# AIPLA

## ANTI-COUNTERFEITING and ANTI-PIRACY DECISIONAL LAW SUBCOMMITTEE

## OCTOBER 2009
## 12-MONTH CASE SUMMARY

Including Cases Decided From
October 1, 2008, to September 30, 2009

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## Second Circuit Courts

### 1. Preliminary Injunction for Removing Trademark Owner's Quality Control Labels

***Zino Davidoff v. CVS Corp.*, 571 F.3d 238 (2d Cir. 2009)**
The Second Circuit affirmed the district court's grant of a preliminary injunction enjoining defendant CVS from selling plaintiff Davidoff's fragrances with the unique production code (UPC) removed. Davidoff and its distribution subsidiary produce COOL WATER fragrances with a UPC affixed to the bottom of each bottle and corresponding package. The UPC is a multi-digit code that allows Davidoff to track various production and distribution information for each unit of its product. Davidoff uses the UPC as part of its system to ensure the quality of its product and prevent sales of counterfeits. Davidoff limits the sale of its COOL WATER products to luxury retailers and does not sell the brand in CVS's retail drugstores. Nonetheless, Davidoff discovered that counterfeit COOL WATER fragrances were being sold at CVS. The UPCs on the bottles and packages had been removed from 16,600 items in CVS's inventory. CVS agreed to halt the sale of counterfeit Davidoff products but refused to stop selling products from which the UPCs had been removed. Davidoff won a preliminary injunction against such sales on the theory that the removal of the codes impaired Davidoff's marks by interfering with the trademark owner's ability to identify counterfeit goods and to control the quality of its legitimate products by identifying and recalling defective products. In affirming the preliminary injunction, the Second Circuit found here that, regardless of whether units with removed UPCs were legitimate, grey market or counterfeit goods, selling Davidoff's products without the UPCs could constitute trademark infringement, citing *Warner-Lambert Co. v. Northside Dev. Corp.*, 86 F.3d 3, 6 (2d Cir. 1996). That the UPCs provide Davidoff the additional benefits of allowing it to track its distribution chain and detect counterfeits did not defeat its claim. Further, the court rejected CVS's assertion that Davidoff failed to show that any of CVS's sales involved inferior products, finding (i) that such proof was unnecessary because Davidoff showed that removing the UPCs undermined its *control* of quality, and (ii) that CVS's sales of COOL WATER units without UPC labels did involve the sale of inferior products because removing the labels required mutilated packages and bottles in ways that would undermine consumers' trust in the luxury product.

### 2. Actual Damages Calculation Under 15 U.S.C. § 1117(a), (b)

***Koon Chun Hing Kee Soy & Sauce Factory, Ltd. v. Star Mark Mgmt., Inc.*, 628 F. Supp. 2d 312 (E.D.N.Y. 2009)**
Plaintiff Koon Chun owns a U.S. registration of KOON CHUN SAUCE FACTORY, which it uses on its sauces, seasonings, and vinegar products, including its premium hoisin sauce at issue in this case, which is the most expensive and the top-selling hoisin sauce on the market. Defendant Star Mark purchased 350 cases of genuine Koon Chun hoisin sauce, but found that its high price precluded its ability to turn profits from its sale. Thereafter, defendant purchased counterfeit Koon Chun hoisin sauce at substantially lower prices from various Chinese importers, which defendant's president testified he believed to be authentic. Plaintiff discovered the counterfeit sales, and the court granted plaintiff summary judgment on defendant's liability in an earlier opinion. At issue here was the court's determination of damages. Plaintiff opted to recover actual damages pursuant to § 1117(a), entitling it to (i) defendant's profits, (ii) any

damages sustained by plaintiff, and (iii) the costs of the action, subject to the principles of equity. Additionally, plaintiff sought to have damages trebled under § 1117(b) for defendant's alleged willfulness. In calculating defendant's profits, the court accepted the testimony of plaintiff's accounting expert but reduced the number of cases allegedly sold by approximately 7%. The court accepted plaintiff's expert's calculation that defendant earned $3.76 in profits per case, resulting in total profit of $27,654.80. Defendant's suppliers paid defendant $20,000 either for litigation costs or as a credit; the court declined to include this sum in defendant's profits. The court found that plaintiff failed to prove that it lost any sales as a result of defendant's infringement, explaining that defendant's purchase at the lower price suggested that plaintiff would not have made such sales at its higher price point. After concluding as a matter of law that the standard for finding willfulness to justify treble damages under § 1117(b) was a preponderance of the evidence, the court found that defendant's trafficking in counterfeit goods was intentional and thus willful, largely because of a letter from defendant's president to its supplier insisting that the taste of its product be similar to Koon Chun's. Accordingly, the court trebled the damages to $82,964.40. The court refused to grant plaintiff damages for corrective advertising, finding that it could not prove that its anti-counterfeiting advertising campaign was attributable to defendant's conduct in this case. The court did, however, grant plaintiff its attorneys' fees and injunctive relief.

