

**Document Filed Electronically**

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK**

---

GUCCI AMERICA, INC.	:	Civil Action No. 09-6925-HB
	:	
	:	District Judge Harold Baer, Jr.
v.	:	
	:	
FRONTLINE PROCESSING CORPORATION;	:	
WOODFOREST NATIONAL BANK;	:	
DURANGO MERCHANT SERVICES LLC d/b/a	:	
NATIONAL BANKCARD SYSTEMS OF	:	
DURANGO; ABC COMPANIES; and JOHN	:	
DOES,	:	
	:	
Defendants.	:	
	x	

---

**DEFENDANTS' MEMORANDUM IN SUPPORT OF  
MOTION FOR SUMMARY JUDGMENT ON STATUTORY DAMAGES CLAIM**

## **TABLE OF CONTENTS**

	<u>Page</u>
TABLE OF AUTHORITIES .....	ii
I. INTRODUCTION AND SUMMARY OF ARGUMENT .....	1
II. STATEMENT OF UNDISPUTED MATERIAL FACTS .....	2
A. Gucci Has Requested Statutory Damages Under 15 U.S.C. § 1117(c) .....	2
B. The Court Has Dismissed Gucci's Claims For Direct Trademark Infringement .....	3
C. Only The Contributory Infringement Claim Remains .....	3
III. SUMMARY JUDGMENT IS APPROPRIATE FOR AN UNAVAILABLE STATUTORY DAMAGES CLAIM .....	4
A. The Standard For Summary Judgment .....	4
B. Summary Judgment Should Be Granted On Gucci's Legally Insufficient Statutory Damages Claim.....	5
IV. THE TRADEMARK INFRINGEMENT DAMAGES PROVISION, 15 U.S.C. § 1117, EXPRESSLY PERMITS STATUTORY DAMAGES ONLY FOR A CLAIM OF DIRECT TRADEMARK INFRINGEMENT INVOLVING COUNTERFEITING .....	6
A. Original § 1117 Did Not Allow Statutory Damages Or Even Address Contributory Infringement.....	6
B. By 1996, § 1117 Allowed Treble Damages For Use Of A Counterfeit Mark.....	7
C. The First Statutory Damages Provision Was Also Limited To Direct Trademark Infringement Involving "Use" Of A Counterfeit Mark.....	8
D. When Subsection (b) For Increased Damages Was Amended To Include Contributory Infringement, The Statutory Damages Subsection (c) Was Not.....	10
E. Principles Of Statutory Construction Mandate A Limitation Of Statutory Damages To Those Who "Use" Counterfeit Marks .....	11
F. The Legislative History Supports That Statutory Damages Are Limited To Direct Infringers.....	14
V. CONCLUSION.....	15

## **TABLE OF AUTHORITIES**

Cases	<u>Page(s)</u>
<i>Anderson v. Liberty Lobby, Inc.</i> , 477 U.S. 242 (1986) .....	5
<i>Atlanta Allergy &amp; Asthma Clinic, P.A. v. Allergy &amp; Asthma of Atlanta, LLC</i> , 685 F. Supp. 2d 1360 (N.D. Ga. 2010).....	5, 6
<i>Bechtel v. Competitive Techs., Inc.</i> , 448 F.3d 469 (2d Cir. 2006) .....	11
<i>Celotex v. Catrett</i> , 477 U.S. 317 (1986) .....	5
<i>Conboy v. AT&amp;T Corp.</i> , 241 F.3d 242 (2d Cir. 2001) .....	12
<i>Dowell v. Wells Fargo Bank, N.A.</i> , 517 F.3d 1024 (8th Cir. 2008) .....	6
<i>Gozlon-Peretz v. United States</i> , 498 U.S. 395 (1991) .....	13
<i>Grainger v. Gill Abstract Corp.</i> , 566 F. Supp. 2d 323 (S.D.N.Y. 2008) .....	6
<i>In re Griffith</i> , 206 F.3d 1389, 1394 (11th Cir. 2000)).....	14
<i>Inwood Labs., Inc. v. Ives Labs., Inc.</i> , 456 U.S. 844 (1982) .....	7, 12
<i>KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.</i> , 543 U.S. 111 (2004) .....	13
<i>King Pharms., Inc. v. Teva Pharms. USA, Inc.</i> , 409 F. Supp. 2d 609 (D.N.J. 2006).....	14
<i>Masson v. New Yorker Magazine, Inc.</i> , 501 U.S. 496 (1992) .....	5
<i>Matsushita Elec. Indus. Co. v. Zenith Radio</i> , 475 U.S. 574 (1986) .....	5
<i>Merck &amp; Co. v. Hi-Tech Pharmacal Co.</i> , 482 F.3d 1317 (Fed. Cir. 2007) .....	14

