Putting Trademarks in Jail:
New Tool for Punishment of Corporate Crime?

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1. Introduction

It has been remarked that while a corporation may be considered as a "person" under modern law, it cannot go to jail for its crimes. This truism has become "even more true" since the 2008 financial crisis, as we have entered the era of companies and banks that are "too big to jail."

Federal and state prosecutors have expressed irritation at banks and companies that have repeatedly agreed to multi-100 million or multi-billion dollar settlements for violating the law, including a promise to desist from future wrongdoing, only to have another division of the organization commit some equally serious crime, necessitating yet another round of settlements including more promises to desist from future wrongdoing.

Senior executives generally escape personal liability by seeming remote from the crime, while a few underlings may be personally prosecuted and jailed, and the settlements are paid by the company's shareholders who have done no wrong. After paying such settlements, the company (which has treated them as a cost of doing business) goes back to work making more profits, to make up for the loss and to create a surplus, possibly to cover their next such settlement.

What's a prosecutor to do, short of shutting the large company down, which may not be practical, or besmirching it with a major criminal conviction, which may have the same effect, if customers decide they can no longer transact with it? How can we send a message to the corporate rank and file that ethical, lawful behavior is still an imperative, and not just another number on the P&L that has little or no effect on them personally?

1.1. Sentencing Guidelines for Organizations

Under federal law organizations are vicariously liable for the actions of their officers and employees, and hence can be charged with, convicted of, and sentenced for crimes. However as will be seen by reviewing the United States Sentencing Commission 2014 Guidelines, Chapter 8, "Sentencing of Organizations," the available sanctions are limited to fines, restitution, disgorgement, probation, monitors, and community service. Extensive discussion is accorded to fines, since this is currently the primary tool for punishing wrongdoing by corporations, even if it mainly affects shareholders while having little effect on officers and employees.

1.2. The Power of Corporate Names

From the corporate <u>employee</u> perspective, the most important thing on your business card is not your own name, or even your job title. It's that magic company name that everyone responds to, that elicits cordial treatment. Ask any corporate employee who's lost their job. When you no longer have that major name on your business card, few return your calls and many ignore you, proving it was not "you" that they cared about, but your role as an agent of corporate and financial power.

This is even truer on the customer side. The power of corporate brands is undisputed. Upstart companies can seek to offer services or products, which may be cheaper and better, but it doesn't matter since the clients, like lemmings, will flock to the big, old, established name, seeing it as a guarantee of quality, knowing they cannot be criticized for choosing it. Many clients, especially in the financial services sector, take comfort in the prestigious name of their bank, broker or insurance company.

Trademark law and practice recognize that trademarks, trade names, domain names, social media identifiers, system IDs, and the like have great value, reflecting the reputation that the company has built up over years, decades, or even centuries. Any transfer or license of a brand name must include the related goodwill, quality control must be monitored and enforced, and any excess of the purchase price of an acquired company over the value of its tangible assets, which sometimes can be huge, will be booked as goodwill, i.e., the alleged value of the corporation's reputation among its customer base.

2. The Remedy of Trademark Impoundment

Under the Fifth Amendment to the U.S. Constitution, and all state constitutions, the government may not deprive any person of life, liberty, or property without due process of law. We cannot jail a large corporation, nor impair its ability to transact. It still must settle its numerous transactions every night. But what if we temporarily prohibit it from using its trademarks and system identifiers, say for 6-12 months, or 3-5 years? Let's work through the implications of this idea.

2.1. Immediate Implications

1. It's constitutional. If we passed a federal law (see below a draft "Protecting Our Good Name Act") providing that, in addition to assessing monetary penalties, prosecutors could demand that trademarks and other identifiers be impounded, this in no way violates our Constitution. It's not ex post facto, due process of law is being provided, and their property is not being taken for public use; they remain free to sell them. They are being deprived of liberty to use them, like a natural person who is deprived of liberty by being imprisoned.

2. It will cause a huge inconvenience to the company and its employees, to have to cease using their famous, magical name, BUT so is going to prison! Ask anyone who's been imprisoned: it's extremely inconvenient! You lose your job, your spouse often divorces you, your social status takes a major hit, you have to sell most of your possessions, you lose touch with most of your friends and business

associates, and so on. [One former bank employee, jailed several years for theft, told everyone he had been in Singapore.]

3. It's not a "corporate death sentence" and will not put the bank or company out of business. The operational impact should be identical to them being acquired by a company having their new name, minus the layoffs. They'll have to change their letterhead, business cards, exterior and interior signage, obtain new domain names and system identifiers that won't have the caché of their prestigious name, and their lawyers will be kept busy amending countless documents, but assuming a reasonable phase-in process it won't affect their ability to settle transactions on all the major markets and systems to which they belong.

