LEGISLATIVE UPDATE

THE SUPREME COURT JUST MADE RESTITUTION HARDER FOR BRAND OWNERS: HERE'S WHAT THEY CAN DO ABOUT IT

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When a defendant is convicted of an intellectual property (IP) crime, one important remedy that the federal Mandatory Victim Restitution Act of 1996 (MVRA) grants brand owners and other victims who suffer pecuniary harm is restitution. Unfortunately for brand owners and other victims, the Supreme Court issued an opinion last term placing new limits on which victim expenses are subject to restitution. *Lagos v. United States, 138 S. Ct. 1684 (2018)*.

THE MANDATORY VICTIM RESTITUTION ACT

The MVRA requires convicted defendants to pay restitution for certain "offense[s] against property . . . in which an identifiable victim or victims have suffered a . . . pecuniary harm." 18 U.S.C. § 3663A(c)(1)(A)(ii), (B). Although federal courts had already recognized most IP crimes as "offense[s] against property" authorizing restitution to its victims under the MVRA, Congress codified this case law when it enacted the PRO-IP Act of 2008. 18 U.S.C. § 2323.

The MVRA requires convicted defendants to make full restitution for two categories of pecuniary harm to victims. First, defendants must compensate victims for pecuniary harm to their property, usually in the form of lost sales. 18 U.S.C. § 3663A(b)(1); *e.g., United States v. Milstein, 481 F. 3d 132, 136-37 (2d Cir.2007)* (finding that restitution should include brand owners' "lost sales" because they represented the "value of the property").

Second, defendants must reimburse a brand owner's "lost income and necessary . . . transportation, and other expenses incurred during participation in the investigation or prosecution of the offense or attendance at proceedings related to the offense." 18 U.S.C. § 3663A(b)(4). Brand owners incur such expenses to support investigations of IP crimes in a number of ways. For example, prosecutors ask brand owners to travel to talk to investigators and to participate in the execution of a search warrant (after obtaining permission from a federal judge) so they can use their expertise to help federal investigators distinguish between counterfeit and non-counterfeit goods. Federal investigators send samples of goods seized during an investigation to brand owners for testing to determine whether the goods are counterfeit. And prosecutors ask brand owners to send representatives to testify before a grand jury, at trial, or during a sentencing hearing.

Most importantly, brand owners will conduct their own investigation and provide information to investigators. This is invaluable for criminal investigators because brand owners often learn of infringing or counterfeiting conduct before investigators do and provide detailed investigative reports with evidence identifying the target of the IP crime and proving the elements of the crime. Although investigators independently verify what a brand owner provides, it is usually easier for investigators to conduct their investigation after a brand owner's

referral than to start their own investigation from scratch. Most courts have held that when investigators and prosecutors ultimately rely upon a brand owner's private investigation to investigate and prove a criminal IP case, the brand owner is entitled to restitution for the cost of that investigation.

LAGOS V. UNITED STATES

Lagos narrows a victim's right to restitution for the cost of the victim's own investigation. In that case, a federal district court in the Southern District of Texas convicted the defendant for defrauding General Electric (GE) of tens of millions of dollars. GE shared with the Government information that its private investigation uncovered. The district court ordered the defendant to pay GE restitution for the expenses of its own investigation pursuant to the MVRA, and the Fifth Circuit Court of Appeals affirmed the restitution order—consistent with all other federal courts of appeals but one. *Lagos*, 138 S. Ct. at 1687.

Nevertheless, the Supreme Court unanimously reversed for three reasons. First, the Court held that the MVRA's text is limited to victim expenses incurred *during* a criminal investigation and prosecution, *not a private investigation*. *Id.* at 1688 ("the statute says nothing about the kinds of expenses a victim would often incur when private investigations . . . are at issue"). The Court also expressed concern about the administrative burdens courts would have in determining which aspects of private investigations would constitute "necessary" expenses eligible for restitution. *Id.* at 1689. Lastly, the Court expressed doubt Congress intended to require courts to order mandatory restitution when "more than 90% of criminal restitution is never collected." *Id.*

For brand owners, the bottom line is that, under *Lagos*, they will not receive restitution under the MVRA for "expenses incurred *before* the victim's participation in a government's investigation began," and the MVRA will "not cover the costs of a private investigation that the victim chooses on its own to conduct," even if it is after the government's investigation commenced. *Id.* at 1690.