<i>Midlantic Nat'l Bank v. N.J. Dep't of Envtl. Protection,</i> 474 U.S. 494 (1986) .....	12
<i>U.S. ex rel. St. Regis Mohawk Tribe v. President R.C.-St. Regis Mgmt. Co.,</i> 451 F.3d 44 (2d Cir. 2006) .....	12
<i>United States v. Gayle,</i> 342 F.3d 89 (2d Cir. 2003) .....	11
<i>United States v. Steiger,</i> 318 F.3d 1039 (11th Cir. 2003) .....	13
<b>Statutes, Rules &amp; Other Authorities</b>	
15 U.S.C. § 1117(b) .....	<i>passim</i>
15 U.S.C. § 1117(c).....	<i>passim</i>
15 U.S.C.A. § 1117 (West July 1, 1996) .....	8
15 U.S.C.A. § 1117 (West July 2, 1996-Aug. 4, 1999).....	9
15 U.S.C.A. § 1117 (West Oct. 13, 2008).....	11
Fed. R. Civ. P. 56(a) .....	5
Fed. R. Civ. P. 56(c) .....	5, 15
Fed. R. Civ. P. 56(e) .....	5
H.R. Rep. No. 110-617, 110th Cong., 2d Sess. (May 5, 2008) .....	15

## **I. INTRODUCTION AND SUMMARY OF ARGUMENT**

Defendants Woodforest National Bank ("Woodforest") and Durango Merchant Services LLC ("Durango") respectfully submit this memorandum in support of their motion for summary judgment on the claim by plaintiff Gucci America, Inc. ("Gucci") for statutory damages under 15 U.S.C. § 1117(c).<sup>1</sup>

Gucci is here seeking hundreds of millions of dollars in "statutory damages" against Woodforest and Durango in connection with their alleged activities regarding the sale of certain allegedly counterfeit goods. However, in this Court's recent Opinion & Order on defendants' motion to dismiss (Dkt.42), the Court dismissed Gucci's claims against Woodforest and Durango for direct trademark infringement, given the absence of sufficient allegations that any of the defendants actually *used* infringing or counterfeit trademarks; and the Court also dismissed Gucci's claims for vicarious liability. Accordingly, the only claims remaining against Woodforest and Durango are based on theories of indirect or "contributory" infringement. But as we explain in detail below, as a matter of law, statutory damages for trademark infringement involving counterfeiting are provided under 15 U.S.C. § 1117(c) *only* "[i]n a case involving the *use of a counterfeit mark* . . . in connection with the sale, offering for sale, or distribution of goods or services," *i.e.*, direct infringement. 15 U.S.C. § 1117(c) (emphasis added).

In 2008, Congress amended 15 U.S.C. § 1117(b), which provides for increased damages and attorney fees, to expand the availability of those remedies beyond direct infringers to now include contributory infringers who provide goods or services necessary to intentionally commit a violation. But, most significantly, Congress chose *not* to amend § 1117(c) to expand the

---

<sup>1</sup> Woodforest and Durango have been advised that defendant Frontline Processing Corporation ("Frontline") has entered into a settlement with Gucci, pursuant to which Gucci's claims against Frontline will be dismissed.

availability of statutory damages to encompass contributory infringement claims — not then, not ever. Thus, the plain text of § 1117(c) precludes a claim for statutory damages against parties which are accused only of contributory infringement. Moreover, to the extent other principles of statutory construction or the legislative history are considered, they all lead to the same result.

With the Court having now dismissed Gucci's claims for direct trademark infringement involving counterfeiting against Woodforest and Durango, Gucci's sole remaining claim of contributory infringement does not qualify for statutory damages as a matter of law. Accordingly, summary judgment is appropriate to remove this damages claim, on which Gucci cannot prevail.

