

Fashion Apparel Law Blog

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Courts Double-Burberry-Check The Math And Award Damages Less Than The Statutory Maximum For Willful Infringement

Two recent cases highlight the issues faced when seeking an award for willful damages in trademark infringement cases involving counterfeit goods. Burberry brought an action against Designers Imports ("Designers") in 2007 (the "Designers Action") for selling counterfeit Burberry goods, featuring the Burberry name, the Burberry Check design and the Burberry "Equestrian Knight" on horseback (collectively, the "Burberry Marks"). Burberry also brought suit in 2008 against Euro Moda, Inc., Moda Oggi, Inc., and John Fanning (collectively, "Euro Moda") for selling counterfeit scarves, hats, clothes, and handbags bearing the Burberry Marks (the "Euro Moda Action"). The Courts awarded Burberry \$1.5 million in damages in the Designers Action and \$4 million in the Euro Moda Action, each of which was considerably less than the statutory maximum, which was what Burberry sought in each case.

Damages for Willful Infringement

The Lanham Act provides for increased damages where the court determines that the defendant infringed on the plaintiff's trademark willfully. 15 U.S.C. § 1117(c). Infringement is willful when a person has knowledge that their conduct constitutes infringement or recklessly disregarded the possibility. Section 1117(c)(2) gives courts considerable discretion in determining a "just" damages award, but provides courts with little guidance as to how to assess what the appropriate amount of a statutory damages award for willful trademark infringement should be.

When determining an appropriate damages award under Section 1117(c)(2), courts typically assess the same factors as when deciding an appropriate willful copyright infringement damages award: "(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 beside 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." [cite] citing Kenneth Jay Lane, Inc. v. Heavenly Apparel, Inc., 2006 WL 728407 at *6; accord, e.g., Fitzgerald Publ'g. Co. v. Baylor Publ'g. Co., 807 F.2d 1110, 1117 (2d Cir. 1986).

The Euro Moda Action

In December 2009, the United States District Court for the Southern District of New York held that a damages award of \$4 million, rather than \$24 million, would be appropriate to compensate Burberry for defendants' willful sale of counterfeit goods bearing Burberry trademarks.

Burberry sought \$24 million in damages, calculated based on the maximum \$2 million statutory damages under 15 U.S.C. § 1117(c) for willful sale of counterfeit goods, multiplied by each of the three counterfeit marks on the four different types of goods that Euro Moda sold. Euro Moda did not file any response or opposition to Burberry's damages request.

The court found that Euro Moda's sale of the counterfeit goods was willful because Euro Moda, Inc. and John Fanning entered into a settlement agreement (the "Agreement") with Burberry back in 2005 admitting that they had sold counterfeit goods, and agreed to stop doing so in the future. The defendants' subsequent sale of counterfeit goods after entering into the Agreement was willful because they had acknowledged in the Agreement that they were selling counterfeit goods and continued to do so after entering into the Agreement.

Notwithstanding the fact that Euro Moda did not file any response to Burberry's damages request and that the Court found that Euro Moda's conduct was willful, the Court did not award the full \$24 million Burberry requested. The Court reasoned that very few courts in the Second Circuit had awarded maximum statutory damages for trademark infringement on a per mark per good basis, especially in cases where the plaintiff does not have concrete information about the defendant's actual sales figures and profits, and the plaintiff's lost revenue. Awarding such damages would require a showing that the defendants had earned millions of dollars in profits from selling the counterfeit goods.

Based on this reasoning, the Court concluded that awarding damages of \$1 million for each type of counterfeited good, for a total award of \$4 million, would be sufficient to deter the defendants from repeating their misconduct, while compensating Burberry for any damage its marks may have suffered as a result of the defendants' sale of the counterfeit goods.

The Designers Action

In 2007, Burberry filed suit against Designers Imports, Inc. ("Designers") for selling counterfeit merchandise bearing the Burberry Marks. Burberry sought \$6.5 million in damages for willful infringement, while Designers argued it was an innocent infringer.

Designers' suppliers included Moda Oggi, Inc., one of the defendants in the Euro Moda Action. Like the defendants in the Euro Moda Action, Designers had entered into a settlement agreement with Burberry in 2005 (the "Designers Agreement"), agreeing to stop selling counterfeit goods bearing the Burberry Marks. Burberry determined Designers had violated with the terms of the Designers Agreement and brought suit against Designers.

Burberry argued that Designers' sale of counterfeit goods bearing the Burberry Mark was willful because Burberry sent Designers numerous letters and emails which put Designer on notice that

it was selling counterfeit goods, the United States Customs Service repeatedly notified Designers that it seized counterfeit Burberry-branded goods destined for Designers and that Designers continued to purchase counterfeit Burberry merchandise from anonymous internet vendors and from suppliers known to sell counterfeit merchandise, such as Moda Oggi, Inc., even after entering into the Designers Agreement.

However, Designers offered contrary testimony that it complied with the terms of the Designers Agreement by only purchasing Burberry goods from outlets and authorized distributors at the time of the filing of the case.

The Court held that Designers was liable for trademark counterfeiting and infringement, as well as several other state and federal law violations. The Court also concluded that Designers' infringement was willful since Designers repeatedly sold counterfeit goods, knowingly violated the Designers Agreement, and failed to investigate or implement procedural safeguards to prevent the sale of counterfeit goods.

Even though Burberry claimed statutory damages of \$6.5 million, the Court, citing the Kenneth Jay Lane factors, decided that Burberry's damages should be \$1.5 million plus attorney's fees and costs. The Court's holding can be attributed to the fact that although Designers' willful conduct supported a finding of a substantial award for Burberry, Designers introduced contrary evidence at trial of its efforts to comply with the Designers Agreement and some level of diligence, Designers cooperated in providing the Court with financial records, and Designers' sale of Burberry goods represented only a percentage of its business, and even then, not all of its Burberry goods were counterfeit. These mitigating factors were part of the reason why the Court awarded damages that were less than the statutory maximum. The Court also granted Burberry's request for injunctive relief to prevent Designers from infringing on its trademarks.

Conclusion

These cases illustrate the challenges which fashion companies face if they try to obtain the maximum statutory award for willful trademark infringement without the defendants' actual financial information to back it up, even where the facts are as favorable to the plaintiff as they were in the Euro Moda Action. They also illustrate that where the defendant cooperates in the action and attempts to implement even nominal safeguards to prevent infringement, courts will consider these mitigating factors in determining appropriate damages awards, as in the Designers Action.

Since district courts have considerable discretion in awarding such damages, and since sellers of counterfeit goods do not typically keep accurate and detailed records of their sales and profits, the actual damages awarded in such cases can be limited by the district court's discretion.