4. The company will be put to significant legal expense to amend their corporate charter, reissue their stock, obtain a new ticker symbol, rename many of their subsidiaries, obtain reissuance of their licenses, retitle their assets, and amend most of their contracts, including with employees and suppliers, etc. However, the total legal bill even in the case of a large bank will certainly be much less than the $1 billion plus settlements they routinely agree to. A reasonable estimate of these costs could be deducted from the associated monetary settlement.

   Staff who have a professional license, such as registered reps, that may require a licensed employer, must amend their licenses, but this will be routine, as if they had changed companies.

5. It need not be permanent. If we do a <u>proper job of legal curation</u> of their names during the detention period (discussed at length below), they can later reclaim and resume using their old, famous name after "paying its debt to society," just like a natural person jailed for armed robbery.

6. It will send a message to every employee of the corporation, from the CEO to the lowest clerk, that wrongdoing has consequences. This penalty is not just a number on the company's quarterly P&L statement, which few employees read. Everyone in the company will be continually aware that their company admitted or was found guilty of wrongdoing. Each time they hand out their new business card, rather than feeling its power and prestige, they'll face the potential response, "Oh yes, your company had to change its name, didn't it?"

7. It will send a similar message to every client, counter-party, and supplier of the firm, most of whom will have to change their system data, and in the case of any custom branded products, change over the dies, molds, stamps, and so on.

8. Customers, including wealthy ones, can no longer tell their friends at the golf course, or their bosses at the office, "I use the XYZ firm" and bask in the glow of its eternal fame. As a remedy of corporate shame, this goes far beyond press releases issued by prosecutors, or tedious news stories about how company X has just admitted to yet another series of egregious violations. Now literally anyone

who interacts with them will be directly aware that “hmmm, this firm must have somewhat of a crooked side to it,” especially if such a name change happens more than once. They can no longer “flock like lemmings” to the famous name because that name has been impounded, “jailed” as a sentence resulting from conviction or admission of guilt.

9. IP holding companies are no impediment. Many corporations have transferred their trademarks and other intellectual properties to IP holding companies, often to receive royalty income from their subsidiaries in low tax jurisdictions, foreign or domestic. In this case the remedy is even easier: order them to stop using trademarks they have licensed from themselves. If their IP holding company is overseas, they might seek to have their U.S. marks impounded anyway, to avoid potential loss of rights due to non-use, which the impoundment would toll.

10. No immediate impact on bond ratings. Many institutions have policies that prohibit investing in or doing business with companies that have been criminally convicted. Of course these policies may be updated, but for now it seems safe to assume that a corporate name change alone will not trigger any of these policies, which could impede the corporation’s ability to transact.

11. Brand value will decline. When brand names are not regularly used in business or advertising, customer awareness (prompted and unprompted recall) declines. Younger customers will enter the market who have never heard of it and older ones who do remember it will retire or die.

2.2. Longer Term Implications

If the “Protecting Our Good Name Act” as proposed herein is enacted or even seriously mooted, it will prompt a raft of studies and debates about the value of goodwill, the impacts of the “messages” it sends to various audiences, its likely or actual effectiveness, the financial and operational impact of each major sentence of name impoundment, and so on. Looking into our crystal ball, here are some things we may be seeing:

1. Death after all? Some badly run companies may go out of business anyway if they are unable to manage the name and system changes in a timely and efficient manner. But let’s assume that our leading corporations, loaded with cash and employing the smartest people, aided by our finest law, consulting and PR firms, should be able to pull this off without breaking a sweat.

2. Making lemonade. Rather than a penalty, some companies, especially those most tarnished by scandal, might see this sentence as an opportunity to rebrand and create a new identity. Like Altria and Xe (formerly Philip Morris and Blackwater) they might abandon and never reclaim their former names. Such a policy of “making lemonade” could allow the company to make a fresh start, and leave its long suffering shareholders richer rather than poorer.

3. Spontaneous bank breakups? Managers of divisions that are less prone to crime might demand to be spun out as independent non-subsidiary companies (under new names), so they can build their brand identities and goodwill with clients and consumers in peace, without the risk of having all their investments in advertising taken away from them due to crimes in other divisions. This effect, which we should encourage, could accomplish what failed initiatives to break up our large financial institutions did not.

   It may drive an operational wedge between bank divisions that serve the public, including deposit gathering and processing, which need to project cheerfulness and are less prone to major crimes, and the investment banking, trading, private and corporate banking, and derivatives operations, which are more crime prone. After seeing a few such name impoundments play out managers may start saying, “We need a divorce from those folks over there.” Smaller and more focused organizations would be better for many reasons, including reduced systemic risk, better governance, and greater marketplace competition and innovation, so this option should be facilitated.

   Such pre-emptive spinoff companies could resume using the names of banks or companies that were previously acquired by their parent, which may still have historic value. Will we witness the rebirth of Fleet Bank or Bank One, as a name attached to some group of operations fleeing from their derivatives desk?