## **II. STATEMENT OF UNDISPUTED MATERIAL FACTS**

The facts material to summary judgment on Gucci's claim for statutory damages have been greatly simplified by the Court's June 23, 2010 Opinion (Dkt.42) on defendants' motions to dismiss. As already noted, the Court has dismissed Gucci's claim for *direct* trademark infringement against Woodforest and Durango; and as will be demonstrated, direct trademark infringement involving "use" of a counterfeit mark is an absolute prerequisite for a recovery of statutory damages under 15 U.S.C. § 1117(c).

### **A. Gucci Has Requested Statutory Damages Under 15 U.S.C. § 1117(c)**

In its Complaint, Gucci has requested statutory damages as follows:

3. Award Gucci statutory damages in an amount to be determined at trial, representing \$1,000,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed by the Laurette Counterfeitors in concert or participation with Defendants and/or through the merchant services offered by Defendants with full knowledge that that such merchant services were being used to facilitate and cause the sale Counterfeit Products, pursuant to 15 U.S.C. § 1117(c).

4. Award Gucci statutory damages in an amount to be determined at trial representing \$1,000,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed by other counterfeitors in concert or participation with Defendants and/or through the merchant services offered by Defendants with full knowledge that such merchant services are or were being used to facilitate and cause the sale Counterfeit Products, pursuant to 15 U.S.C. § 1117(c).

(Dkt.1, at 36). Thus, while Gucci's Complaint asserts claims under both federal and state law, the only basis upon which Gucci could claim or does claim federal statutory damages is Gucci's Lanham Act claims, and the only statutory basis asserted by Gucci is 15 U.S.C. § 1117(c).

In discovery, Gucci was asked to provide a calculation of its statutory damages under § 1117(c). Gucci answered with the grossly over-inflated and nonsensical figure of \$176 million. (Kennedy Decl. Exh. 1, Gucci Ans. to Interrog. No. 1.)

**B. The Court Has Dismissed Gucci's Claims For Direct Trademark Infringement**

The basis for the Court's dismissal of Gucci's claims for direct trademark infringement was that the defendants, unlike the Laurette Company, had not *used* any infringing or counterfeit marks in commerce:

Direct liability for trademark infringement requires a valid mark entitled to protection under the Lanham Act, and that the defendant used the mark in commerce in connection with the sale or advertising of goods or services, without the plaintiff's consent. *1-800 Contacts, Inc. v. WhenU.Com, Inc.*, 414 F.3d 400, 406-07 (2d Cir. 2005) (internal quotations and citations omitted). In addition, Plaintiff must show that the Defendant's use of the mark is likely to cause confusion. *Id.* **The problem for Gucci is that there is no indication that any of the defendants actually "used that mark in commerce."** Knowledge alone of another party's sale of counterfeit or infringing items is insufficient to support direct liability, *see eBay*, 600 F.3d at 103, and there are otherwise no factual allegations that Durango, Woodforest, or Frontline themselves advertised or sold infringing goods.

(Dkt.42, at 15 (emphasis added).) Accordingly, to the extent Woodforest and/or Durango are liable for anything, it is for *indirect* infringement only.

**C. Only The Contributory Infringement Claim Remains**

In its Opinion, the Court declined to dismiss Gucci's claim that Woodforest and Durango were liable for contributory infringement. As to Woodforest (but not Durango), the Court dismissed Gucci's claim of intentional inducement of the direct infringer Laurette to sell counterfeit products. The Court, however, permitted the contributory infringement claim to remain in the case as to Woodforest (but not Durango), as follows:

Even if a defendant does not seek out and intentionally induce a third-party to commit trademark infringement, it may still be held liable for the infringement if it supplied services with knowledge or by willfully shutting its eyes to the infringing conduct, while it had sufficient control over the instrumentality used to infringe. *See eBay*, 576 F. Supp. 2d at 505-06; *Perfect 10*, 494 F.3d at 807.

(*Id.* at 18.)

Regarding the requirement of "direct control" over the instrumentality of the infringement by Woodforest, the Court found this requirement met based on Gucci's allegation that the credit card processing services provided by Woodforest were a necessary element of the counterfeiting activities of the Laurette companies:

In contrast, Gucci's complaint indicates that Frontline and Woodforest's credit card processing services are a necessary element for the transaction of counterfeit goods online, and were essential to sales from TheBagAddiction.com. . . .

....

... If, as Gucci alleges the Laurette website was functionally dependent upon Woodforest and Frontline's credit card processing services to sell counterfeit Gucci products, it would be sufficient to demonstrate the control needed for liability.

