

TWO NEW ANTI-PIRACY AND COUNTERFEITING LAWS ENACTED

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TWO NEW ANTI-PIRACY AND COUNTERFEITING CRIMINAL LAWS ENACTED

Two new recently enacted laws seek to add some new arrows to—and sharpen some old ones in—the quivers of prosecutors, trade associations, copyright and trademark owners and others seeking to enforce their intellectual property rights and those of their members. Together, the two new laws double the maximum criminal penalties available for piracy and counterfeiting crimes and expand the scope of existing laws to cover new technologies.

The first, AB 819, was approved by the Governor on September 25, 2010. It amends eight sections of the California Penal Code directed toward doubling applicable fines for copyright piracy and trademark counterfeiting and renewing prior law that had become inoperative. AB 819 was enacted as an "urgency statute" and took immediate effect. According to its provisions, AB 819 was intended to increase the state's tax base and stimulate the economy by safeguarding the legitimate sale of intellectual property, and to send a strong signal that California is committed to protecting the intellectual property created by innovation and entertainment industries in the state.

The second new law is SB 830, which the Governor signed on September 29, 2010. By contrast to AB 819, SB 830 amends only a single section of the Penal Code, §653w, which pertains to violations for failure to disclose the origin of a recording or audiovisual work. SB 830 overlaps with AB 819 in this regard and both bills offer alternate contingent sections as to how §653w ultimately would be amended, and when those amendments would take effect, as discussed in greater detail below. SB 830, however, was not enacted as an "urgency statute" and does not take effect until next year. The overall result, as of January 1, 2011, will be to double criminal penalties under §653w and to expand the definitions of "recording" and "audiovisual works" to cast a wider net for violators.

It bears noting that, while the Penal Code sections amended by the new laws set punishment in the form of fines, imprisonment, or both, the new provisions increased only the maximum fines, while leaving the imprisonment provisions unchanged. The discussion below summarizes the provisions of AB 819 and SB 830.

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AB 819 §1 addressed the legislature's findings and declarations giving rise to the new provisions. According to AB 819, piracy is an increasing threat to consumers. For example, consumers may be deceived by a growing number of criminal organizations that may pass off pirated products as legitimate authorized goods, by electronic means and otherwise. In Section 1, its findings and declarations section, AB 819 recognizes that intellectual property piracy (which it defines to include the theft of movies, music, software, and video games) costs the U.S. economy \$58 billion each year, as of 2007, and continues to worsen.

One study found that 5% of Americans had purchased, copied, or downloaded counterfeit music in 2004 and that this number had nearly doubled by 2007. Between 2005 and 2007, the percentage of respondents who admitted to buying a pirated movie also doubled, from 3% to 6%. At the same time, DVD sales and CD shipments to retailers have plummeted and the effect of piracy on California is estimated to have cost the state's economy more than 13,000 jobs, over \$802,000,000 in wages and salaries, over \$1 billion in retail sales of business software applications, and roughly \$239,000,000 in total tax losses.

AB 819 §2 amends Penal Code §350, which criminalizes intentionally manufacturing, selling, or knowingly possessing for sale, any counterfeit trademark registered with the Secretary of State or registered on the Principal Register of the United States Patent and Trademark Office:

- For offenses involving fewer than 1,000 articles and with a total retail or fair market value less than a grand theft offense (“a(1) offenses”), the new law doubles the maximum fines for individuals, from \$5,000 to \$10,000 and for business entities, from \$100,000 to \$200,000;
- For offenses involving 1,000 or more articles or with a total retail or fair market value equal to or greater than a grand theft offense (“a(2) offenses”), the law doubles fines for individuals from \$250,000 to \$500,000, and for business from \$500,000 to \$1,000,000.
- For subsequent offenses after conviction of either a(1) or a(2) offenses, where the subsequent offense is an a(1) offense, the new law doubles fines for individuals from \$50,000 to \$100,000, and for business entities from \$200,000 to \$400,000.
- Where an individual’s conduct, in connection with an a(1) or a(2) offense directly and foreseeably causes the death or great bodily injury of a person because that person used the counterfeited item for its intended purpose, the fine is increased from \$50,000 to \$100,000. The fine for a business entity is doubled from \$200,000 to \$400,000.