4. You can be criticized! If you recommend a famous firm, thinking you could never be fired for choosing them, and your selected firm goes through one or more criminal-sentence-related name changes, your bosses may question your professional judgment! (“Way to go Albert, tell me again, why did you select those crooks?”) Employees tasked with selecting vendors will prefer to follow strict criteria, and give greater consideration to smaller, less complex firms, not just select a firm whose name sounds good. In turn firms may tout their lack of high risk lines of business.

5. Renewed focus on quality. With their name alone no longer assuring their eternal existence, pulling them back from any and all brinks, convicted companies will have to refocus on quality and service. This should have a positive impact on competition and availability of newer, better, and cheaper products and services.

6. Market shakeup. In another plus for competition, lesser competitors who have previously felt sandbagged, unable to compete with the famous name, will get a break if they can seize it. The convicted company may cede market share to its major competitors and upstarts, due to changing customer and market perceptions, with the resulting market shakeup creating a revamped lineup of players.

7. Greater value for law abiding names. In a business environment where a major company or product name can be impounded for wrongdoing, the value of names

that are ethical should increase. Companies that have competed honestly and done no wrong will be rewarded with increased sales and market share, rather than being punished by being less profitable than their crime-prone brethren.

8. Potential stumbles. Depending on its agility, the convicted company may "miss a turn" in the marketplace. While it is implementing the name change, as if it has been acquired by its new self, competitors may get new products to market faster, possibly leading to a loss of market share. This will get the attention of the rank and file more than any monetary penalty.

9. Impact depends on competition. Such marketplace impacts would obviously be less if the company were more of a monopoly, possibly due to patents, de facto market standards, or simply owning most of the industrial capacity. And it would be greater in markets (such as financial services) that are highly competitive, where one firm can more or less substitute for another.

10. New life for compliance? Despite the creation of hotlines, employees know that "whistle blowing" can have a high personal cost. Perhaps the dysfunctional corporate culture will take these new penalties in stride and remain just as dysfunctional as before. But maybe after they live through (or read about) the impact of several name changes, top managers will start thinking, "hmmm, maybe we should pay more attention to employee complaints about problems," given the inconvenience such settlements can entail, which can't be resolved by just writing a check and moving on.

11. System redesign. Companies may react to this new threat by modifying their systems to automate such changeovers as much as possible. They can tell their system developers to make the company name a "variable," and pre-emptively retitle all assets into no-name holding companies that prosecutors would be unlikely to require them to rename. However, this will not mitigate the intended impact, which is to impound the brand name and its goodwill, and force them to start over (or at least go into the penalty box) with brand management.

12. Increased cooperation. The Good Name Act could provide further incentives for companies to cooperate with the government in situations where a competing firm might face serious penalties, e.g. for antitrust violations. If the hardcore violators suffered impoundment of their trademarks and cooperating firms did not, this could economically reward cooperating firms, which may pick up market share from the bigger violators. Beyond merely reducing penalties, turning in your competitors could be an outstanding business strategy

13. Famous name remarketing? Banned from reusing names of previously acquired companies, subject companies might seek to purchase an old brand name of a company acquired by one of its competitors. I see no obvious way to prevent this, yet it seems unlikely that competitors will lend them a helping hand, rather than move in to seize market share.

3. Making Trademark Impoundment Feasible

There are good reasons why federal prosecutors and state attorneys general can't ask for this remedy now – it's not feasible. However, with suitable legislation and regulations it can be made feasible. Let's review the problems and solutions. Since this is a concept paper, we'll do so at a conceptual level. If this proposal starts to get traction, then we can crack the case books and drill down on every last legal nuance and implication.

3.1. The Requirement of Use

Trademark rights are acquired by use, and once someone has claimed a trademark by using it in commerce, they can register it. If someone stops using a trademark, especially if they intentionally decide to stop using it, others can file an action to cancel it. And if trademark rights were suspended, anyone could start using the mark. These outcomes make it impossible to cease using a trademark, absent legislation to place marks into a suspended status.

[Without legislation, prosecutors might be able to require marks to be transferred to an independent trustee for curation for short periods of time, and especially with the help of potential supportive letter rulings or new regulations from the Trademark Office that sanction it. We'll examine this idea later.]

3.2. Intent to Use (ITU)

U.S. trademark law already contains practically the exact legal device we need, albeit with minor modification, namely "intent to use" (ITU). Certain trademark applicants such as hotels were handicapped by the requirement of actual use in commerce[1] prior to filing. They could spend years planning and building their hotel, yet not be able to register its name until they got its doors open for business. The remedy was to create a filing basis not of "actual use" under Section 1(a)[2], but rather "intent to use" under Section 1(b).

