

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

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	:	
GUCCI AMERICA, INC.	:	
	:	
Plaintiff,	:	
	:	
-against-	:	
	:	09 Civ. 6925 (HB)
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	

**PLAINTIFF’S MEMORANDUM OF LAW IN OPPOSITION  
TO DEFENDANTS’ MOTION FOR SUMMARY JUDGMENT**

Robert L. Weigel (RW 0163)  
Howard S. Hogan (HH 7995)  
Jennifer C. Halter (JH 7032)  
Anne Coyle (AC 3158)  
GIBSON, DUNN & CRUTCHER, LLP  
200 Park Avenue  
New York, New York 10166  
(212) 351-4000  
  
*Attorneys for Plaintiff Gucci America, Inc.*

New York, New York  
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Plaintiff Gucci America, Inc. (“Gucci” or “Plaintiff”) respectfully submits this memorandum of law in opposition to the motion for summary judgment filed jointly by Defendants Woodforest National Bank (“Woodforest”) and Durango Merchant Services, LLC (“Durango”) (collectively, “Defendants”).

### **PRELIMINARY STATEMENT**

Defendants contend that this Court is prohibited from awarding statutory damages against a contributory trademark infringer under 15 U.S.C. § 1117(c). There is no such limitation on this Court.

Defendants cite no court decisions that have reached the conclusion that persons who deliberately assist the sale of counterfeit goods are somehow insulated from statutory damages, nor do they find any support in the text of the statute itself or in the legislative history. Indeed, the reason that Defendants have no support directly on point is clear: The law is to the contrary. A correct reading of the statute, a review of the case law and the purposes behind the statute all compel the conclusion that statutory damages *may* be awarded in contributory infringement cases. In fact, this is precisely the kind of case that Congress created the statutory damages award to remediate.

On its face, Section 1117(c) authorizes a court to award statutory damages in “a case involving the use of a counterfeit mark.” The plain meaning of these words is that statutory damages are appropriate as long as the case “involv[es] the use of a counterfeit mark.” If Congress wanted to limit statutory damages only to defendants who make direct “use” of a trademark in commerce, they could have easily written the provision to cover only direct infringers, or written the law so that Courts are only authorized to award statutory damages against those who manufacture or sell counterfeit products. But Congress did not adopt any such

limitation. Rather, Congress chose language that is broader on its face, and makes statutory damages applicable in any “case involving the use of a counterfeit mark.”

The most direct proof that Defendants’ interpretation is incorrect is that Courts *do*—frequently—order contributory trademark infringers to pay statutory damages under Section 1117(c). As discussed in greater detail below, Courts in this District and throughout the country have repeatedly awarded statutory damages in counterfeiting cases where defendants were held liable only for contributory infringement. *See, e.g., Church & Dwight Co. v. Kaloti Enters. of Michigan, L.L.C.*, No. 07 Civ. 0612 (BMC), *\_F.Supp.2d \_*, 2009 WL 6093272, at \*16 (E.D.N.Y. Dec. 23, 2009); *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, No. C 07-03952 JW, 2009 WL 1636914, at \*2 (N.D. Cal. June 10, 2009); *see also* Declaration of Jennifer C. Halter dated July 20, 2010 (“Halter Decl.”) Ex. 1 (Order of Judgment in *Cartier Int’l B.V. v. Liu*, No. 02 Civ. 7926 (TPG) (S.D.N.Y. Apr. 24, 2007)); *id.* Ex. 2 (Order of Judgment in *Cartier Int’l B.V. v. Ben-Menachem*, 06 Civ. 3917 (RWS) (S.D.N.Y. Jan. 23, 2008)). Defendants’ failure to make the Court aware of these precedents—or the many more cited below—is inexplicable.

Further, Defendants ask the Court to ignore the clear backdrop for contributory trademark infringement liability. As the Supreme Court made clear in *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 853-54 (1982), anyone found liable as a contributory infringer is also “contributorially responsible for *any* harm done as a result of the deceit” (emphasis added). As a result, under black-letter trademark law, contributory infringers are jointly and severally liable for the full extent of damages owed to a plaintiff. Congress’s refusal to adopt language that explicitly limits the availability of statutory damages to certain classes of defendants thus strongly implies that it did intend to allow statutory awards to be imposed on contributory and direct infringers alike.

Even more outlandishly, Defendants argue that Congress' decision in 2008 to make it easier for trademark owners to get enhanced actual damages from contributory trademark infringers somehow operates to prove that an alternative award of statutory damages is not available. This is nonsensical. The legislative history of the 2008 amendments makes clear that Congress' only intent was to *increase* the number and magnitude of potential penalties for promoting counterfeiting. Defendants do not and cannot point to anything in the 2008 amendments—or any other record in the Lanham Act's legislative history—that supports the absurd conclusion Congress intended only a lesser quantum of damages to be available in cases of indirect infringers.