AB 819 added new subsection (d)(2) to §350 of the Penal Code. The new subsection provides that at the request of a law enforcement agency and the consent of the registrant, the court can consider a motion to have the items donated to a nonprofit organization for distribution to people living in poverty, free of charge. However, an exception to the items allowed this new treatment is carved out for “recordings” or “audiovisual works” as defined by amendment to Cal. Pen. C. § 653w (discussed below).

AB 819 § 3 amends Penal Code § 653h, which makes punishable “[k]nowingly and willfully” transferring or causing to be transferred “any sounds that have been recorded on a phonograph record, disc, wire, tape, film, or other article on which sounds are recorded, with intent to sell or cause to be sold, or to use or cause to be used for commercial advantage or private financial gain through public performance, the article on which the sounds are transferred,” without the owner’s consent. Section 653h also makes punishable transporting such articles for money or

other consideration, or causing them to be transported, within California, with knowledge that the sounds on the articles were transferred without the owner's consent. AB 819 doubles the fines as follows:

- For offenses involving 1,000 or more articles, the fine is doubled, from \$250,000 to \$500,000.
- For offenses involving fewer than 1,000 articles, the fine is \$50,000, doubled from \$25,000. For second and later offenses of fewer than 1,000 articles, the fine is \$200,000.

Section 653h also makes punishable offering for sale or resale, or selling or reselling, or causing to sale or resale, or renting, or possessing for any of these purposes, any article with transferred recorded sounds described above, "with knowledge that the sounds thereon have been so transferred without the consent of the owner . . ." Under the amended statute, the fines are:

- For the offenses involving 100 or more articles, punishment is a fine of \$20,000, doubled from \$10,000. For subsequent offenses, the fine is now \$50,000, doubled from \$25,000.
- For offenses involving fewer than 100 articles, punishment is a fine of \$10,000, doubled from \$5000. For a second offense, the fine is \$20,000, and for third and subsequent offenses, the fine is \$50,000, both doubled from fines prior to amendment.

AB 819 § 4 amends Penal Code § 653s, which makes punishable transporting or causing to be transported within California for money or other consideration, "any article containing sounds of a live performance with the knowledge that the sounds thereon have been recorded or mastered without the consent of the owner of the sounds of the live performance . . ."

- For violations involving 1,000 or more articles, the fine now is \$500,000, doubled from \$250,000 under § 653s prior to amendment.
- For violations involving fewer than 1,000 articles, the fine for the first offense is now \$50,000, up from \$25,000. For second and subsequent violations, the fine now is doubled to \$200,000.

Section 653s also makes punishable offering for sale or resale, selling or reselling, causing the sale or resale, renting, or possessing for these purposes, "any article described [above] with knowledge that the sounds thereon have been so recorded or mastered without the consent of the owner of the sounds of a live performance . . ."

- For violations involving 100 or more articles, the fine is doubled under amended § 653s to \$20,000. Second and subsequent convictions draw a fine of \$50,000, doubled from \$25,000.
- For violations involving fewer than 100 articles, the fine is \$10,000, doubled from \$5000. A second offense has a fine of \$20,000, doubled from \$10,000. Third and subsequent offenses now are fined \$50,000, up from \$25,000.

AB 819 § 5 amends Penal Code § 653u, which makes punishable recording or mastering, or causing to be recorded or mastered on any article, "the sounds of a live performance," "with the intent to sell for commercial advantage or private financial gain," and "with the knowledge that the sounds thereon have been recorded or mastered without the consent of the owner of the sounds of the live performance . . ."

- For violations involving 1,000 or more articles, the fine now is doubled to \$500,000.
- For violations involving fewer than 1,000 articles, the fine now is doubled to \$50,000. For subsequent convictions, the fine is now doubled to \$200,000.

AB 819 and SB 830 act together in complex scheme to amend §653w, which punishes a person for “failure to disclose the origin of a recording or audiovisual work if, for commercial advantage or private financial gain, he or she knowingly advertises or offers for sale or resale, or sells or resells or causes the rental, sale, or resale of, or rents, or manufactures, or possesses for these purposes, any recording or audiovisual work, the cover, box, jacket, or label of which does not clearly and conspicuously disclose the actual true name and address of the manufacturer thereof and the name of the actual author, artist, performer, producer, programmer, or group thereon.”

