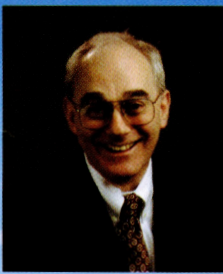


OFFSHORE is not OUT OF TOUCH



By David Cook,
Cook Collections Attorneys, PLC

**Post-Judgment Enforcement Against
Customers of Offshore Judgment Debtors**



Nearly 400 years ago, in “Doctor Faustus,” Christopher Marlowe wrote, “Was this the face that launch'd a thousand ships, and burnt the topless towers of Ilium? Sweet Helen, make me immortal with a kiss.”¹

Had Christopher Marlowe taken up a modern day career as an IP litigator, he would have re-written the line: “Was this the *Gucci* bag that launched a thousand knockoffs?”

Knock-offs, counterfeit items, forgeries and outright fakes are peddled on New York City street corners, or through Haight Street T-shirt shops and Los Angeles Melrose Street boutiques — and, of course, proliferate over the Internet. A person might dress head to toe in Guccy apparel, sport a Chanelee purse, jog in Nikee Air Gorgons and dangle a Relax Submariner.

To combat piracy, for example, the George Lucas legal team serves cease and desist letters upon brick-and-mortar retailers. Piracy cases frequently grace the federal and state courts that spin out reams of default judgments. The plaintiffs confront an empty victory and bitter after-taste because the legal system, producing out vacuous judgments, fails to ensure monetary compensation for the stolen intellectual property.

Bad enough that the T-shirt merchant ripped off the magic of Storm Troopers, Obi-Wan Kenobe, Prince Leia, and Darth Vader — but worse that the plaintiff blew real money to obtain a judgment in chasing down a pedestrian thief.²

Many perpetrators are located offshore, whether in another state or more likely, another country, whose laws are inhospitable (or totally bar) any enforcement of a U.S. judgment. Other perpetrators, originally domiciled in the U.S., flee when confronted with civil or even criminal liability, return to their homeland and rarely stick around when confronted with the theft.³

Pirates sell products from the safety of an offshore Internet-connected locale and sell products through the common carriers or even the mails. Every infringer has both a good plan to infringe the product and exploit the marketplace and a better plan to avoid enforcement if possible. Maybe.

Offshore pirates manufacture records (CDs) that pirate songs and other protected music and sell them to local “entrepreneurs” who sell the CDs out of the truck of their cars, flea markets or private or legally licensed clubs.⁴

These CDs are mixed tapes, consisting of tracks from many artists. When “the jig is up,” these pirates abscond from the U.S. jurisdiction. Other offshore pirates steal the entire anagram of popular movies, television shows, and music through Internet sites, such as Pirate Bay, among others who have offshore sites. Many are near impossible to reach and offer this unlimited array of entertainment through illegal downloads. Pirate Bay posts such “cease and desist letters” online with complete impunity and mock humor.

Is the judgment creditor left without any remedies? There is hope. Potential remedies include the following:

Discovery: Who are the offshore debtor's customers, assuming that hard products are shipped?

Google readily provides enormous information featuring virtually every product, either genuine or bootleg. Type in “Rolex,” and a potential buyer can readily scroll through hundreds, if not thousands of Web sites showcasing mostly fake watches.⁵

Some products originate on overseas sites, while other products are shipped from fulfillment houses located on U.S. soil.⁶ Absent any extreme circumstances and given the economy of manufacturing, these products originate offshore and are shipped through ocean-going containers, accompanied by bills of lading.⁷

About 30 shipping lines frequent U.S. ports, and nearly all are readily subject to service of process of a subpoena for records. The remedy is at hand. Serve all ocean-going shipping companies with a subpoena for the bills of lading that identifies the consignor (the person shipping the products, and presumptively the seller of the products) and the consignee (the person receiving the products and presumptively the buyer).

Bills of lading identify the customers of the consignor, who is the presumptive manufacturer of the products and counterfeiter. While the IP plaintiff faces daunting challenges in shutting down the offshore infringer, and absent the cooperative government, faces a “death by a thousand cuts” from offshore counterfeit merchants. Nonetheless, the fact that the IP plaintiff can intercept and seize profits and proceeds from the sales strangulates the offshore infringers' cash flow and renders the counterfeit process unprofitable.

As part of this calculus, the IP plaintiff can subpoena trucking companies, wharfs, freight forwarders, overnight courier services (Fed Ex, UPS, DHL etc., warehouses, and other common carriers to reach bills of lading, shipping documents and warehouse receipts).⁸

Bills of lading⁹ are available through the subpoena process that is authorized under Fed R. Civ. Pr. 69(a) (2), which permits the judgment creditor to employ the remedies available under Fed. R. Civ. Pr. 26-37 including the power of deposition subpoena.