### 3. Permanent Injunction; Calculation of Damages

***Phillip Morris USA Inc. v. A & V Minimarket, Inc., et al.*, 592 F. Supp. 2d 669 (S.D.N.Y. 2009)**

Plaintiff Phillip Morris brought suit against the operators of 49 grocery stores and other retail outlets for selling counterfeit Marlboro cigarettes. Defendants defaulted. In determining damages, the court looked to the statutory damages provision in the Copyright Act, which lists seven factors to consider: "(1) the expenses saved and the profits reaped; (2) the revenues lost by the plaintiff; (3) the value of the copyright; (4) the deterrent effect on others besides the defendant; (5) whether the defendant's conduct was innocent or willful; (6) whether a defendant has cooperated in providing particular records from which to assess the value of the infringing material produced; and (7) the potential for discouraging the defendant." 17 U.S.C. § 504(c). Phillip Morris employed purchasers who bought one or more counterfeit packages of Marlboro cigarettes from each defendant's retail establishment. The court found that $2,000 damages per defendant was appropriate to compensate plaintiff for loss and deter others from infringing. In addition to enjoining defendants from purchasing or selling counterfeit Marlboro or Marlboro Light cigarettes, the court ordered defendants to respond to information requests about Marlboro cigarette suppliers, and to cooperate with plaintiff in its investigations of Marlboro cigarette suppliers. According to the court, these additional terms were reasonably aimed at combating future counterfeiting.

### 4. Counterfeit Mark for Services; Statutory Damages Calculation Following Default Judgment

***Century 21 Real Estate LLC v. Bercosa Corp.*, No. 08-CV-3175, 2009 WL 3111759 (E.D.N.Y. Sept. 18, 2009)**

Plaintiff Century 21 sued defendants Bercosa Corp. and its owner for breach of a contract and unauthorized use of Century 21's trademarks. Following termination of two franchising agreements with Century 21. Defendants improperly continued to use the Century 21 marks for months after the termination, despite Century 21's multiple cease and desist letters. The court entered a default judgment against defendants, treating their continued unauthorized use of the Century 21 marks as a counterfeit use under the statutory definition of "counterfeit" in 15 U.S.C. § 1127. The court explained that "defendants' use of the genuine Century 21 [m]arks after their rights as franchisees expired . . . was therefore, by statutory definition, the use of counterfeit marks to the extent that they created the erroneous perception that Century 21 remained the source of the services provided." 2009 WL 3111759, at *12. Further, the court found defendants' continued use of the Century 21 marks and their default in this proceeding were willful, making plaintiff's request for statutory damages particularly appropriate. In calculating damages, the court rejected plaintiff's "arbitrary selection" of $100,000 in proposed statutory damages. Instead, the court treated defendants' continued use of the Century 21 marks as a single use of plaintiff's marks under 15 U.S.C. § 1117(c) because defendants' use was in connection with a single type of service, namely real estate brokerage. In light of the substantial contract damages awarded under the franchise agreement—$309,585.32, including $240,909.51 in liquidated damages—the court noted that the need to deter further similar future action was low, so it granted plaintiff the statutory minimum of $500 multiplied by a factor of ten, to reach a damages award under the Lanham Act of $5,000. The court applied the § 1117(c) statutory minimum that operated prior to the 2008 amendment—which doubled the statutory minimum to $1,000—because all of the events in this case transpired prior to the October 13, 2008 effective date of the amendment.

