

## Outside Counsel

## Expert Analysis

# Counterfeit Merchandise: They're Not Just Doing It for Sport

**C**ounterfeit consumer products have penetrated virtually every segment of the U.S. economy. With the advent of the Digital Age, and despite the recent efforts of the U.S. Immigration and Customs Enforcement (ICE), the largest investigative arm of the Department of Homeland Security, working with the other member agencies of the National Intellectual Property Rights Coordination Center (IPR Center), the influx of counterfeit consumer goods continues to grow. In fiscal 2010 alone, ICE and U.S. Customs and Border Protection (CBP) made nearly 20,000 seizures of counterfeit goods, with an approximate retail value of \$1.4 billion.

Although the Internet provides a safe haven for counterfeiters of all types, many consumers still believe counterfeiting is primarily limited to luxury goods, such as high-end handbags and timepieces. While luxury goods represent a significant percentage of counterfeit consumer goods, unsuspecting purchasers continue to be surprised at the breadth of counterfeit products being made available. One segment that has been hit particularly hard is the sporting industry. With popular authentic professional and collegiate team merchandise often demanding sky-high prices, some



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loyal fans, wittingly or not, are turning to counterfeits to express their team spirit. Likewise, consumers shopping for sports equipment, particularly golf clubs and other golf-related products, are being bombarded with counterfeits on the Internet.

This article will address recent developments in the area of counterfeit sports merchandise, and some of the measures professional league and sporting equipment brand owners are taking to attack the problem.

### Jerseys and Other Apparel

The massive popularity of professional and college sports has created a booming market for counterfeit team merchandise. ICE enforcement efforts in the weeks leading up to the last four Super Bowls provide a snapshot of the problem—during those four discrete time periods, ICE seized more than 66,000 counterfeit NFL-brand products from stores and street vendors, with a retail value of nearly \$6.4 million. While counterfeit professional sports merchandise has long been available

through retail stores, flea markets and on site at the events—particularly during major sporting events like the World Series or the Stanley Cup—sophisticated counterfeiters rely on the anonymity of the Internet to market their counterfeit products to sports fans year-round.

A study released last year by the brand protection company, MarkMonitor, provides a disturbing glimpse into the prevalence of counterfeit sports merchandise on the Internet (see MarkMonitor, Brandjacking Index, Sports Apparel Online (Special Edition 2011), available at <https://www.markmonitor.com/resources/brandjacking-index.php>). The three-month study, focusing on five major sports brands (which, although not identified in the report, include the NBA and NFL), identified over 6,000 retailers selling an estimated 1.2 million counterfeit jerseys and shirts. It is believed the revenue achieved on these sales exceeded \$25 million. The large majority of these counterfeits was sold on roughly 1,300 e-commerce websites, nearly all of which were affiliated with a Chinese registrant or registrar. With the help of sophisticated search engine optimization and other promotional techniques, it is estimated that these 1,300 sites alone attracted 56 million visitors annually.

What can be done about all this? It is clear the professional leagues and those holding legitimate collegiate licenses are faced with the same problems as every other brand owner that falls

victim to counterfeits. Civil litigation has become an effective tool only when the target is known and judgments can be enforced. All professional leagues and collegiate licensees continue to work with law enforcement and CBP on seizures and various criminal initiatives. Many also have internal programs for identifying counterfeit sales on various Internet sites, and take advantage of the available notice and takedown procedures. But like every other industry impacted by this problem, these measures are like putting fingers in heavily leaking dykes.

In response to what league executives have described as an “explosion” of counterfeit jerseys, the National Hockey League has turned to public education initiatives, recently teaming up with the hallowed Montreal Canadiens franchise and Reebok, an official provider of NHL jerseys, to combat the proliferation of these goods. This initiative will include radio and other media advertisements, as well as a quiz on counterfeits that will be displayed on the scoreboard of the Montreal Canadiens’ home arena. The program follows on the footsteps of other league and team-led NHL initiatives, including the Vancouver Canucks “Fight the Fake” webpage, which provides tips for distinguishing between counterfeit and authentic Canucks jerseys. And the NHL is not alone—Major League Baseball made efforts to educate World Series attendees in St. Louis about the problem of counterfeit sports merchandise. Indeed, the St. Louis Police Department announced it had seized 1,100 counterfeit MLB items in downtown St. Louis just during Game One of this year’s World Series.

Another measure professional sports leagues have found useful is the “site order.” With its origins in the 1970s rock concert era, this is a court order issued in advance of a major entertainment event that allows brand owners, working with local law enforcement, to keep counterfeit retailers away from the immediate vicinity of the event, and to confiscate their goods. The NFL

and NBA, for example, have been successful in using site orders at some of their most popular events. The NHL, on the other hand, often works directly with local law enforcement to combat counterfeiting at events like the Winter Classic—an annual NHL event staged at a major outdoor stadium (this year at Citizens Bank Park in Philadelphia)—and the Stanley Cup.

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While on-the-ground, event-day sales of counterfeit team jerseys and other licensed merchandise continue to present a significant problem for professional and collegiate sports brand owners, the volume of such sales pales dramatically in comparison to the robust and ever-growing online market for these goods. Unlike street vendors who peddle counterfeit goods near the event venue without the benefit of elaborate and deceptive marketing techniques, online counterfeiters are able to operate anonymously and mask the counterfeit nature and inferior quality of their goods. Indeed, it is increasingly common for online counterfeiters to market and sell their goods through “rogue” websites that mimic the brand owner’s legitimate site, using images of the authentic products to market and promote their counterfeits. Most recently, in November 2011, in conjunction with Cyber Monday, the federal government announced the seizure of a number of domain names owned by websites involved in the sale of counterfeit sports apparel.