Accordingly, Defendants' motion for summary judgment is just the latest in a long line of attempts to artificially constrict legal remedies against those companies that knowingly assist trademark infringement. As Courts have noted in the context of these past cases, though, “[t]he scope of the contributory infringer doctrine. . . is not so narrowly circumscribed.” *Corning Glass Works v. Jeannette Glass Co.*, 308 F. Supp. 1321, 1326 (S.D.N.Y. 1970), *aff'd*, 432 F.2d 784 (2d Cir. 1970)).

### **STATEMENT OF FACTS**

Defendants' motion for summary judgment does not challenge the substantive elements of plaintiff's claims, and Defendants' Statement of Undisputed Material Facts recounts only the procedural posture of the case. *See* Opp. Mem. at 2-4. This alone speaks volumes about the role that Defendants played in the undisputed counterfeiting at issue in this case.

Defendants' recently filed answers, moreover, served after discover was largely completed, confirm many, if not all, of the key factual allegations of Gucci's complaint. Indeed, the undisputed record shows that:



- Gucci is a leader in the design and sale of high-quality luxury items offered to the public under the famous Gucci trademarks referenced in the Complaint (the “Gucci Marks”). *Compare* Compl. (Dkt. No. 1) ¶¶ 1, 24-26 with Woodforest Answer (Dkt. No. 48) ¶¶ 1, 24-26 (admitting that “the mark Gucci is a recognized trademark for certain luxury items”); Durango Answer (Dkt. No. 54) ¶¶ 25-26 (admitting to federal trademark registrations for the Gucci Marks).
- Defendant Woodforest is a bank that processes credit card transactions for merchants, including Internet merchants that offered “replica” handbags to the public. *Compare* Compl. (Dkt. No. 1) ¶ 13, 46, 51, 70-71, 73 with Woodforest Answer (Dkt. No. 48) ¶ 13, 46, 51, 70-71, 73 (admitting that Woodforest is a bank and “that it provided credit card processing services for TheBagAddiction.com Web site”).
- Defendant Durango acts as an agent for credit card processing agencies such as Woodforest to locate merchants who will use the services of companies like Woodforest to process credit card transactions in return for a referral fee from the credit card processing agencies for bringing the credit card processors and the Internet merchants together. *Compare* Compl. (Dkt. No. 1) ¶ 49 with Durango Answer (Dkt. No. 54) ¶ 49.
- Defendants both entered into a business relationship to provide credit card processing services to a group of individuals who have been found liable for intentional counterfeiting of the Gucci Marks in *Gucci Am., Inc. et al. v. Laurette Company, Inc. et al.*, 08 Civ. 5065 (L.A.K.) (S.D.N.Y.) (the “Laurette Defendants”). *Compare* Compl. (Dkt. No. 1) at ¶¶ 5-6, 45, 50-51, 53-54, 71, 78 with Woodforest Answer (Dkt. No. 48) ¶¶ 5-6, 45, 51, 53-54, 71, 78; Durango Answer (Dkt. No. 54) ¶¶ 5-6, 50-51, 53-54, 71.
- The Laurette Defendants’ website, and the websites of many other merchants’ serviced by Defendants, freely admitted that the products that they sold under and using the Gucci Marks were not genuine Gucci products. *Compare* Compl. (Dkt. No. 1) ¶ 42 with Woodforest Answer (Dkt. No. 48) ¶ 42 (“Woodforest admits that the products shown on The Bag Addiction Web site were represented to be replicas and not originals.”).
- The Laurette Defendants sold over \$500,000 worth of “replica” goods during the time it utilized the credit card processing services of the Defendants in this case. *Compare* Compl. (Dkt. No. 1) ¶ 44 with Woodforest Answer (Dkt. No. 48) ¶ 44.
- Woodforest admitted that it provided credit card processing services to the Laurette Defendants under the belief that it was selling “replica” merchandise. *Compare* Compl. (Dkt. No. 1) ¶ 46 with Woodforest Answer (Dkt. No. 48) ¶ 46.
- The Laurette Defendants freely disclosed to the Defendants that they were selling goods as “Gucci” products even though they were not acquiring them from Gucci. *Compare* Compl. (Dkt. No. 1) at ¶ 73 with Woodforest Answer (Dkt. No. 48) ¶ 73.

- These replica merchants offered for sale at least twenty different types of counterfeit Gucci products, amounting to hundreds of different counterfeit Gucci handbags, wallets, and other accessories. Halter Decl. Ex. 4 (M. Falsone Decl.).
- The full number of such counterfeiters, and important details about the extent of their activities is unknowable, because Durango has intentionally destroyed potentially relevant evidence in violation of its duty to preserve. Order dated July 2, 2010 (Dkt. No. 47) at 4.