Lagos will have a particularly negative effect on brand owners because IP crime victims rely heavily on their own private investigations. Similarly, criminal investigators rely on brand owners' referrals—both to decide whether to open a criminal IP investigation and to conduct their own independent investigation. Ultimately, *Lagos* leaves brand owners and other victims without a restitution remedy sufficient to cover expenses for their own investigations, even when they are incurred as a result of the IP crime.

WHAT SHOULD BRAND OWNERS DO POST-*LAGOS*

So what should brand owners do? In the short term, they should check in as early as possible with law enforcement about their investigation of potential IP crimes. Here's why: *Lagos* declined to extend its ruling to "expenses incurred during a private investigation that was pursued at a government's invitation or request." *Id.* By approaching law enforcement sooner, a brand owner will give the Government the opportunity to "invit[e] or request" a further investigation sooner and minimize a brand owner's pre-invitation investigative costs.

In the long term, brand owners should seek a legislative fix to the MVRA. And brand owners have an excellent argument for doing so. Congress' primary goal in enacting mandatory restitution statutes is to make victims whole for the "pecuniary harm" they suffer as a result of a crime. *Lagos* narrow reading of the MVRA undermines this purpose by precluding restitution for a victim's investigative costs—even when they were incurred as a result of the crime. Forcing brand owners and other victims to accept something less than full mandatory restitution is the opposite of what Congress intended and could have the unintended effect of fewer IP referrals and prosecutions.

Lagos reference to "administrative burdens" of determining which brand owner costs are eligible for restitution is also hard to square with what Congress intended. Courts have not had trouble determining which costs are sufficiently "related to the offense" to be eligible for restitution, and *Lagos* offers no evidence that this problem exists.

Lagos also offers no explanation why a defendant's ability to pay restitution is relevant for a *mandatory* restitution statute. Congress elected to make a defendant's ability to pay restitution an element of determining restitution under *discretionary* restitution statutes. *E.g.*, 18 U.S.C. § 3663(a)(1)(B)(i). When restitution is mandatory, however, whether a defendant can pay the entire restitution amount is irrelevant.

So what would a responsive legislative fix to the MVRA look like? *Lagos* conceded that Congress has enacted many different restitution statutes using broader language than the MVRA that could cover a victim's own investigative costs. Some restitution statutes require restitution for the "full amount of the victim's losses," to include "any . . . losses suffered by the victim as a proximate result of the offense." *E.g.*, 18 U.S.C. § 2248(b). Similarly, the discretionary restitution statute authorizes restitution for "the value of the time reasonably spent by the victim in an attempt to remediate the intended or actual harm incurred by the victim from the offense." *Id.*, § 3663(b).

If Congress were to amend the MVRA to include similarly broad language, it would likely allow brand owners and other victims to obtain the broader restitution that *Lagos* now denies them.

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In the last edition's column we covered the testimony of UL President Terry Brady before the U.S Senate Committee on Finance. During that hearing Mr. Brady was asked to provide written recommendations on stronger penalties for counterfeiting. In response to this request he issued a letter to Chairman Hatch and Ranking Member Wyden (See full letter with recommendation). Included in that letter were the following recommendations for penalties to deter counterfeiting, with the caution that to be effective penalties must be strengthened and enforced:

- Increase use of penalties already available via 18 USC 2320;
- Conduct outreach to and training for the judiciary to remind them of existing authority they have to impose penalties on counterfeiters;
- Strengthen civil penalties under 15 USC 1117 of the Lanham Act such as by increasing the minimum and maximum amount of statutory damages that may be imposed against counterfeiters, and imposing even more severe penalties against counterfeiters where there is a life safety risk; and
- Evaluate what CBP and ICE can already do on their own to identify if additional resources or authority is needed.