**5. Disgorgement of Profits from Defaulting Counterfeit Defendant**

***Chloé v. Zarafshan*, No. 1:06-cv-03140, 2009 WL 2956827 (S.D.N.Y. Sept. 15, 2009)**
Plaintiff Chloé designs, produces, markets, and sells high-quality goods, including women's clothing and accessories, under its "Chloé" trademark. Plaintiff sued various defendants for their sale of counterfeit Chloé products. Various defendants had either settled with plaintiff, had the case against them stayed due to bankruptcy, or had been released from the case due to lack of personal jurisdiction, and only defendant Alexander Zarafshan (a/k/a Zar) remained. Zar supplied the other defendants in this action with counterfeit Chloé goods. Zar's bank records reflected over $2.4 million in receipts from various customers. Zar participated—dishonestly in the court's estimation—in a single deposition, during which he refused to acknowledge any checks, receipts, or records connected with his bank account as the fruits of counterfeit sales, despite other deposition testimony that clearly showed Zar's awareness of such information. Beyond this deposition, Zar failed to participate in the lawsuit, so the court entered a default judgment against him. Because Zar was the only remaining defendant in the case, the court found that awarding damages against him was not premature. The court granted plaintiff's request to disgorge Zar of his profits pursuant to 15 U.S.C. § 1117(a). The court relied on persuasive authority that defendants have the burden of proving which receipts in their bank accounts are connected to infringing sales as opposed to legitimate sales. The court found that Zar had done nothing to clarify such information, so it granted plaintiff the full value of Zar's bank account in the amount of $2.4 million, then trebled this award pursuant to 15 U.S.C. § 1117(b) upon finding Zar was a willful counterfeiter. On top of the $7.2 million award, the court added reasonable attorneys' fees and costs.

### 6. Damages Calculation for Defendant Violating Lanham Act, Copyright Act, and DMCA

***Tu and Aldelo Systems, Inc. v. TAD System Technology, Inc.*, No. 08-CV-3822, 2009 WL 2905780 (E.D.N.Y. Sept. 10, 2009)**

Plaintiff Aldelo Systems programmed and markets ALDELO for Restaurants, a point-of-sale software program for restaurants and bars. It owns copyrights for its program and at least four registered trademarks that it uses on its packaging and in its advertising. Defendant TAD System Technology and its operator pirated ALDELO for Restaurants by producing an unauthorized derivative work of the program that allows an individual to use the program without paying a licensing fee to plaintiff. Defendants sold and distributed the pirated version through emails to plaintiff's authorized dealers and by advertising on various internet blogs, making use of plaintiff's trademarks. Plaintiff sued defendants, asserting copyright infringement for reproducing its program code, trademark infringement for advertising the pirated program with identical marks, and DMCA violations for circumventing plaintiff's control mechanisms to remove or bypass certain code to gain access to the program. Because defendants did not participate in the litigation, the court entered default judgment against them on each of plaintiff's claims. Plaintiff sought the maximum statutory damages allowable under each of 15 U.S.C. § 1117(c) of the Lanham Act, the Copyright Act, and the DMCA. After finding no binding precedent, the court held that plaintiff was not entitled to duplicative recoveries for the same intellectual property theft under multiple theories of liability. Rather than treating defendants' violation of each statute as a distinct harm, it considered plaintiff's complaint as stating three legal theories for a single harm. Ultimately, the court granted statutory damages under the Copyright Act, finding that the gravamen of defendants' violation was in copyright because the primary violation was defendants' manufacture, sale and distribution of the cracked version of plaintiff's program. The court treated the counterfeit use of plaintiff's marks as secondary to the copyright infringement, as plaintiff's claim that consumers were confused in only "some cases." Recognizing the trademark and DMCA violations, though, the court granted the maximum statutory award allowable under the Copyright Act of $150,000. Additionally, the court issued a permanent injunction and awarded attorneys' fees and costs.

### 7. Determination of Counterfeit Goods; Statutory Damages Calculation Following Default Judgment

***Bravado Int'l Group Mktng. Merch. Serv., Inc. v. Ninna, Inc., et al.*, No. CV-08-3123, 2009 WL 2707350 (E.D.N.Y. Aug. 27, 2009)**

Plaintiff Bravado markets and sells merchandise bearing the names, trade names, trademarks and logos of various musical groups and performers, including Korn, Guns N' Roses, The Clash, Iron Maiden and Led Zeppelin, among others, and it holds the exclusive rights to manufacture and sell in the United States merchandise bearing the likenesses, names, marks and logos of these parties. Plaintiff alleged that defendants sold or attempted to sell unauthorized shirts and other items bearing the names, trade names, designs, logos and likenesses of some the musical groups that Bravado represents. In an earlier ruling, the court ordered the seizure and impoundment of unauthorized merchandise in defendants' possession. Although few financial records were recovered during the seizure, plaintiff did seize 41 silk screens bearing the performers' marks and likenesses. The court issued a default judgment against defendants, finding willful infringement.