Every trademark lawyer is familiar with intent to use. You fill out the same application, pay the same fee, but check the box for 1(b). Your application is processed but then placed in suspense for up to 2 years, with the requirements that a) you must pay a small additional fee every 6 months, and b) once you get the mark into service in commerce you must file a statement of use (with a small fee), thus ending your ITU status.

While your ITU application is pending, which might not issue if you abandon it by not paying the semi-annual fees, others can apply for the same or a similar mark, but they are

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[1] This is an artifact of our Commerce Clause and is required for federal jurisdiction. Other nations (such as the EU) do not require use in commerce until 5 years after registration.
[2] Title 15 US Code Chapter 22 Section 1051(a), et seq.

in line behind you as to priority in time, and when you file your statement of use within the 2 year period, it trumps them.

3.3. Intent to Reuse (IRU)

The critical fix needed for our proposed trademark impoundment legislation is to create another status called “intent to reuse” (or IRU), either as a subsection of Section 1(b), or else in a new “Section 1(c)” after renumbering the current sections to free it up.

What the “Protecting Our Good Name Act” principally does is allow trademarks that are being impounded as punishment for corporate wrongdoing to be placed into an intent to reuse (IRU) status, thereby “protecting” them (a different shade of meaning) from loss of legal rights during the period of impoundment.

Applications and registered marks must be treated differently. An application that is pending can simply enter (or remain in) ITU status for the duration of the impoundment. A registered mark must be placed into a suspended status, subject to a bona fide intent to reuse. In both cases, after the impoundment ends, the owner/applicant would file a “statement of reuse” and pay the relevant fee to restore them to their original status.

3.4. Effects of Impoundment

During the sentence of impoundment, after a negotiated transition period:

1. The subject corporation will pay all fees, as the Commissioner for Patents and Trademarks (hereafter the “Commissioner”) may establish, associated with processing the applications for suspension, including recurring intent to reuse (IRU) maintenance fees payable every 6 months.

2. The requirement of ongoing use in commerce is tolled for the duration of the impoundment, based on a bona fide intent to reuse and the timely payment of periodic maintenance fees, and such period of legally enforced non-use cannot become a basis for others to seek cancellation of the marks.

3. Ownership of the trademark registrations and applications will be assigned to the NewName Corporation (via a confirmatory assignment), since the OldName Corporation has been required to change its legal name, and may be reassigned back when the impoundment ends.

4. The subject corporation may not use the trademarks, or any other trade names, domain names or system identifiers based on them, or abbreviations thereof, which they could have prevented others from using, either in commerce or in any internal systems or correspondence. The government may enforce this section and any violation could add to the length of suspension or trigger additional fines.

At the time the impoundment expires recently hired employees, especially the younger ones, may be surprised to learn the true name of their employer.

5. No other entity may use the impounded marks or identifiers, and either the company or the government may enforce this section, the intent of which is to preserve and curate the value of the marks (which are quite famous and valuable) during the period of impoundment. This would include seeking an order from the International Trade Commission (ITC) barring import of infringing goods.

6. As with ITU applications, others may apply for the same or similar marks, but their applications will likewise remain behind the rights of priority of the subject corporation, and such applications may be granted further processing if the subject corporation abandons its rights, by either not paying the IRU maintenance fees every 6 months, or never filing a statement of reuse at the end of the impoundment, perhaps because they rebranded and moved on.

7. The subject corporation does not lose its property rights, and may sell the marks and their associated goodwill in an arm's length transaction to an unrelated purchaser, provided such purchaser meets tests of unrelatedness. Such a sale ends the impoundment, as the purchaser (who is not under any disability) can file a statement of reuse, and commence using the purchased trademarks and identifiers.

8. If any trademark is subject to a security interest, such as a UCC-1 filing securing debt obligations of the corporation, such security interest will remain in effect as to the intangible property in the marks, and the corporation must continue to pay the loans, or else the note holder can enforce its security interest by foreclosing on the marks. Here again, as long as the new owner meets tests of unrelatedness, this action ends the impoundment, and the new owner can take title to the marks (by filing a UCC transfer statement) and file a statement of reuse.

9. If the subject corporation files for bankruptcy while its marks are impounded in an intent to reuse status, the marks can be sold or foreclosed as may be ordered or permitted by the bankruptcy court, with the same results as above, namely that the new holder, if sufficiently independent of the subject corporation, can acquire title to the marks, typically via a court order certifying the winner of an auction, file a statement of reuse, and use the marks in commerce.

10. If the subject corporation merges or is acquired while its marks are impounded in an intent to reuse status, the result will depend on whether the new organization meets the tests of independence from the former one. If yes, it will be treated as if an independent party has acquired the impounded marks, and with court approval it can file a statement of reuse. If not, the marks will remain impounded as before.