AB 819 §6 doubles the fines of § 653w, effective September 27, 2010:

- For offenses involving advertisement, offer for sale or resale, sale, rental, manufacture, or possession for these purposes, of 100 articles or more of audio recordings or 100 articles or more of audiovisual works, the fine is increased from \$250,000 under the law before amendment, to \$500,000.
- For first offenses as set forth above involving fewer than 100 articles, the fine is doubled from \$25,000 to \$50,000 under the law as amended.
- For second and subsequent offenses involving fewer than 100 articles, the fine is doubled from \$100,000 to \$200,000.

As of January 1, 2011, AB 819 §6 is scheduled to expire, and SB 830 §1.5 is scheduled to take effect. Section 1.5 retains the doubled fines, but will expand the definitions of “recording” and “audiovisual works,” to capture illegal use of more and modern recording media. Curiously, as noted above, AB 819's fine-increasing provisions became immediately effective in September 2010, while the expanded definitions addressed by SB 830 were delayed until January 2011. The amended definitions found in SB 830 §1.5 are, with new language italicized:

- “Recording” means “any tangible medium upon which information or sounds are recorded or otherwise stored, including, but not limited to, any phonograph record, disc, tape, audio cassette, wire, film, *memory card, flash drive, hard drive, data storage device*, or other medium on which information or sounds are recorded or otherwise stored, but does not include sounds accompanying a motion picture or other audiovisual work.”
- “Audiovisual works” are defined as “the physical embodiment of works that consist of related images that are intrinsically intended to be shown using machines or devices, such as projectors, viewers, or electronic equipment, together with accompanying sounds, if any, regardless of the nature of the material objects, such as films, tapes, *discs, memory cards, flash drives, hard drives, data storage devices, or other devices*, on which the words are embodied.”

AB 819 §7 amends Penal Code § 653z, which makes punishable operating “a recording device in a motion picture theater while a motion picture is being exhibited, the purpose of recording a theatrical motion picture, and without the express written authority of the owner of the motion picture theater . . .” The fine of the penalty is doubled under the amended law to \$5,000.

AB 819 § 8 amends Penal Code § 653aa, which makes punishable “knowingly electronically disseminat[ing] all or substantially all of [a] commercial recording or audiovisual work to more than 10 other people without disclosing his or her email address, and the title of the recording or audiovisual work” where the person knows of the commercial nature of that recording or audiovisual work.

- For all persons in California, except for minors, the new fine is doubled to \$5,000.
- For all minors, the new fine is doubled to \$500 for the first offense and any second offense. *There is no option in either the old or amended law to impose imprisonment on minors for first and second offenses.* However, both the old and new laws contain the fine and/or imprisonment language for third offenses by a minor. The new law doubles the fine to \$2,000.

AB 819 further amends §653aa to eliminate the sunset provision that terminated this section of the Penal Code on January 1, 2010. AB 819 reinstated this provision after it expired, and added stronger penalties.

AB 819 § 9 amends Penal Code §1202.4, which provides that victims of crimes are entitled to seek restitution from a convicted defendant for economic loss resulting from commission of that defendant’s crime. Victims are “any owner or lawful producer, of a phonograph record, disc, wire, tape, film, or other device or article from which sounds or visual images are derived that suffered economic loss resulting from the violation.” Prior to amendment, §1202.4 gave courts authority to order restitution from defendants convicted under §§653h, 653s, 653u, and 653w of the Penal Code. Section 1202.4, as amended, now provides authority to order restitution for additional violations under §§350 and 653aa, respectively, which concern the manufacture and sale of counterfeit registered trademarks, and electronic transmission of all or substantially all of a commercial recording or audiovisual work.

AB 819 also amended §1202.4 to specify that the terms “audiovisual work” and “recording” now correspond to the amended definitions set forth in amended §653w, *supra*.

CONCLUSION

With AB 819 and SB 830, Prosecutors, trade associations, and copyright and trademark owners have two new arrows in their enforcement quivers. The effectiveness of the new provisions will largely be determined by those who employ them, the accuracy of their aim, and the strategic choices they make in deciding when and how to use them.