(*Id.* at 21-23.)

Accordingly, this Court's opinion made clear that while neither Woodforest nor Durango can be liable under a theory that they directly infringed, *i.e.*, actually "used" an allegedly counterfeit mark in commerce, Gucci stated legally sufficient claims against Woodforest and Durango based on theories of indirect or contributory infringement. But it is precisely for that reason — that Woodforest and Durango can *only* be liable under theories of contributory infringement — that statutory damages under § 1117(c) are not available as a matter of law.

### **III. SUMMARY JUDGMENT IS APPROPRIATE FOR AN UNAVAILABLE STATUTORY DAMAGES CLAIM**

#### **A. The Standard For Summary Judgment**

Summary judgment is proper "if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law."

Fed. R. Civ. P. 56(c). The purpose of summary judgment "is to isolate and dispose of factually unsupported claims or defenses." *Celotex v. Catrett*, 477 U.S. 317, 323-24 (1986). The moving party "always bears the initial responsibility of informing the district court of the basis for its motion . . ." *Id.* at 323. But the nonmoving party may not rely merely on allegations or denials in its own pleading. The nonmoving party must, by affidavits or as otherwise provided in the rule, set out specific facts showing a genuine issue for trial. Fed. R. Civ. P. 56(e).

When evaluating a motion for summary judgment, the court views the evidence through the prism of the evidentiary standard of proof that would pertain at trial. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255 (1986). The court draws all reasonable inferences in favor of the nonmoving party, including questions of credibility and of the weight that particular evidence is accorded. *See, e.g., Masson v. New Yorker Magazine, Inc.*, 501 U.S. 496, 520 (1992). However, where a rational trier of fact could not find for the nonmoving party based on the record as a whole, there is no "genuine issue for trial." *Matsushita Elec. Indus. Co. v. Zenith Radio*, 475 U.S. 574, 587 (1986).

**B. Summary Judgment Should Be Granted On  
Gucci's Legally Insufficient Statutory Damages Claim**

Summary judgment may be granted "on all or part of the claim." Fed. R. Civ. P. 56(a). In the specific context of claims for statutory damages, courts have regularly granted summary judgment disposing of such claims when, on undisputed facts, the claim does not qualify for such a remedy. For example, in *Atlanta Allergy & Asthma Clinic, P.A. v. Allergy & Asthma of Atlanta, LLC*, 685 F. Supp. 2d 1360 (N.D. Ga. 2010), the court granted summary judgment as to a claim for statutory damages based on copyright infringement:

Because Plaintiff did not register its copyright until after Defendants' infringement occurred, statutory damages are not available. 17 U.S.C. § 412.

....

The Court concludes that no damages are available to Plaintiff on its copyright infringement claim. Defendants' motion for partial summary judgment on the issues of damages is granted.

*Id.* at 1379. Similarly, in *Grainger v. Gill Abstract Corp.*, 566 F. Supp. 2d 323 (S.D.N.Y. 2008), the court granted defendant's cross-motion for summary judgment that the plaintiff was not entitled to statutory damages under the Copyright Act:

Based on the undisputed facts, the infringement, which in this case means the placement of the Calculator on GAC's website, commenced no later than October 30, 2003, and Plaintiff did not receive copyright registration for the Calculator until June 30, 2006. Consequently, Plaintiff is not entitled to statutory damages, and the Court recommends granting Defendants' Motion.

*Id.* at 334.

In *Dowell v. Wells Fargo Bank, N.A.*, 517 F.3d 1024 (8th Cir. 2008), the court upheld a grant of summary judgment against a claim for statutory damages under the Fair Credit Reporting Act because the plaintiff could not submit sufficient evidence regarding willfulness:

Statutory damages are not available in any event without a showing of willfulness, and our review of the record convinces us that the plaintiffs failed to present sufficient evidence of willfulness to avoid summary judgment.

*Id.* at 1026-27.

Here, summary judgment is appropriate for Gucci's claim for statutory damages because, under the plain and unambiguous terms of the governing statute, Gucci's sole remaining claim for contributory infringement against Woodforest and Durango does not qualify for such remedy as a matter of law.