11. A post-facto divestiture of a division that had no involvement in the crimes leading to the impoundment into a less than 10% owned entity (with no banned

employees or shareholders) can take impounded brand names and system identifiers with it and subject to court approval can file a statement of reuse and commence reusing them.

3.5. Tests of Buyer Independence

If the subject corporation's trademarks pass into new ownership in cases such as those described above (sale, foreclosure, bankruptcy, merger, spin-off, or the like) and the new owner is "independent" of the former crime-prone organization, we should let them file a statement of reuse and commence reusing the marks in commerce.

How strict should the test be? This test will be subject to debate, and certain exceptions might be granted in the public interest, but to assure that these criminal sanctions have real significance, we propose (at least) the following requirements:

A. Banned Shareholders

1. No more than 10% of prior non-institutional shareholders may be shareholders of the new entity, and no institutional shareholders that held a board position at the time of the subject crimes may hold any interest in the new entity.

2. The new entity must have no prior non-institutional shareholders whose prior holdings exceeded 1%. All shareholders related to such a prior non-institutional shareholder are also excluded.

B. Banned Employees

1. No employee or executive of any division directly involved in the subject criminal activity, or any prior criminal activity, may be associated with the new entity in any capacity, including as an employee, officer, director, consultant, or advisor.

2. No senior executive, nor any mid-level executive in the chain of command above any division directly involved in the subject criminal activity, or any prior criminal activity, may be associated with the new entity in any capacity, etc.

These latter restrictions mirror the Bank of England's response to the Barings Bank scandal, in which they ordered the dismissal of every executive in the chain of command above the rogue trader Nick Leeson.

C. Criminal Activity Defined

Prosecutors often do not file criminal charges, and will instead settle cases on civil grounds, or with non-prosecution or deferred prosecution agreements. For purposes of these independence tests, and applicable throughout this paper, the term "criminal activity" means any conduct for which prosecutors could have filed criminal charges.

In practice drawing this line this should not pose a problem since non-prosecution or deferred prosecution agreements typically contain an express admission that criminal charges could have been brought.

D. Pre-Packaged Mergers or Buy-Outs?

Companies facing impoundment of key brand names may, during negotiations with prosecutors, seek to consummate an immediate sale or reorganization of the company. For example they could negotiate a buy-out by a private equity firm that takes out all banned shareholders, divests or shuts down the offending operation, removes all banned employees, and seeks to continue using their trademarks without interruption. If such housecleaning meets the objectives of criminal sanctions, and is thorough enough, it should be approved.

3.6. Non-Trademark Identifiers

In order for the impoundment of trademarks and trade names to have teeth, and provide maximum deterrent value, prosecutors should be able to demand the cessation of use and impoundment of (a) all company-owned marks, whether or not actively used, including the names of previously acquired companies (to prevent the corporation from merely reverting back to one of its former famous names), and in addition (b) the following non-trademark identifiers, whether or not based on or derived from its registered marks:

1. All internet (and other network) domain names,
2. All social media identifiers, including Facebook, Twitter, YouTube, Skype, etc.
3. All names of subsidiaries and investment vehicles that contain the parent's name or initials (e.g., GS Alternative Mortgage Products),
4. All CHIPS, CHAPS, SWIFT, FedWire, and similar identifiers that signify the company, whether or not alphabetic in nature,
5. Stock ticker symbols, which certainly signify the company and are commonly used as a surrogate corporate name,
6. ABA institution numbers, as they appear on checks and in wire transfers or direct deposits. This will require reissuance of all customer checks, and reinput of all direct deposit instructions (required anyway due to the name change).

The "inconvenience" of these impoundments will be felt throughout the corporation and its customer base, but they will not put it out of business, nor prevent the company from settling its obligations on a timely basis, any more than if it had merged with another company.

Exemptions should be granted for the company's a) federal tax IDs in the public interest to facilitate administration of the tax laws, and b) IPv4 internet addresses, since these are becoming scarce, are rarely seen by humans, and do not serve to identify it, other than to hackers around the world.

3.7. Non-Trademark Identifier Curation

How can we curate these other identifiers so that when the sentence of impoundment expires, the subject corporation can get them back intact and still in good working order?

In order for an identifier to exist on a given system, it must be assigned to a user. Hence the identifiers could be transferred to an account owned and controlled by the U.S. Department of Justice, a licensed trust company acting as a public custodian under government contract from the Justice Department, or more likely, a licensed trust company or similar custodian acceptable to the Justice Department under contract with the subject corporation.

Thus on any given system when an authorized user inquires as to the ownership of that system ID, domain name, ticker symbol, or the like, the answer could be “US Department of Justice, Office of Impoundments”, “The XYZ Trust Company as agent for the US Department of Justice,” or “The XYZ Trust Company as agent for NewName Corp.”