And it is important to note that the Laurette Defendants only represent the tip of the iceberg of Defendants' potential liability. As set forth in greater detail in Gucci's cross motion for summary judgment, the clear documentary and testimonial record shows that the Defendants similarly assisted many more such counterfeiters with full knowledge that their clients were using the Gucci marks to sell products that did not come from Gucci.<sup>1</sup>

Defendants' statement of fact is correct in that Gucci has elected to receive an award of statutory damages in compensation for the conduct described above, as part of the remedial regime established under the Lanham Act. *See* Complaint (Docket No. 1). In a trademark counterfeiting case, a party that elects to receive statutory damages can recover an award from \$1,000 to \$200,000 per counterfeit mark per type of goods sold. 15 U.S.C. §1117(c). If the infringement is willful the amount of the award can be increased up to \$2 million per counterfeit mark per type of goods sold. *Id.* In 2008, Congress had doubled this range for statutory damages. In other counterfeiting cases in this District, Courts have awarded Gucci statutory damages of \$100,000 per counterfeit mark per type of goods sold. *See Gucci Am., Inc. v. MyReplicaHandbag.com*, 07 Civ. 2438 (JGK), 2008 WL 512789, at \*3 (S.D.N.Y. Feb. 26, 2008); *Gucci Am., Inc. v. Curveal Fashion*, 09 Civ. 8458 (RJS) (S.D.N.Y. Jan. 20, 2010)

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<sup>1</sup> Plaintiffs also incorporate by reference the statement of facts that is being submitted in support of its own, affirmative cross-motion for summary judgment, as well as all the evidence cited therein.

(attached to Halter Decl. as Ex. 5).<sup>2</sup> Here, simple math reveals that if one were to take any of the possible monetary amounts up to the statutory maximum, and multiply it by the number of marks infringed (8) and the number of types of products sold by Defendants' clients (20), the statutory maximum quickly reaches up to \$160 million, even using only the multipliers that were in effect before Congress doubled them in 2008.<sup>3</sup> This calculation, though, does not take into account the fact that Defendants assisted multiple websites that were selling counterfeit Gucci items, and not just a single group of counterfeiters.<sup>4</sup>

## ARGUMENT

### **I. STANDARD OF REVIEW.**

"In deciding a motion for summary judgment . . . the court is required to resolve all ambiguities, and to credit all factual inferences that could rationally be drawn, in favor of the party against whom summary judgment is sought." *Howley v. Town of Stratford*, 217 F.3d 141,

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<sup>2</sup> It is important to note that in these cases were each brought against only one set of counterfeiters, as opposed to the current case, where the defendants assisted numerous websites and different groups of counterfeiters.

<sup>3</sup> The types of counterfeit Gucci products offered by the Laurette Defendants and the number of different Gucci marks that appear on such products can be determined from the images captured by Gucci's investigator, which has been entered into the record as Ex. 4 to the Halter Declaration.

<sup>4</sup> Even if the Court were to rule that statutory damages are not available in this case, Defendants concede that 15 U.S.C. 1117(b) would then apply, which provides that "the court shall, unless the court finds extenuating circumstances, enter judgment for three times [the liable parties'] profits or [Gucci's] damages, whichever is greater, together with a reasonable attorney's fee." Moving Br. at 9 (citing 15 U.S.C. § 1117(b)). In addition, the Court has also ruled that Gucci's state law infringement analog claims survive on the same basis as its federal contributory trademark infringement claims. *See* (Dkt. No. 42) at 15 n.6 (for liability purposes, "Federal law and state common law infringement claims are analyzed identically"), *id.* at 24 ("claims against all three defendants may proceed based on a contributory liability theory"). Therefore, if Gucci prevails on establishing Defendants liability for contributory trademark infringement, it is also entitled to pursue its claim for punitive damages under New York State law. *See* Complaint (Dkt. No. 1) at 36 ¶ 5 (seeking "punitive damages pursuant to New York State common law (as preserved by N. Y. Gen. Bus. Law § 360-0) on account of Defendants' gross, wanton, willful, and malicious conduct in an amount sufficient to deter other and future similar conduct by Defendants and others").

150-51 (2d Cir. 2000) (citations omitted). Indeed, “[i]t is not the province of the court itself to decide what inferences should be drawn; if there is any evidence in the record from any source from which a reasonable inference could be drawn in favor of the nonmoving party, summary judgment is improper . . . .” *Id.* at 151. And even when a summary judgment motion is predicated solely on an issue of statutory interpretation, such a motion is properly denied where the moving party advances an incorrect and unsupported interpretation of the law. Where, as here, a moving party’s view of the law is erroneous, its motion for summary judgment should be denied. *See, e.g., Brody v. Village of Port Chester*, 00 Civ. 7481, 2007 WL 735022, at \*7 n.16 (S.D.N.Y. Mar. 12, 2007) (Baer, J.) (denying motion for partial summary judgment where the moving party’s “proposition” on interpretation of a bankruptcy statute “is incorrect”).