For determining damages, plaintiff offered a consumer's declaration that he had purchased three shirts from defendants' website, and plaintiff sought $100,000 in statutory damages per shirt for a total of $300,000. The court found that one shirt bearing an identical IRON MAIDEN trademark was a counterfeit that entitled plaintiff to statutory damages under 15 U.S.C. § 1117(c), but the other two shirts merely bore likenesses of performers, which plaintiff did not assert as being registered trademarks. 15 U.S.C. § 1116(d) restricts "counterfeit marks" to counterfeits of marks registered on the principal register, so the court found the latter shirts were not counterfeits entitled to statutory damages. Nonetheless, in light of defendants' willful infringement, the court found plaintiff's initial request of $300,000 reasonable and ordered such damages for the single counterfeit.

### 8. Statutory Damages Calculation Following Default Judgment

***Louis Vuitton Malletier v. Carduci Leather Fashions, Inc.*, No. 04 Civ. 497, 2009 WL 2568428 (S.D.N.Y. Aug. 19, 2009)**
Plaintiff Louis Vuitton filed suit against multiple defendants' sale of counterfeit "Epi Leather" handbags. Louis Vuitton holds nine trademarks related to its Epi Leather products, which cover the Epi Leather design in various colors both with and without its "LV" logo. Bonini was the source of a counterfeit Epi Leather handbag purchased from Carduci by an investigator. Plaintiff settled with two defendants, but won a default judgment of willful trademark infringement against a third after it neglected to respond to the complaint or the court's order directing it to show cause. In calculating damages, the court found this defendant's default constituted an admission it had acted knowingly and intentionally or with reckless disregard or willful blindness to plaintiff's rights. Accordingly, plaintiff was entitled to statutory damages between $1,000 and $2,000,000 per counterfeit mark used. To determine where on this spectrum the damage award should lie, the court first looked to statutory damage awards precedents developed under the Copyright Act: "where, as here, a defendant is shown to have acted willfully, a statutory award should incorporate not only a compensatory, but also a punitive component to discourage further wrongdoing by the defendant and others." 2009 WL 2568428, at *3. Next, the court noted statutory award precedents in New York under the Lanham Act, noting damage awards ranging between $25,000 and $1,000,000 per violation. The court reasoned that the disparity arises from differences in the scale of defendants' infringing sales. Here, because defendant failed to participate in the suit, the court found it impossible estimate the scope of its counterfeiting operation. Nonetheless, it reasoned that, on the one hand, defendant likely was not flooding the market with counterfeit purses by virtue of plaintiff’s having made only one undercover purchase, but that, on the other hand, defendant's production of a color catalog for its "Spring 2003" line of counterfeit bags suggested that its operation was substantial. Ultimately, the court awarded plaintiff $100,000 for each of the four violations entered into evidence, ordering statutory damages of $400,000 as well as $5,568.14 in attorneys' fees and costs.

### 9. Restraint of Defendant's Assets Authorized under Lanham Act

***Motorola, Inc. v. Abeckaser*, No. 07-CV-3963, 2009 WL 1362833 (E.D.N.Y. May 14, 2009)**
Plaintiff Motorola sued one individual and multiple corporate defendants for trademark infringement following their sale of counterfeit merchandise bearing unauthorized MOTOROLA marks. Plaintiff sought an *ex parte* temporary restraining order and preliminary injunction

against defendants. The parties then stipulated before the court that plaintiff would withdraw this motion and defendants would refrain from using the MOTOROLA marks. Furthermore, the individual defendant agreed not to sell, lease, or transfer his home and other assets without the court's prior approval. Subsequently, the court found liability against defendants for the trademark infringement claims. Plaintiff later learned that defendant intended to sell his home, businesses, and other assets and leave the country. In response, plaintiff sought a preliminary injunction under Fed. R. Civ. P. 65 to prevent these acts, which the court granted: although the Lanham Act does not specifically authorize the restraint of assets of a defendant in an action arising under the Act, the court determined it does give courts the authority to freeze assets in order to ensure availability of final equitable relief. The court explained that irreparable harm would occur if defendant transferred his assets because it would undermine the court's ability to render a meaningful judgment.

**10. Calculation of Damages**

***Chanel, Inc. v. Doubinine, et al.,* No. CV-04-4099, 2008 WL 4449631 (E.D.N.Y. Oct. 2, 2008)**
The court granted default judgment against defendants, Internet retailers of counterfeit CHANEL-branded goods, because of defendants' failure to answer the complaint or plaintiff's default motion. The court rejected plaintiff's damages calculation, however, because plaintiff's estimate of the defendants' daily sales was unsupported by evidence. Instead, the court relied on the parties' conduct to measure damages. Plaintiff purchased a pair of counterfeit earrings from two defendants in March 2003, sent a cease-and-desist letter in March 2003, and purchased two additional pairs of earrings in February 2004. The court assumed defendants had actual knowledge they were selling counterfeit items from the first sale, so it awarded $5,000 per month for the 19-month period from March 2003 to commencement of the action in September 2004, as well as attorneys' fees and injunctive relief.