As part of the order of impoundment the subject company will be responsible for all fees pertaining to the custody of these identifiers, including all maintenance and renewal fees charged by the underlying issuers of the identifiers.

3.8. Is Congressional Action Needed?

Could criminal prosecutors fashion a version of this proposed trademark impoundment remedy without an act of Congress to amend the Trademark laws? Further research is needed, including consultation with officials and staff of the US Trademark Office, who may have considerable residual rule making power under existing law; however it does not seem to be entirely ruled out.

The two most problematic issues, as far as I can tell, would be:

1. The lack of any procedure to move a registered trademark back into a bona fide intent to use status, a status normally accorded only to newly filed applications, which might be remedied by some suitable regulation or letter ruling, and

2. Legal attacks by third parties seeking to cancel the marks’ registrations on the grounds of non-use, and more particularly intentional non-use, which might be remedied by staying strictly within the two year period currently established by regulation as being acceptable for “intent to use” trademark applications under Section 1(b), and in no case exceeding 5 years, the international norm.

Another route might be for the trust company to maintain a minimal level of “use” during the period of suspension, generally defined as documented sales of goods or services covered by the mark of at least $5,000 per year. Or a remedy might be fashioned in which the company may continue to use all marks, but only at a single branch office, thus achieving the minimum sales required to fend off an action to cancel for non-use.

For example, JP Morgan Chase might retain its branch in Stubenville, OH, which has at least $5,000 in annual sales[3], while rebranding all its other offices and branches. Yes, the operation of this one branch would be inefficient, but going to jail is also very inefficient, for the natural person being jailed.

There is no “use” requirement for internet domain names, social media IDs, stock ticker symbols, clearinghouse participant IDs, dark pool network IDs, and the like. Hence assigning them to a trust company, or to an account controlled by the Justice Department, should not pose a problem for long term value maintenance, so long as the custodian diligently pays all fees and takes all steps necessary to keep them in force, including periodic logins, contact address confirmations, password changes, etc. In view that the company is paying all fees, assigning the marks and IDs to an independent trust company acceptable to the Justice Department, with contractual duties and regular status reporting back to the company, is probably the preferred approach.

If any prosecutors read this paper and become inspired to put the no-legislation version of these ideas to work immediately, I advise them to retain a nationally known trademark law firm to help negotiate the settlement, to ensure it achieves its curatorial purpose.

4. The Protecting Our Good Name Act of 2015

The following is a rough draft of the legislation proposed in this paper. As can be seen from the foregoing, what is needed includes:

1. Authority for prosecutors to seek such remedies, and standards for courts to approve them,
2. A package of extensions to existing trademark law and regulations,
3. Authorization for licensed trust companies to act as curators of non-trademark identifiers, subject to government approval and supervision,
4. A ban on use of the impounded marks, with authority for the government or the owner to enforce the ban, and
5. Safe harbors for legitimate transfers of impounded marks.

We can envision extensive regulations being written to further develop these concepts, as is common these days, but the underlying principles remain fairly simple.

The Act’s name is a double-entendre. It is the job of corporate executives and employees to “protect the good name” of their companies by avoiding wrongdoing. However, once major violations have occurred for which remedies beyond the payment of money appear

[3] This solution is problematic unless the branch transacts business nationwide since firms in other market areas might file for concurrent use rights, thus damaging the national rights.

warranted, the real job of this Act is to “protect the names” of the company from the loss of their trademark rights, by diligent curation during the period of impoundment, so they can resume using their former name (if desired) after their sentence has been served.

We have made reference above to filing a “statement of reuse” to place a trademark registration or application back into active status. This should be very similar to filing a statement of use, as it currently exists, including an allegation of use and payment of the associated fee, but with the additional requirements that the statement of reuse must a) certify that the impoundment has ended, for one of the approved reasons, and b) attach proof of the same. The fee may be higher in view of the additional analyst time needed to review this proof.

The following draft is merely an illustrative, “back of the envelope” version, and before preparing actual legislation a detailed “memorandum of law” must be drafted, by lawyers having preferably at least 5-7 years of experience in the fields of trademarks, organization sentencing, bankruptcy, debtor-creditor, and mergers/acquisitions.

4.1. Title

An Act to provide federal criminal prosecutors with additional tools for deterrence and sentencing of organizational defendants by making provision for the impoundment and curation of trademarks and trademark applications in an intent to reuse status, including authority for the impoundment and curation of non-trademark identifiers, and for other related purposes.

4.2. Section 1: Short Title

This Act may be cited as the “Protecting Our Good Name Act of 2015.”

4.3. Section 2: Definitions

As used in this Act:

2.1 “Commission” means the United States Sentencing Commission.

2.2 “Commissioner” means the U.S. Commissioner of Patents and Trademarks.

2.3 “Custodian” has the meaning specified in Section 3.9.