**IV. THE TRADEMARK INFRINGEMENT DAMAGES PROVISION, 15 U.S.C. § 1117, EXPRESSLY PERMITS STATUTORY DAMAGES ONLY FOR A CLAIM OF DIRECT TRADEMARK INFRINGEMENT INVOLVING COUNTERFEITING**

**A. Original § 1117 Did Not Allow Statutory Damages Or Even Address Contributory Infringement**

A review of the Lanham Act's damages section, 15 U.S.C. § 1117, from its enactment in 1946, to the 1999 amendment that first provided a recovery of statutory damages, to the 2008

amendment that allowed for increased damages and attorney fees for contributory infringement involving a counterfeit mark, makes clear that Congress never made indirect or contributory infringers subject to statutory damages, notwithstanding several opportunities to do so. Rather, in its 2008 amendment, when Congress amended § 1117(b) to permit increased damages and attorney fees for contributory infringement based on use of a counterfeit mark, Congress undoubtedly could have but chose not to amend § 1117(c) to allow for statutory damages for contributory infringement, leaving that remedy available for cases of direct infringement only.

Of significance, on July 5, 1946, when the Lanham Act was first enacted, § 1117 contained no specific provisions relating to damages in connection with counterfeiting. Nor did the original Lanham Act specifically address what is today referred to as "contributory" trademark infringement. On the contrary, the doctrine of contributory infringement of a trademark was judicially created by the Supreme Court decades later in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844 (1982). As this Court has noted, the Supreme Court there held:

[I]f a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer or distributor is contributorily responsible for any harm done as a result of the deceit.

(Dkt.42, at 16 (quoting *Inwood*, 456 U.S. at 853-54).)

#### **B. By 1996, § 1117 Allowed Treble Damages For Use Of A Counterfeit Mark**

By the half-century mark in the history of the Lanham Act, the concept of counterfeit marks had been established, and the availability of treble damages was spelled out in the statute. Accordingly, as of July 1, 1996, § 1117 read as follows:

##### **(a) Profits; damages and costs; attorney fees**

When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, or a violation under section 1125(a) of this title, shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 of this title, and subject to

the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.

**(b) Treble damages for use of counterfeit mark**

In assessing damages under subsection (a) of this section, the court shall, unless the court finds extenuating circumstances, enter judgment for three times such profits or damages, whichever is greater, together with a reasonable attorney's fee, in the case of any violation of section 1114(1)(a) of this title or section 380 of Title 36 that consists of intentionally **using** a mark or designation, knowing such mark or designation is a counterfeit mark (as defined in section 1116(d) of this title), in connection with the sale, offering for sale, or distribution of goods or services. In such cases, the court may in its discretion award prejudgment interest on such amount at an annual interest rate established under section 6621 of Title 26, commencing on the date of the service of the claimant's pleadings setting forth the claim for such entry and ending on the date such entry is made, or for such shorter time as the court deems appropriate.

15 U.S.C.A. § 1117 (West July 1, 1996) (emphasis added). Thus, although the judicially created concept of contributory trademark infringement had been in existence for over a decade, as of 1996, Congress nonetheless limited the availability of treble damages to cases involving intentional "use" of a counterfeit mark.

**C. The First Statutory Damages Provision Was Also Limited To Direct Trademark Infringement Involving "Use" Of A Counterfeit Mark**

By 1999, § 1117 had been amended to add a subsection (c) to provide for an award of statutory damages. With this amendment, § 1117 now contained subsections (a), (b), and (c), which provided for remedies as follows:

(a) When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, or a violation under section 1125(a) of this title, shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 of this title, and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff

shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.

(b) In assessing damages under subsection (a) of this section, the court shall, unless the court finds extenuating circumstances, enter judgment for three times such profits or damages, whichever is greater, together with a reasonable attorney's fee, in the case of any violation of section 1114(1)(a) of this title or section 380 of Title 36 that consists of intentionally using a mark or designation, knowing such mark or designation is a counterfeit mark (as defined in section 1116(d) of this title), in connection with the sale, offering for sale, or distribution of goods or services. In such cases, the court may in its discretion award prejudgment interest on such amount at an annual interest rate established under section 6621 of Title 26, commencing on the date of the service of the claimant's pleadings setting forth the claim for such entry and ending on the date such entry is made, or for such shorter time as the court deems appropriate.