**11. Calculation of Damages and Attorney's Fees for Willful Infringement**

***Ermenegildo Zegna Corporation v. 56th Street Menswear, Inc.,* No. 06 Civ. 7827, 2008 WL 4449533 (S.D.N.Y. Oct. 2, 2008)**
When Plaintiff became aware that defendant was selling counterfeit suits, advertising in its storefront that it sold Zegna suits, and displaying the image of plaintiff's garment label, it sent two cease-and-desist letters that defendant ignored. The court granted default judgment in favor of plaintiff and issued a permanent injunction, finding that defendant knew or was willfully blind to the fact that the suits were counterfeit. Plaintiff submitted affidavits of damages of $1,000,000 and attorneys' fees of $10,883. The court drew every reasonable inference against defendant because of its willful infringement, failure to controvert circumstantial evidence, failure to respond to papers, and failure to respond to plaintiff's cease-and-desist letters: it awarded the full million dollars: $200,000 for each of plaintiff's five marks, finding the damages appropriate – without even considering evidence of defendant's earnings or plaintiff's losses – because defendant's business was substantial enough to allow it to rent space in a highly-trafficked area in Manhattan. The court declined to award attorneys' fees, however, because no evidence was submitted that the law firm's statement was based on contemporaneous time records.

## Third Circuit Courts

### 1. Statutory Damages Calculation Following Default Judgment

***N.V.E., Inc. v. Day*, Civil No. 07-4283, 2009 WL 2526744 (D.N.J. Aug. 18, 2009)**
Plaintiff N.V.E. is a retailer, manufacturer, and distributor of dietary and nutritional supplements marked under the registered trademarks STACKER 2 and STACKER 3. Plaintiff sued defendants for selling online various products bearing plaintiff's marks, including knock-off, counterfeit and expired versions of its products. Importantly, defendants' counterfeit products contained ephedra, a substance banned by the U.S. Food & Drug Administration in 2004. Plaintiff's legitimate products comply with federal laws and have not contained ephedra since the ban went into effect. The court entered default judgment against defendants, finding their infringement willful. To determine statutory damages under 15 U.S.C. § 1117(c), the court first explained that it would assign statutory damages under the pre-2008 amounts because plaintiff filed this lawsuit in 2007. Plaintiff sought the statutory maximum of $1,000,000 for each of its two counterfeited marks. Instead, the court recited the considerations used by courts in the Third Circuit to set statutory damages awards in willful trademark infringement cases: "(1) the expenses saved and the profits reaped; (2) the revenues lost by the plaintiff; (3) the value of the trademark; (4) the deterrent effect on others besides the defendant; (5) whether the defendant's conduct was innocent or willful; (6) whether the defendant has cooperated in providing particular records from which to assess the value of the infringing material produced; and (7) the potential for discouraging the defendant." 2009 WL 2526744, at *3. Plaintiff was able to show only limited revenues from infringing products by any defendant. The court found two aggravating factors in this case: defendants' sales of products with now-banned substances created harms beyond trademark infringement and loss of business for N.V.E.; and the proliferation of counterfeit sales over the Internet to a near limitless audience of consumers significantly increases the likelihood of consumer confusion. The court granted total statutory damages of $250,000, attorneys' fees and injunctive relief.

In ***N.V.E., Inc. v. Famous*, No. 08-1633, 2009 WL 2194538 (D.N.J. July 22, 2009)**, the court granted plaintiff summary judgment under a similar set of facts, finding that defendant's sale of STACKER 2 supplements containing ephedra after the substance was banned constituted the sale of a counterfeit. The court did not rule on damages in this opinion.

### 2. Statutory Damages Calculation Following Default Judgment

***Chanel, Inc. v. Guetae*, No. 07-3309, 2009 WL 1653137 (D.N.J. June 8, 2009)**
Through an outside investigator, plaintiff purchased a counterfeit CHANEL handbag from defendants' website, GoElegant.com. Plaintiff sued defendants, asserting trademark infringement and other claims. Defendants did not respond to the complaint or any subsequent pleadings, so the court issued a default judgment. As statutory damages, the court computed the value of the twelve CHANEL-branded products offered for sale on defendants' website (essentially summing the prices defendants charged for each of the twelve items), multiplied that value by the seven marks allegedly infringed, and further multiplied that value by the two varieties of goods offered on defendants' website (wallets and handbags). Finding that defendants willfully engaged in their counterfeiting activities, the court then trebled that value, reaching a total statutory damage

award of $480,732. Additionally, the court imposed a permanent injunction and assessed plaintiff's attorneys' fees, investigative fees and costs against defendants.