2.4 “Department” means the U.S. Department of Justice.

2.5 “Office” means the U.S. Patent and Trademark Office.

2.6 “Unrelated” has the meaning provided in Section 5.

4.4. Section 3: Impoundment of Trademarks & Identifiers

3.1 An organizational defendant may be sentenced pursuant to an order of court providing that its trademarks and other identifiers may be impounded, or its licenses to use such marks may be suspended, for a period not to exceed five (5) years.

> NOTE: A common international standard for abandonment of trademarks is 5 years of non-use, even if such non-use is unintentional and the holder intends to resume use. We will assume that most companies sentenced to trademark impoundments under this Act intend to resume use, so their non-use will not be intentional. Keeping the impoundment period under 5 years provides “optical” alignment with such international standards. Moreover 5 years of not advertising could cause substantial erosion of brand value.

3.2 The Commission shall develop and promulgate guidelines regarding suggested or required periods of impoundment, scope of impoundment orders, and departures from guidelines in an upward or downward direction, and other criteria for approval of sentences, or modifications thereto, by the courts.

> NOTE: See the current Chapter 8 of the USSC Guidelines which addresses criteria for sentencing of organizational defendants.

3.3 Prosecutorial Discretion. Subject to the guidelines developed pursuant to Section 3.2, the Department shall have discretion to reduce the scope of trademarks or non-trademark identifiers to be impounded, in cases where:

> (a) the defendant can show impossibility for it to continue a major line of business without the use of such identifiers, or
>
> (b) the public interest in criminal deterrence may be adequately served by an impoundment of less than all trademarks or non-trademark identifiers.
>
> (c) Mere inconvenience or expense is not a justification for reduction of scope under subsection (a).
>
> (d) No trademark, trade name, or other identifier that was used in the commission of the subject crime may be excluded from the scope of an impoundment order.

3.4 The Department shall develop and promulgate such regulations as may be necessary or advisable to further clarify the discretion of prosecutors to narrow or broaden the scope of the trademarks or identifiers to be impounded, and to define the requirements for trust companies or other custodians for non-trademark identifiers (under Section 3.8).

3.5 When an owner becomes subject to an order of impoundment, the Office shall:

(a) place a pending trademark application an “intent to use” status for a period not to exceed five (5) years, or

(b) place a registered trademark into an “intent to reuse” status for a period not to exceed five (5) years.

3.6 (a) A trademark owner whose trademarks or applications have been impounded pursuant to Section 3.5(a) or (b) may file a statement of reuse with the Commissioner for Trademarks.

(b) Such statement of reuse must include (i) a verified statement that the period of impoundment has ended, (ii) a copy of the order or legal process confirming the end date of the impoundment, and (iii) a reinstatement fee as determined by the Commissioner.

3.7 The Commissioner shall develop and promulgate rules and regulations for the placement of registered trademarks and trademark applications into an impounded status based on a bona fide intent to use or reuse, and the release from such status, upon filing of such forms and payment of such fees as the Commissioner shall determine.

3.8 (a) An owner of non-trademark identifiers that have become subject to an order of impoundment shall transfer such identifiers to a licensed trust company or similar custodian approved by the Department for safekeeping and maintenance in accord with a service agreement between the owner and such custodian.

(b) The owner will pay all fees required to maintain the identifiers in force as assessed by the underlying issuers of such identifiers, plus the service fees assessed by the custodian.

NOTE: The service agreement should provide that the custodian will pay all fees and perform all acts needed to keep the identifiers, such as domain names, in force, including periodically logging in to change any associated passwords, and will provide the owner with periodic status reports.

3.9 Upon receipt of a copy of the order or legal process confirming the end date of the impoundment, and any other forms or fees required under the custody agreement, the trust company or custodian will retransfer ownership and control of the impounded non-trademark identifiers to the owner.

3.10 The defendant is not required to place or maintain trademarks or non-trademark identifiers in impoundment provided that, in a form acceptable to the Department, it abandons and renounces all rights to such trademarks or identifiers and pledges to abstain from using them for a period not less than ten (10) years.

4.5. Section 4: Provisions Relating to Impounded Trademarks & Identifiers

During the period of court-ordered impoundment, after a negotiated transition period:

4.1 The subject corporation will pay all fees, as the Commissioner for Trademarks may establish, associated with processing the applications for impoundment, including recurring maintenance fees.

4.2 The requirement of ongoing use in commerce is tolled during impoundment, based on a bona fide intent to reuse and the timely payment of periodic maintenance fees, and such period of legally enforced non-use cannot become a basis for others to seek cancellation of the marks.

4.3 (a) The subject organization may not use the trademarks, or any other trade names, domain names or system identifiers based on them, or abbreviations thereof, which they could have prevented others from using, either in commerce or in any internal systems or correspondence, including internal signage, except for internal systems used to track the impounded identifiers.