While post-judgment discovery lacks the pizzazz of more draconian relief — such as carting off pallets of products¹⁰, or putting the latest Lamborghini on the U.S. Marshal's block — nonetheless, discovery reveals the offshore infringer's customer base and renders the precious U.S. cash flow vulnerable to garnishment or other relief.

Before launching enforcement, the IP plaintiff might contemplate enforcement against the goods in transit. Absent an effective levy reaching the bill of lading covering the goods, the goods, covered by a "document of title," are routinely immune from direct enforcement.¹¹

How to collect from the customers?

The IP plaintiff can garnish the customer for the obligations owed to the IP infringer through a routine levy. Garnishment (a levy upon the customer by service of a writ of execution) is the preferred method and routinely authorized under state law.¹²

Another effective remedy is to serve the customer with a third-party order to appear in court and testify as to the amounts that are owed to the judgment debtor. If the third party admits that an amount is owed, and without defense, the court can order, at the hearing, that the obligor pay the amounts directly to the IP plaintiff, and that order is in the form of a money judgment.¹³

However, some customers are located outside the state where the originating court sits, and the IP plaintiff is compelled to domesticate the state court judgment in the new jurisdiction, assuming another state, or if the judgment is in federal court, register the judgment.¹⁴

While relocating the judgment in a locale that has jurisdiction, the garnishment of the customers of the judgment debtors is the most effective remedy but forces the IP plaintiff to plant the judgment in multiple

locales with burgeoning costs and fees; however, if the customers are worldwide, extremely numerous or domicile overseas, relocating the judgment is not viable.

The alternative remedy is a broad-based assignment motion that compels the judgment debtor to assign to the judgment creditors all accounts, accounts receivable and rights to payment of money. These are called "pay me orders," meaning that the obligor is to pay "me" [the judgment creditor] and not the judgment debtor.

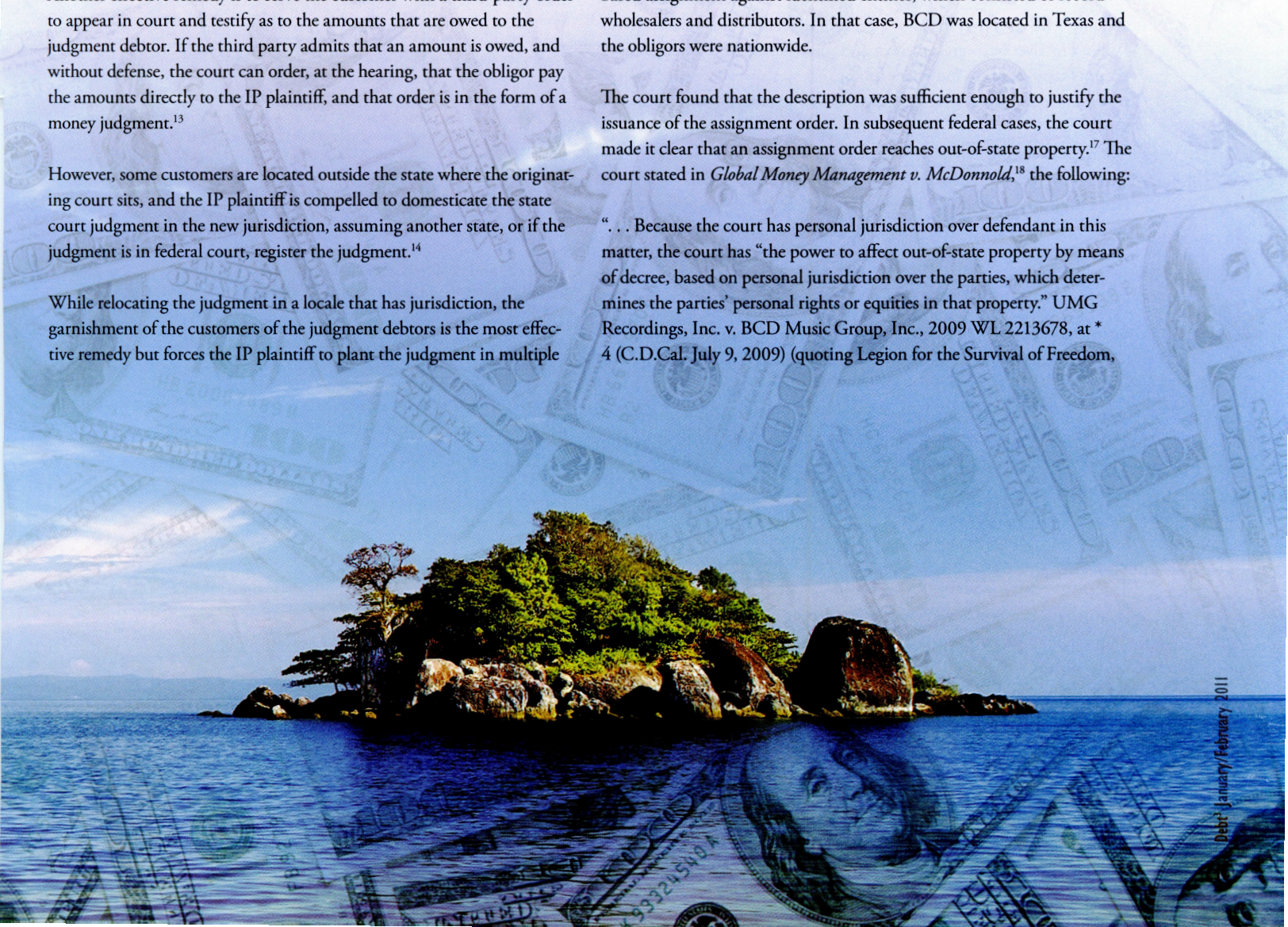
California authorizes a broad-based assignment motion under California Code of Civil Procedure Section 708.510(a)¹⁵ that ejects the judgment debtor from an obligation and inserts the judgment creditors as the obligee and recipient of payment.

