frames<sup>166</sup>), and 1600 blue “Safway Style” mason frames.<sup>167</sup>

Both red and blue goods were seized despite the fact that Waco knew that KHK did not stock any blue Waco compatible scaffolding frames. When Waco’s investigator went to KHK to purchase scaffolding that Waco feared KHK was selling as “Waco” scaffolding, the salesman told him that there was no WB (or “Waco Blue” style) scaffolding in stock. Despite its failure to obtain or verify that KHK was selling, or even possessed, “Waco Blue” scaffolding, Waco obtained a seizure for, and actually seized, 3525 blue “Safway style” scaffolding frames.

At trial, Waco’s attorney seemed unconcerned by this:

Q: And when he [Waco’s investigator] asked for WB frames, he was told that there weren’t any WB frames. Correct?

A: That’s right.

Q: So, when you went in for the seizure application, you had

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163. *Time Warner Entm’t Co. v. Jane Does # 1-2 and John Does # 1-10*, 876 F. Supp. 407, 413 (E.D.N.Y. 1994) (quoting *Maryland v. Garrison*, 480 U.S. 79, 84 (1987)).

164. *Waco Int’l, Inc.*, C.A. No. H-98-1309, (Order of Seizure of Goods Being Offered and Sold Under Counterfeit Registered Trademark Pursuant to 15 U.S.C. §1116(d)(1)(A), paragraph 2).

165. *See Gen. Elec. Co. v. Speicher*, 877 F.2d 531, 538 (7th Cir. 1989) (indicating cases allow the seizure of business records).

166. Safway sells its frames in gray, not blue. *See Waco International, Inc.*, C.A. No. H-98-1309, (Plaintiff Trial Exhibit 131, “Safway Catalogue”).

167. *Waco Int’l, Inc.*, C.A. No. H-98-1309, (Plaintiff Trial Exhibit 74, “Inventory”).

no earthly idea what WB frames looked like, did you?

A: You're correct.

Q: But, still, you went forward with the idea that blue frames were to be seized because they were counterfeit of Waco's frames. Is that correct?

A: The blue frames were seized because they [KHK] were offering Waco Blue.

Q: But you never purchased any.

A: That's correct.<sup>168</sup>

The legislative history notes that "the mere fact that a few legitimate items may have been seized does not make the seizure as a whole wrongful; otherwise, a counterfeiter could ensure that any seizure of its counterfeit merchandise would be "wrongful" simply by mingling a few genuine items with [the] inventory of fakes."<sup>169</sup> Here (even assuming Waco's interpretation of counterfeiting and broadly granting it rights to all red scaffolding) almost half the goods seized were legitimate. This far exceeds the "mingling of a few genuine items" mentioned in the legislative history.

It should also be noted that Waco had the opportunity to inspect the blue scaffolding to determine if it was "Waco Blue" style scaffolding, and did not. In fact, Waco never proved that KHK ever sold "Waco Blue" style scaffolding. Waco was unable to prove this because KHK never did sell that particular style of scaffolding. Despite the complete lack of evidence to support this claim, Waco pursued claims based on the color blue until the charge conference at trial.

It is not possible to determine directly from the jury's verdict what specific factor or factors they considered in finding that the seizure was in bad faith. It may have been that fact that Waco's legal claims of counterfeiting were entirely baseless. It may have been the fact that Waco made numerous misrepresentations in its application for the seizure order, or posted a bond grossly inadequate to compensate KHK and, amusingly enough, based on the value of counterfeit handbags. It may have been that Waco obtained a broad-based seizure that effectively allowed it to shut down a competitor. Most likely the jury determined that, taken together, all of these evidenced a complete disregard for KHK's rights and the legal requirements

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168. *Waco Int'l, Inc. v. KHK Scaffolding, et al.*, C.A. No. H-98-1309, (Trial Testimony).

169. 15 U.S.C §1127.

for obtaining a seizure.

## V. CONCLUSION

The seizure of goods is an important tool in fighting trademark counterfeiting. Unfortunately, if mishandled, a seizure can turn around to hurt the owner of the trademark, as illustrated by *Waco International v. KHK Scaffolding, et al.* An attorney considering an application for a seizure should take heed of Waco's errors and remember that the purpose of the seizure statute checklist is not only to protect a defendant, but also to protect the applicant from paying for a wrongful seizure.