(c) In a case involving the use of a counterfeit mark (as defined in section 1116(d) of this title) in connection with the sale, offering for sale, or distribution of goods or services, the plaintiff may elect, at any time before final judgment is rendered by the trial court, to recover, instead of actual damages and profits under subsection (a) of this section, an award of statutory damages for any such use in connection with the sale, offering for sale, or distribution of goods or services in the amount of -

- (1) not less than \$500 or more than \$100,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed as the court considers just; or
- (2) if the court finds that the use of the counterfeit mark was willful, not more than \$1,000,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed, as the court considers just.

15 U.S.C.A. § 1117 (West July 2, 1996-Aug. 4, 1999) (all emphasis added).

Subsections (b) and (c) have been underlined and highlighted above to show that, by their very explicit terms, these subsections limited the recovery of both increased damages and attorney fees under subsection (b), and statutory damages under subsection (c), to cases involving direct trademark infringement involving actual *use* of counterfeit marks. In short, Congress decided in 1999 that statutory damages would be available only for actual *use* of a counterfeit mark in connection with sale, offering for sale, or distribution of goods and services,

*i.e.*, *direct* infringement; and they would not be available for contributory or *indirect* infringement.

**D. When Subsection (b) For Increased Damages Was Amended To Include Contributory Infringement, The Statutory Damages Subsection (c) Was Not**

On October 13, 2008, § 1117(b) (but not § 1117(c)) was amended once again to specifically provide for increased damages and attorney fees in cases of contributory infringement. As a result of that amendment of § 1117, subsections (b) (which was amended) and (c) (which was unchanged) now read:

**(b) Treble damages for use of counterfeit mark**

In assessing damages under subsection (a) for any violation of section 1114(1)(a) of this title or section 220506 of Title 36, in a case involving use of a counterfeit mark or designation (as defined in section 1116(d) of this title), the court shall, unless the court finds extenuating circumstances, enter judgment for three times such profits or damages, whichever amount is greater, together with a reasonable attorney's fee, if the violation consists of

(1) intentionally using a mark or designation, knowing such mark or designation is a counterfeit mark (as defined in section 1116(d) of this title), in connection with the sale, offering for sale, or distribution of goods or services; or

(2) providing goods or services necessary to the commission of a violation specified in paragraph (1), with the intent that the recipient of the goods or services would put the goods or services to use in committing the violation.

In such a case, the court may award prejudgment interest on such amount at an annual interest rate established under section 6621(a)(2) of Title 26, beginning on the date of the service of the claimant's pleadings setting forth the claim for such entry of judgment and ending on the date such entry is made, or for such shorter time as the court considers appropriate.

**(c) Statutory damages for use of counterfeit marks**

In a case involving the use of a counterfeit mark (as defined in section 1116(d) of this title) in connection with the sale, offering for sale, or distribution of goods or services, the plaintiff may elect, at any time before final judgment is rendered by the trial court, to recover, instead of actual damages and profits under subsection (a) of this section, an award of statutory damages for any such use in connection with the sale, offering for sale, or distribution of goods or services in the amount of--

(1) not less than \$1,000 or more than \$200,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed as the court considers just; or

(2) if the court finds that the use of the counterfeit mark was willful, not more than \$2,000,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed, as the court considers just.

15 U.S.C.A. § 1117 (West Oct. 13, 2008) (emphasis added).

The newly added provision of § 1117(b)(2), allowing increased damages and attorney fees for contributory infringement, is shown above in italics. The portions of subsections (b) and (c) that address direct trademark infringement involving actual "use" of a counterfeit mark are underlined. In short, when Congress amended subsection (b) to permit an award of increased damages and attorney fees for a claim of contributory infringement involving a counterfeit mark, Congress chose *not* to add such an option to subsection (c). Undoubtedly, Congress had the opportunity to and could have chosen to amend subsection (c) to permit awards of statutory damages for indirect or contributory infringement; but demonstrably it did not.

**E. Principles Of Statutory Construction Mandate A Limitation Of Statutory Damages To Those Who "Use" Counterfeit Marks**

It is well settled that, "[s]tatutory construction begins with the plain text and, if that text is unambiguous, it usually ends there as well." *Bechtel v. Competitive Techs., Inc.*, 448 F.3d 469, 471 (2d Cir. 2006) (quoting *United States v. Gayle*, 342 F.3d 89, 92 (2d Cir. 2003)). Here, the statutory language of § 1117(c) is as clear and unambiguous as could be: it is limited to the "use" of a counterfeit mark, and it says nothing about statutory damages being available against those who are accused of only contributing to infringement by a direct infringement. Accordingly, the construction of § 1117(c) should indeed begin and end with the plain text of the statute. And that plain text makes clear that Woodforest and Durango — who now stand accused of contributory infringement only — cannot be subject to liability for statutory damages.