(b) The government may enforce this section and in case of any violation can request the court to increase or renew the impoundment and order payment of additional fines.

4.4 No officer or employee of the defendant may use the impounded trademarks in any public setting. An employee found guilty of such use may be punished by not more than one (1) year in prison and a fine of not more than $10,000, and an officer found guilty of directing or authorizing such use may be punished by not more than three (3) years in prison and a fine of not more than $50,000.

4.5 No other entity may use the marks or identifiers, and either the defendant or the Department may enforce this section through normal legal proceedings for trademark infringement, including seeking an order from the International Trade Commission (ITC) barring import of infringing goods. The costs of any action brought by the Department will be borne by the defendant.

NOTE: The subject company would have had to pay the cost of bringing suits against trademark infringers in any case, so this does not pose any additional cost burden.

4.6 The defendant may sell the marks or identifiers and their associated goodwill. If the new owner is unrelated it can file a statement of reuse, and use the marks in commerce; otherwise the marks will remain subject to the order of impoundment.

4.7 (a) If any trademark or other identifier is subject to a security interest (such as a UCC financing statement) securing debt obligations of the owner, such security interest will remain in effect as to the intangible property in the marks.

(b) If the security interest holder forecloses on the marks or identifiers and the new owner is unrelated the new owner can file a statement of reuse; otherwise the marks will remain subject to the order of impoundment.

4.8 If the subject corporation files for bankruptcy while its marks are impounded, the marks can be sold or foreclosed as may be ordered or permitted by the bankruptcy court. If the new holder is unrelated it can acquire title to the marks, file a statement of reuse, and use the marks in commerce. If the new holder is not unrelated it will remain subject to the order of impoundment. The bankruptcy court may issue a finding that a new holder is unrelated under Section 5.

4.9 If the defendant merges or is acquired while its marks are impounded and the new organization is unrelated, it will be deemed that an independent party has acquired the impounded marks, and with court approval it can file a statement of reuse. If it is not unrelated from the original owner the marks will remain subject to the impoundment.

4.10 If the subject corporation sells or spins off a division that had no involvement in the crimes leading to the impoundment into an unrelated entity, such entity can take title to impounded brand names and system identifiers and subject to court approval can file a statement of reuse and commence reusing them.

4.11 The defendant can abandon marks or identifiers as provided under Section 3.10.

4.6. Section 5. Tests of Independence

5.1 If during a period of impoundment legal title to trademarks or identifiers passes to a new entity, that entity may file a statement of reuse and commence reusing the marks if it meets the tests of independence provided in Sections 5.2 and 5.3.

5.2 No banned shareholders.

(a) No more than 10% of prior non-institutional shareholders may be shareholders of the new entity, and no institutional shareholders that held a board position at the time of the subject crimes may hold any interest in the new entity.

(b) The new entity must have no prior non-institutional shareholders whose prior holdings exceeded 1%. For purposes of this subsection (b) all shareholders related to such a prior non-institutional shareholder are also excluded.

5.3 No banned employees. None of the following persons may be associated with the new entity in any capacity whatsoever, including as an employee, officer, director, consultant, or advisor:

(a) no employee, officer, or director of any division directly involved in the subject criminal activity, or any prior criminal activity, and

(b) no director, senior executive, or mid-level executive in the chain of command above any division directly involved in the subject criminal activity, or any prior criminal activity.

5.4 (a) Shareholders prohibited under section 5.2 shall remain prohibited for five (5) years, and the unrelated corporation may donate any shares they purchase in excess of allowed amounts to charities qualified under IRC 501(c)(3).

(b) A former employee, officer, or director banned under Section 5.3 shall remain banned from working for the unrelated purchaser for life.

(c) An individual who violates subsection (b) shall be subject to the penalties defined in Section 4.4.

(d) A purchaser that knowingly allows ownership prohibited by subsection (a), or knowingly employs individuals prohibited by subsection (b), shall be subject to reimpoundment of the subject marks and identifiers, additional fines not to exceed $10 million, and such other injunctive relief as the court may find appropriate.

4.7. Section 6. Financial Authorization

6. From previous fines assessed against organizations, the Department is authorized to spend on its own behalf up to $1 million, and to transfer up to $1 million to each of the Commission and the Office, subject to adequate documentation of the expenditure of all such funds, for the purpose of developing and issuing the rules and regulations required hereunder, including those listed in Sections 3.2, 3.4, and 3.7.

5. Conclusion

In view of the widely professed desire for new organizational sentencing options we have introduced the novel concept of trademark impoundment, and distributed this concept paper in the hope that it will stimulate further comments and discussion.

The analyses and draft legislation presented above are “strawmen” or “back of the envelope” versions that require further research and development to clarify fine points, gray areas, or murky language, prior to finalizing a bill for introduction.