## Fourth Circuit Courts

### 1. Propriety of Extended Seizure Orders; Notice Procedure for Forfeiture Actions

**NASCAR, et al. v. Does, et al., 584 F.Supp.2d 824 (W.D.N.C. Nov. 6, 2008)**
In 2003, NASCAR implemented an enforcement strategy to combat counterfeit products in and around its multiple race venues throughout the NASCAR season. At the beginning of each race season, NASCAR would file a complaint alleging the sale of counterfeit goods by known and unknown defendants, obtain a TRO and seizure order, seize any counterfeit goods, and then obtain a preliminary injunction effectively extending the seizure order for the entire NASCAR season. Once the season ended, NASCAR would voluntarily dismiss the case and donate the seized goods to charity.

In February of 2008, following entry of a TRO and seizure order, the court entered its usual preliminary injunction against defendants’ sale of counterfeit merchandise and allowed the seizure of any counterfeit merchandise sold within a ten-mile radius of any racetrack 48 hours before or 24 hours after any NASCAR race. The preliminary injunction was allowed to remain in effect until the end of the NASCAR season in November. Despite its stated misgivings over the propriety of extending the seizure order – which the Lanham Act clearly limits to seven days – into a preliminary injunction that extends for eight months, the court reasoned it was warranted by the nature of the irreparable harm that would otherwise be done.

The court did, however, rein in plaintiffs by holding that, if the plaintiffs voluntarily dismissed the case this time, they would be required to attempt to return the seized goods to defendants. The logical conclusion of a seizure in a successful counterfeit case is a permanent injunction coupled with destruction of the infringing articles, and plaintiffs' practice of donating seized goods to charity without notice was improper. To dispose of seized goods properly, plaintiffs must establish a Lanham Act violation, win a final judgment, then notify all potential claimants of the seizure and forfeiture of the goods. Until then, they act merely as a temporary custodian for the court and are responsible for returning all seized property to defendants if they lose their case. See *In re Lorillard Tobacco Co*., 370 F.3d 982, 987 (9th Cir. 2004)("the purpose of the seizure order is to preserve the evidence necessary to bring trademark counterfeiters to justice."). Regarding due process considerations for seizure and destruction of counterfeit goods, the Lanham Act does not provide a procedure for providing notice. Therefore, the court looked to the Supplemental Rules for Admiralty or Maritime Claims and Asset Forfeiture Actions which apply to all forfeiture actions *in rem* arising from a federal statute. It ordered plaintiffs to provide notice sufficient to satisfy these requirements by publishing notice on the www.nascar.com website.

## Fifth Circuit Courts

**1. Damages and Attorneys' Fees for Willful Trademark Infringement**
***Farouk Systems, Inc. v. Reza, et al.*, No. H-07-3385, 2008 WL 4753359 (S.D. Tex. Oct. 27, 2008)**
Plaintiff manufacturer of curling irons, hand dryers and other hair-care products registered under the mark CHI sued defendants for trademark infringement for selling counterfeit CHI products on eBay. Finding that plaintiff demonstrated there was no genuine issue of material fact, the court granted summary judgment that defendants willfully infringed plaintiff's mark and continued to do so after the suit was commenced. The court held that it had "the ability to enhance damages to provide proper redress . . . where imprecise damage calculations fail to do justice, particularly where the imprecision results from defendant's conduct." *Taco Cabana Int'l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1127 (5th Cir. 1991). The court held that defendants' continued sale of counterfeit products in at least 85 instances after suit was filed evidenced defendants' willful disregard for plaintiff's registered mark, and thus awarded attorneys' fees and costs and issued a permanent injunction.

## Seventh Circuit Courts

**1. Construction of 15 U.S.C. § 1117(c) Statutory Damages**

***Gabbanelli Accordions & Imports, LLC v. Ditta Gabbanelli Ubaldo di Elio Gabbanelli*, 575 F.3d 693 (7th Cir. 2009)**
Plaintiff "American" Gabbanelli holds registered trademarks to sell accordions in the United States bearing the GABBANELLI brand. Defendant "Italian" Gabbanelli is an Italian company that manufactures components for plaintiff. Without license or authorization, defendant sold completed accordions bearing the identical brand in the U.S. Following protracted litigation, during which the district court accepted defendant's deemed admissions, the district court granted plaintiff summary judgment for counterfeiting. The district court awarded both compensatory and statutory damages for each counterfeit accordion defendant sold. Here, the Seventh Circuit (Posner, J.) reversed and remanded the district court's damage award on two grounds. First, the court found that 15 U.S.C. § 1117 permits statutory damages only in cases in which compensatory damages are not awarded for the same violation: within a single case, statutory damages may be awarded for some violations when compensatory damages are issued for other violations, so long as both types of damages are not conferred for any single violation. Second, the district court misinterpreted § 1117(c) by assessing statutory damages for each counterfeit accordion sold, as the statute requires that statutory damages be assessed per *type* of good sold.