An assignment of the accounts receivable due to the IP plaintiff reaches accounts that are located outside the jurisdiction of the state, therefore enabling the judgment creditor to reach accounts without the burden of local domesticating and employing a \$.44 stamp to reach the customers or many customers.

In *UMG Records v. BCD Music Group, Inc.*¹⁶, the court ordered a broad-based assignment against identified entities, which consisted of record wholesalers and distributors. In that case, BCD was located in Texas and the obligors were nationwide.

The court found that the description was sufficient enough to justify the issuance of the assignment order. In subsequent federal cases, the court made it clear that an assignment order reaches out-of-state property.¹⁷ The court stated in *Global Money Management v. McDonnold*,¹⁸ the following:

"... Because the court has personal jurisdiction over defendant in this matter, the court has "the power to affect out-of-state property by means of decree, based on personal jurisdiction over the parties, which determines the parties' personal rights or equities in that property." *UMG Recordings, Inc. v. BCD Music Group, Inc.*, 2009 WL 2213678, at * 4 (C.D.Cal. July 9, 2009) (quoting *Legion for the Survival of Freedom*,



Inc. v. Liberty Lobby, Inc., 2003 WL 22922960, at *4 (Dec. 11, 2003). “[A] court having the parties before it can, in a proper case, through its coercive powers, compel them to act in relation to property not within the territorial jurisdiction of the court.” *Hardy v. Hardy*, 164 Cal.App.2d 77, 79, 330 P.2d 278 (1958).

Therefore, the court does not find it is without jurisdiction to order defendant to assign his rights to property outside of California.”

An assignment order reaches accounts owed by obligors due the IP infringer whether located in the local jurisdiction or outside the jurisdiction. While potentially the obligor could ignore the assignment order, and some “jawboning” might be in order, many (but not all) obligors are responsive and remit funds directly to the IP plaintiff and not the IP infringer.

An assignment order is stupendous remedy because the IP plaintiff can reach hundreds or thousand of customers of the IP infringer by mailing (or personally serving, if necessary) the assignment order and notice to turn over all funds. The ambitious IP plaintiff can upload the order or even incorporate the order as its own Web address, for example, NO-PAYABC.com.

The alternative remedy is a creditor’s bill [or motion] that authorizes the appointment of receiver in aid of execution to reach accounts receivable. While a receiver bears greater effort and costs, nonetheless the receiver assumes custody of the judgment debtor’s accounts receivable and has the right to demand and receive payment from third party obligors.¹⁹

What about the offshore pirate who sells its “product line” through downloads and therefore does not ship a hard product? Offshore pirates profit from ads on their sites in which the advertisers are large U.S. companies, or third parties with a U.S. presence who likewise would owe the offshore pirate, or its agent, for the advertising fees and charges, such as click-throughs and other internet services.²⁰

An assignment order, or receiver, would reach the accounts receivable due the offshore pirate if owed by companies with a U.S. presence (i.e., subject to U.S. jurisdiction).

Credit cards facilitate payment to offshore pirates. Major credit card issuers offer points programs to their customer to induce large dollar purchases.