In any event, to the extent the Court wishes to test this result by going beyond the plain text of the statute, other principles of statutory construction confirm that the result is indeed the same.

To begin with, as the Supreme Court stated in *Midlantic National Bank v. New Jersey Department of Environmental Protection*, 474 U.S. 494 (1986): "The normal rule of statutory construction is that if Congress intends for legislation to change the interpretation of a judicially created concept, it makes that intent specific." *Id.* at 501. Here, as we have demonstrated, the concept of contributory trademark infringement was indeed judicially created in *Inwood*. That being the case, it would be completely improper to interpret § 1117(c) to judicially add the additional and alternative remedy of statutory damages without Congress having made its intent for that to occur specific. Congress, however, has done nothing of the sort.

Yet another principle of statutory construction is that, when legislation expressly provides a particular remedy or remedies, courts should not expand the coverage of the statute to subsume other remedies. *U.S. ex rel. St. Regis Mohawk Tribe v. President R.C.-St. Regis Mgmt. Co.*, 451 F.3d 44, 51 (2d Cir. 2006); *Conboy v. AT&T Corp.*, 241 F.3d 242, 253 (2d Cir. 2001). Here, Congress explicitly chose to make the remedy of statutory damages available only against those who actually "use" counterfeit marks. And Congress also has explicitly chosen to make treble damages available against those who intentionally "use" a counterfeit mark *and also* against those who intentionally provide goods and services necessary to the commission of a violation of § 1117(b) with the intent that the recipient of the goods and services would put them to use in committing the violation, *i.e.*, certain indirect or contributory infringers. Having carefully decided to make only one set of extraordinary remedies — treble damages and attorney fees — available against certain indirect or contributory infringers, Congress should not be presumed to have made even more extraordinary "other remedies" — *i.e.*, statutory damages — available against such contributory infringers as well.

Still further, the Supreme Court has repeatedly held that: "Where Congress includes particular language in one section of a statute but omits it in another section of the same Act, it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion." *Gozlon-Peretz v. United States*, 498 U.S. 395, 404 (1991) (quotations omitted); *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 118 (2004) (comparing two provisions of the Lanham Act). Here, §§ 1117(b) and 1117(c) are separate subsections of the very same section of the Lanham Act. Thus, the statutory scheme as it exists today reflects an intentional and purposeful decision by Congress to make treble damages and attorney fees available against those who "use" a counterfeit mark and certain contributory infringers, but to make statutory damages available *only* against those who actually "use" a counterfeit mark. Accordingly, this Court must presume that when Congress omitted contributory infringers from those who might be subject to statutory damages, Congress did so consciously and with its eyes wide open. And there is nothing in the statute itself, or its legislative history, to rebut that presumption here.

Moreover, the fact that Congress chose not to allow for statutory damages against contributory infringers at the time it amended § 1117 to allow treble damages and attorney fees to be assessed against contributory infringers, strengthens the premise of this motion even further. In this regard, Congress presumably

acts intentionally and purposely when it includes particular language in one section of a statute but omits it in another. That presumption is made even stronger when . . . Congress has amended a statute to include certain language in some, but not all, provisions of the statute.

*United States v. Steiger*, 318 F.3d 1039, 1050-51 (11th Cir. 2003) (quotations and citations omitted). That, of course, is precisely what occurred here.

This principle of statutory construction was applied recently in *King Pharmaceuticals, Inc. v. Teva Pharmaceuticals USA, Inc.*, 409 F. Supp. 2d 609 (D.N.J. 2006). In *King*, the court engaged in a comparison of two sections of the Patent Code: 35 U.S.C. § 154(b), which deals with increasing patent terms to compensate for PTO delays, and 35 U.S.C. § 156, which deals with increasing patent terms to compensate for regulatory (e.g., FDA) delays. Congress had amended both provisions repeatedly, and had added a statutory exception to § 154(b), but had not incorporated similar language into § 156. The court in *King* viewed this as a demonstration that Congress knew how to draft the clear exception it added to § 154(b); and given the repeated amendments to both sections, at which time Congress omitted the exception from § 156, the exception "should not be implied where excluded." *King*, 409 F. Supp. 2d at 614-15. Accordingly, "where Congress knows how to say something but chooses not to, its silence is controlling." *Id.* at 615 (quoting *In re Griffith*, 206 F.3d 1389, 1394 (11th Cir. 2000)).<sup>2</sup>