**2. Prior Publication Exclusion Not Applied to Relieve Insurer from Duty to Defend Counterfeiting Defendant**

***Capitol Indemnity Corp. v. Elston Self Service Wholesale Groceries, Inc.*, 559 F.3d 616 (7th Cir. 2009)**
In underlying litigation, Lorillard Tobacco sued Elston, a wholesale goods distributor, for trademark infringement arising from Elston's alleged sale of counterfeit Newport cigarettes.

Elston invoked its insurance policy with plaintiff Capitol Indemnity, asserting that Capitol had a duty to defend it in the underlying infringement case. Elston's policy with Capitol provided that the insurer would defend Elston in cases of claimed "advertising injury," which was defined to include "misappropriation of advertising ideas or . . . [i]nfringement of copyright, title, or slogan." The policy covered events occurring between July 14, 2002, and July 14, 2003, and contained a “prior publication” exclusion that released Capitol from defending alleged advertising injury when "first publication of took place before the beginning of the policy period." Capitol brought this action seeking a declaratory judgment that it did not have such a duty to defend Elston under the policy because (i) Lorillard's claims against Elston fell outside of Capitol's duty to defend advertising injuries under the policy; and (ii) even if Lorillard's claims were advertising injuries, the policy's prior-publication exclusion extinguished Capitol's duty to defend. The district court granted partial summary judgment to Elston, rejecting both of Capitol's assertions and finding that the insurer did have a duty to defend its insured. Capitol appealed the district court's ruling that the allegedly infringing sales were beyond the prior publication exclusion. Here, the Seventh Circuit affirmed the district court. Although Elston had sold Newport cigarettes prior to the policy period, Lorillard did not claim infringing sales against Elston prior to 2002. The court reasoned that the prior publication exclusion operated to release the insurer from infringing activity occurring prior to the policy period, and not for prior sales of similarly-branded products when such sales were not actionable. Accordingly, the court declined to apply the prior publication exclusion here and affirmed Capitol's duty to defend Elston in the underlying litigation.

## <u>Ninth Circuit Courts</u>

### 1. Ex Parte Seizure under 15 U.S.C. § 1116(d)

***MRC Golf, Inc. v. Hippo Golf Company*, Inc. 91 U.S.P.Q.2d 1285 (S.D. Cal. 2009)**
Plaintiff MRC brought this action against defendant Hippo Golf Company as the exclusive distributor in the United States of Mitsubishi Rayon golf shafts, alleging that defendant falsely represented that certain golf clubs it sold were manufactured by Mitsubishi Rayon. The court denied plaintiff's motion for an *ex parte* seizure order and temporary restraining order. Granting the *ex parte* motions would have served the purpose of preserving the evidence necessary to bring trademark counterfeiters to justice, but plaintiff did not assert or present any evidence that the trade name MITSUBISHI RAYON is a registered trademark. The claim thus failed under 15 U.S.C. § 1116(d)(1)(B)(i). The court further found that plaintiff had not demonstrated defendant was likely to destroy evidence, despite its continued infringement.

### 2. Insufficient Proof of Requested Damages and Insufficient Allegations to Support Permanent Injunction Upon Default Judgment

***Magna-RX, Inc. v. Holley, et al.*, No. CV-05-3545-PHX-EHC, 2008 WL 5068977 (D. Ariz. Nov. 25, 2008)**
The court denied plaintiff’s request for damages in default judgment because plaintiff did not offer facts or law sufficient to support the damages requested. Plaintiff offered only the testimony of its President, copies of its copyrighted photographs and trademark, copies of settlement agreement with dismissed defendants, and only two of several alleged cease-and-

desist letters. The court found that plaintiff did not support its president's testimony with "best evidence," *i.e.*, documents showing Magna-RX's sales or advertising and marketing dollars spent. Plaintiff also did not provide sales records of the authorized distributors of plaintiff's product, contracts with its distributors restricting marketing and advertising, or documents showing defendants' infringing website advertisements. The court held that even in default a plaintiff has the burden of proving damages through testimony, and although damages may be awarded without proof of damages, such proof aids in the exercise of discretion by the tribunal. The court denied plaintiff's request for $50,000 per defendant and instead awarded the statutory minimum of $500 per defendant for violation of the Lanham Act and $750 per defendant for violation of the Copyright Act. The court further held that the factual allegations in plaintiff's complaint, even if true, were insufficient to warrant the grant of a permanent injunction.