#### Sporting Equipment

Whether it is the newest Calloway driver or latest Ping putter, chances are a consumer will run across counterfeits when looking to purchase sporting

equipment online. In fiscal 2010 alone, ICE and CBP made 786 seizures of counterfeit golf equipment. According to the U.S. Golf Manufacturers Anti-Counterfeiting Working Group, an organization comprised of five well-known golf brands, as many as two million counterfeit golf clubs are produced annually, along with millions of counterfeit balls, bags, gloves and apparel.

Over the past two years, the Anti-Counterfeiting Working Group, working with ICE and CBP, has conducted 40 successful raids, seizing more than \$1 million in counterfeit golf equipment. In late 2010, ICE and the IPR Center obtained seizure warrants allowing them to seize the domain names of five websites selling counterfeit golf equipment. In June 2011, the Anti-Counterfeiting Working Group launched a website—[www.keepgolfreal.com](http://www.keepgolfreal.com)—intended to educate consumers about the dangers of counterfeit golf equipment.

While counterfeit golf equipment represents a major part of the counterfeit sporting equipment market, counterfeit exercise equipment is popular as well. Over the last year, ICE has seized thousands of units of fake exercise equipment, and courts have handed down stiff sentences to traffickers in such equipment.

### What Can Be Done?

Trying to stop the flow of their counterfeit goods, especially online, without a proper tool box, is like playing a high-stakes game of Wac-A-Mole. Unfortunately, the outcome of the closely watched decision in *Tiffany Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010), holding that Internet hosts and Internet Service Providers (ISP) cannot be held vicariously (or otherwise) responsible for online counterfeiting, has only exacerbated the problem. In short, the court in *eBay* found that an ISP cannot be vicariously liable for trademark counterfeiting unless it “knew or had reason to know” that the counterfeiting activity was taking

place. The court took a strict view of this standard, requiring the brand owner to demonstrate that the ISP or host knew or had reason to know of the specific counterfeit transaction or seller, not simply that counterfeiting activity was likely taking place on its site.

Since eBay, there have been a number of cases on contributory or vicarious liability offering brand owners a glimmer of hope that website hosts that foster, encourage, or turn a blind eye to counterfeiting can be held responsible, especially those that allow anonymous off-shore sales to proliferate. One such case, decided in March 2011, was *Roger Cleveland Golf Company Inc. v. Prince*, No. 09-02119 (D.S.C. March 14, 2011). In Cleveland, a jury returned a verdict of \$800,000 in statutory damages against both the U.S.-based web host and owner of the website—[www.copycatchclubs.com](http://www.copycatchclubs.com), a site that sold counterfeit Cleveland golf clubs. The defendants were found to have violated both the Lanham Act and the South Carolina Unfair Trade Practices Act.

Before brand owners get too excited, however, Cleveland does not exactly represent a sea change in the law. In that case, the jury was having none of the defendants' arguments that they did not know, and should not have known of the sale of counterfeit clubs on their site. Aside from its domain name, the site's home page boasted that it was "[y]our one stop shop for the best copied golf clubs on the Internet." Moreover, unlike the typical hosting company, the host in Cleveland provided the site's owner with an elaborate services package, including an advisor who encouraged and helped structure the website's activities. Most online retailers of counterfeit sporting equipment are a little more discrete than this, and those that are not will have learned an important lesson from this case.

So what is the answer? What can be done to stem the tide of online counterfeits of official league

merchandise and sporting equipment? Well, unless another eBay comes along with a different result (and there do not seem to be any such cases in the pipeline), we expect that sports brand owners will continue to attack the problem through a combination of criminal enforcement, vigilant takedowns of Internet sales, and increased public awareness initiatives, while also taking the opportunity, when the right cases present themselves, to proceed civilly and obtain high-profile decisions and damage awards, as in the Cleveland case.

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However, at this point, real change may come only through legislation. That is one reason why sporting brands are closely monitoring the new bill introduced in May 2011 by Senator Patrick Leahy (D-VT) and 10 bipartisan co-sponsors, known as the "Preventing Real Online Threats to Economic Creativity and Theft of Intellectual Property Act of 2011." This act—which was quickly placed on hold by Senator Ron Wyden (D-Ore.)—is aimed at disrupting rogue foreign-based websites "dedicated to infringing activities." The act would allow intellectual property rights holders and the Justice Department to obtain court orders seizing the domain names of such sites.

Armed with such a court directive, brand owners could require that search engines, payment processing companies and advertising networks immediately cease their affiliation with

the offending site. On the other hand, opponents of the act, including many in legal academia and various consumer rights organizations, contend it would not only permit the unconstitutional suppression of speech, but destabilize the Internet's Domain Name System (DNS), which serves as the cornerstone of the Internet's infrastructure.

In addition, on Oct. 26, 2011, Representative Lamar Smith (R-TX), and a bipartisan group of 12 initial co-sponsors, introduced similar legislation, The Stop Online Piracy Act (SOPA), also known as H.R. 3261, in the House of Representatives. The House Judiciary Committee held hearings on SOPA on Nov. 16 and Dec. 15, 2011. The committee is scheduled to continue debate over this bill when Congress returns from its winter recess.

So where is all this legislation headed? No one knows yet, but one thing is certain—something needs to be done soon so that sporting brands can concentrate on winning games on the field, rather than fighting faceless opponents far away from the playing surface. So expect to see strong lobbying efforts by professional sports leagues and sporting equipment brands, whose high-profile voices are sure to be heard on Capitol Hill.