**F. The Legislative History Supports That  
Statutory Damages Are Limited To Direct Infringers**

The report of the House of Representatives on H.R. 4279, which resulted in the 2008 amendment of § 1117(b), evidences a clear recognition that the sole purpose of the amendment was to make one (and only one) specific set of additional remedies — increased damages and attorney fees — available against contributory infringers. To that end, the House Report includes the following comment:

Experts point out that counterfeiters have developed a "long value chain" in their operations, thus limiting the risk of each party being caught and the possible penalties if they are apprehended. Although under current law contributory trademark liability can be found against parties who intentionally induce others to commit acts of counterfeiting, or who intentionally provide goods or services to facilitate the commission of acts of counterfeiting, with the intent that the recipient of the goods or services would put them to use in committing the violation, the damages to which those

---

<sup>2</sup> The decision in *King* was adopted as its own by another district court, whose judgment was affirmed in *Merck & Co. v. Hi-Tech Pharmacal Co.*, 482 F.3d 1317, 1320 (Fed. Cir. 2007).

parties are exposed may fall far short of deterrent levels. To remedy this, and to take into account the realities of today's counterfeiting environment, the Act directs courts to award treble damages and attorney's fees against such knowing participants in the value chain, just as is the case under current law with direct infringers engaged in counterfeit operations.

H.R. Rep. No. 110-617, at 24, 110th Cong., 2d Sess. (May 5, 2008).

Thus, the pre-2008 version of § 1117 permitted only "direct infringers engaged in counterfeit operations" to be subject to treble damages and attorney fees under subsection (b). The 2008 amendment, however, also allowed contributory infringers to be liable for treble damages and attorney fees. But the 2008 amendment, while recognizing that the previous damage exposure of contributory infringers fell short of deterrent levels, nonetheless reflected a measured legislative decision to increase damage "exposure" by allowing contributory infringers to be subject to treble damages and attorney fees under subsection (b), *but not statutory damages under subsection (c)*.

## **V. CONCLUSION**

The requirements for summary judgment under Fed. R. Civ. P. 56(c) are readily established here, as there is no genuine issue as to any material fact on Gucci's claim for statutory damages. Gucci's claim for direct infringement against Woodforest and Durango, which might have made statutory damages a possible theory of recovery, has now been dismissed. And given the clear and unambiguous terms of the governing statute, which limits awards of statutory damages to cases of direct infringement involving the actual use of a counterfeit mark, no other fact is material to resolution of this motion.

The defendants are thus entitled to judgment on Gucci's statutory damages claim as a matter of law. Again, § 1117(c) allows recovery of statutory damages *only* against a direct infringer which "uses" a counterfeit mark; and no such recovery is permitted against a party accused only of contributory infringement.

Accordingly, based on the foregoing, defendants respectfully request that the Court enter judgment in favor of Woodforest and Durango on Gucci's claim for statutory damages.

Respectfully submitted,

LERNER, DAVID, LITTENBERG,  
KRUMHOLZ & MENTLIK, LLP  
600 South Avenue West  
Westfield, NJ 07090  
*Attorneys for Defendant Woodforest National Bank*

Dated: July 7, 2010

By: s/ William L. Mentlik  
William L. Mentlik  
Charles P. Kennedy  
Gregg A. Paradise  
Tel: 908.654.5000  
E-mail: [wmentlik@ldlkm.com](mailto:wmentlik@ldlkm.com)  
[ckennedy@ldlkm.com](mailto:ckennedy@ldlkm.com)  
[gparadise@ldlkm.com](mailto:gparadise@ldlkm.com)  
[litigation@ldlkm.com](mailto:litigation@ldlkm.com)

Law Offices of Todd Wengrovsky, PLLC.  
285 Southfield Road, Box 585  
Calverton, NY 11933  
*Attorneys for Defendant Durango Merchant Services LLC d/b/a National Bankcard Systems of Durango*

By s/ Todd Wengrovsky  
Todd Wengrovsky (TW 4823)  
Tel: 631.727.3400  
E-mail: [Contact@TWlegal.com](mailto:Contact@TWlegal.com)