Customers can purchase cars, make down payments on house, pay taxes and court fees and charges, or even wholesale (\$100,000-plus) purchases on a credit card. American Express (AMEX) offers “points” that amount to airlines tickets and other accommodations on a worldwide basis.

Company insiders enjoy AMEX points by using their card in facilitating wholesale purchases and reaping an additional benefit when those points are converted into air and travel accommodation services that fly under the IRS radar.

To encourage payment of their services and a sale point, offshore debtors frequently accept AMEX to attract customers and facilitate payment.

The creditor of the offshore debtor levies on AMEX through is agent for service of process and reaches any amount due by AMEX to the offshore entity.

This model would likewise apply to any propriety card issuer that is also the director obligor in favor of the selling merchant. Internet direct payment services such as PayPal and likewise owe substantial funds due the offshore merchant, and therefore are vulnerable to levy by the judgment creditor.

Conclusion

Do not give up, do not despair, and do not walk away. If money is flowing to the offshore pirate (or any other judgment debtor) from a United States source, the trick here is to intercept the flow. ■

¹*Doctor Faustus*, Scene XIII, lines 88-90.

²For *Star Wars* junkies, *Star War Episode IV—A New Hope* tells the story of industrial theft. Prince Leia stole the plans to the Death Star, constituting a case of interstellar infringement. However, inherent in *Star Wars* is that an Article III judge greets everyone alighting from their galactic ride.

³Theme song of infringer: “Cause I’m leaving on a jet plane, don’t know when I’ll be back again, oh babe, I hate to go.”

⁴This article includes the manufacture of any goods offshore by a defendant subject to a federal or state judgment.

⁵When I tried to peddle OJ’s fake Rolex watch, I made an error when I cycled through the Internet attempting to confirm whether the watch was authentic or not. Big mistake. I was bombarded for months with e-mail spam from every online merchant selling fake Rolex watches.

⁶The phone is the best investigative tool for the aggrieved IP plaintiff. Here is the same [done by the author]: “888888[Mandarin which is translated in Hello],” “Hello, I saw your products online, but I could not find them for sale here in the U.S.” “We only sell wholesale.” “No problem. I can contact the wholesale and find you who they sell to. What wholesaler?” “Try [unintelligible] in Provo.” “Provo.” “Yes, Provo, I believe in Utah [background voices, (unintelligible). Who are you talking to? Get off the phone.]”

⁷Subject to Article 7 of the Uniform Commercial Code.

⁸These records would reveal the customer (i.e., the judgment debtor) and a bank account used to facilitate payment due the common carrier.

⁹For purposes of brevity, this includes all shipping documents, warehouse receipts and other documents of title issued in the shipment, storage, drayage or transportation of goods.

¹⁰Not so fast. See next footnote.

¹¹See Commercial Code Section 7602: “Unless a document of title was originally issued upon delivery of the goods by a person that did not have power to dispose of them, a lien does not attach by virtue of any judicial process to goods in the possession of a bailee for which a negotiable document of title is outstanding unless possession or control of the document is first surrendered to the bailee or the document’s negotiation is enjoined. The bailee may not be compelled to deliver the goods pursuant to process until possession or control of the document is surrendered to the bailee or to the court. A purchaser of the document for value without notice of the process or injunction takes free of the lien imposed by judicial process.”

¹²Post-judgment remedies in federal court are derived from the local state law under Fed. R. Civ. Pro. 69(a).

¹³This is called a third-party examination. Under California Code of Civil Procedures Section 708.205(a), the court can adjudicate an admitted debt due the judgment debtor into an money judgment now due the judgment creditor, which itself is enforceable like any other money judgment.

¹⁴28 U.S.C. Section 1963.

¹⁵“Except as otherwise provided by law, upon application of the judgment creditor on noticed motion, the court may order the judgment debtor to assign to the judgment creditor or to a receiver appointed pursuant to Article 7 (commencing with Section 708.610) all or part of a right to payment due or to become due, whether or not the right is conditioned on future developments, including but not limited to the following types of payments: ...”

¹⁶*UMG Records v. BCD Music Group, Inc.*, 2009 WL 2213678 (C.D.Cal.)

¹⁷See also *Fall vs. Eastin* 215U.S. 1 (1909) (Court can exercise in personem jurisdiction over parties to compel transfer of property that itself is located outside the court’s jurisdiction.)

¹⁸*Global Money Management v. McDonnold*, 2009 WL 3352574 (S.D.Cal.) (Page 4)

¹⁹Should the obligor of the offshore debtor have a local presence, the IP plaintiff can levy through a basic garnishment the amount due the defendant.

²⁰Pirate Bay supported itself through advertising offered to large U.S. corporations, along with other sites, charitably bearing the label of NC-17.