## Tenth Circuit Courts

### 1. First-Sale-Doctrine Defense to Counterfeiting Rejected

***Beltronics USA, Inc. v. Midwest Inventory Distribution, LLC,* 562 F.3d 1067 (10th Cir. 1009)**
Plaintiff Beltronics provides aftermarket vehicle electronics, including radar detectors. It entered into distribution agreements with at least two authorized distributors that sold Beltronics radar detectors to defendant Midwest in violation of their distribution agreements. To prevent plaintiff from "detecting" the unauthorized sales, the distributors and Midwest either applied phony serial numbers to the radar detectors or removed the serial numbers altogether. Midwest then sold the radar detectors to consumers as "new" through eBay. Beltronics provides certain products and services—software upgrades, warranties, recalls, service assistance, *etc*.—to its customers, but only for Beltronics products bearing genuine serial numbers. When plaintiff refused to offer such services to consumers who purchased radar detectors from defendant, those consumers reported believing they had bought genuine items. Plaintiff sued defendant for counterfeiting and trademark infringement. The district court entered a preliminary injunction over defendant's argument that it was exempt from such liability by the "first sale" doctrine. Here, the Tenth Circuit affirmed the district court, rejecting the first-sale doctrine as a defense to counterfeiting when, as here, an alleged infringer sells trademarked goods that are materially different from those sold by the trademark owner: "the unauthorized resale of a materially different trademarked product can constitute trademark infringement." 562 F.3d at 1072. The voiding of services and warranties associated with a product can create a material difference in the product and a likelihood of confusion.

## Eleventh Circuit Courts

### 1. Statutory Damages Calculation Following Default Judgment; Personal Liability

***Chanel, Inc. v. Mesadieu*, No. 6:08-cv-1557, 2009 WL 2496586 (M.D. Fla. Aug. 12, 2009)**
Through an outside investigator, Chanel purchased a counterfeit CHANEL watch from one of defendant's websites. Defendant is president of three corporations that operated websites selling counterfeit handbags, backpacks, caps, bedding, sunglasses, swimwear, clothing, ties, watches, and other inferior goods with CHANEL marks. Plaintiff sued defendant, asserting trademark counterfeiting and infringement. Defendant did not respond to plaintiff's cease-and-desist letter,

the complaint or any subsequent pleadings, so the court issued a default judgment of counterfeiting. The court then accepted plaintiff's requested statutory damages award in its entirety, arriving at $567,440 by multiplying the average value of the inventory offered for sale on defendant's websites on four different dates ($3,546.50), by sixteen CHANEL marks infringed, by ten types of goods sold. The court also imposed a permanent injunction and assessed plaintiff's attorneys' fees, investigative fees, and costs against defendant. Finally, in a footnote, the court assigned personal liability for the damages to Mesadieu, concluding that he "was the moving force behind the operation of the three corporations[, which] is sufficient to establish Mesadieu's personal liability for his participation in the counterfeiting activities." 2009 WL 2496586, at *7 n.5.

## <u>District of Columbia Circuit Courts</u>

### 1. Complaint Allegations Insufficient Proof of Requested Damages

***Lifted Research Group, Inc. v. Behdad, Inc., et al.*, 591 F. Supp. 2d 3 (D.D.C. 2008)**
Defendant is the owner and operator of a retail operation that promoted, advertised and sold counterfeit apparel items, including jeans, shorts and t-shirts. Because defendant failed to file an answer or otherwise respond to the action, the court granted default judgment that plaintiff's complaint sufficiently alleged facts to support its claims of counterfeiting, trademark infringement, *etc*.  The court permanently enjoined defendant after finding it had continued to sell counterfeit LRG apparel despite receipt of a cease-and-desist letter and the filing of this lawsuit. In calculating its damages, plaintiff contended that the baseline was the $1,480 sale price of the goods offered by the defendants. Plaintiff then trebled that amount on the basis of defendant's willfulness and then doubled that amount for the purpose of deterrence. Plaintiff failed, however, to submit support for the way in which it made these calculations. The court declined to award damages until (1) plaintiff proved it was legally entitled to damages under both the Lanham Act and the Copyright Act for the same injury, and (2) plaintiff provided support for its method of calculating statutory damages.