**II. BOTH THE PLAIN MEANING OF 15 U.S.C. § 1117 AND CASE LAW COMPEL THE CONCLUSION THAT STATUTORY DAMAGES CAN BE AWARDED FOR CONTRIBUTORY TRADEMARK INFRINGEMENT.**

Defendants argue that “Congress never made indirect or contributory infringers subject to statutory damages.” Moving Br. at 7. They argue that because the words “contributory infringement” do not appear in the specific subsection that provides for statutory damages, Congress must have intended to limit these awards only to direct infringers. This interpretation is inconsistent with both the plain language of 15 U.S.C. § 1117(c) and the practice of Courts that have applied it.

**A. Statutory Damages Are Available In All “Case[s] Involving The Use Of A Counterfeit Mark.”**

The statutory damages provision of the Lanham Act provides, in relevant part:

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. § 1117(c) (emphasis added). Section 1116(d)(1)(B)(i), in turn, defines the term “counterfeit mark” to mean “a counterfeit of a mark that is registered on the principle register in the United States Patent and Trademark Office . . . whether or not the person against whom relief is sought knew such mark was so registered.”

Prior to October 13, 2008, the statutory minimum for damages under Section 1117(c)(1) was \$500 and the statutory maximum was \$100,000, and Section 1117(c)(2) provided that the statutory maximum should be increased to \$1,000,000 if the infringement was willful. *See* Prioritizing Resources and Organization for Intellectual Property Act of 2008, Title I, sec. 104, § 1117, 122 Stat 4256, 4259 (Oct. 13, 2008).<sup>5</sup>

“The rationale for § 1117(c) is the practical inability to determine profits or sales made by counterfeiters.” *Burberry Ltd. v. Euro Moda, Inc.*, 08 Civ. 5781 (CM) (AJP), 2009 WL 4432678, at \*2 (S.D.N.Y. Dec. 4, 2009) (citing, *inter alia*, *Business Trends Analysts, Inc. v. Freedonia Group, Inc.*, 887 F.2d 399, 406 (2d Cir.1989)), *adopted* (S.D.N.Y. Jan. 4, 2010), *judgment entered* (S.D.N.Y. Jan. 13, 2010). As a result, “Congress provided for statutory damages, an automatic measure of recovery to plaintiffs regardless of injury or profits” precisely because in counterfeiting cases isolating “‘proof of damages or discovery of profits’ is [usually]

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<sup>5</sup> Some of the counterfeiting activities at issue in this case occurred before October 13, 2008 and some of the counterfeiting occurred after that date. *See* Complaint (Dkt. No. 1).

‘difficult or impossible.’” *Id.* (citing *Warner Bros. Inc. v. Dae Rim Trading, Inc.*, 877 F.2d 1120, 1126 (2d Cir.1989)). Where, as here, there “is ample evidence . . . that . . . the defendant had knowledge that [his] conduct represented infringement or perhaps recklessly disregarded the possibility,” Courts have found, for example, that an award of “\$1 million times the [number of] types of goods” is an appropriate measure of statutory damages, and should be even greater where “there was reason to believe that the defendant’s sales were substantial.” *See, e.g., id.* at \*3-6 (citing cases).

Importantly, Congress did not limit an award of statutory damages only to defendants who made direct “use” of the counterfeit mark. To the contrary, the words chosen by Congress make an award proper in any case “*involving* the use of a counterfeit mark.” 15 U.S.C. § 1117(c) (emphasis added). This difference in phraseology is significant. A case “involving the use of a counterfeit mark” logically includes all actionable cases for counterfeiting. Nothing in this phrase or elsewhere in the statute suggests that it is limited to a particular class of defendants. Defendants’ argument simply ignores the statute’s clear meaning.

**B. Courts Have Repeatedly Awarded Statutory Damages For Contributory Trademark Infringement.**

Defendants do not cite a single case adopting their interpretation of 15 U.S.C. § 1117(c). In fact, Courts frequently award statutory damages under 15 U.S.C. § 1117(c) against defendants who are found liable for contributory infringement in counterfeiting cases.

For example, in *Cartier Int’l B.V. v. Liu*, No. 02 Civ. 7926 (TPG), 2003 WL 1900852, at \*2 (S.D.N.Y. Apr. 17, 2003), Judge Griesa held that an indirect actor could be held liable for trademark counterfeiting where it knowingly assisted the effort by arranging for the shipment of the counterfeit products via UPS. Importantly, there was no allegation that these defendants had themselves “used” the marks at issue by stamping them on any goods or services. *Id.* And yet,

at the end of the case, the Court entered an award of statutory damages in the amount of \$18 million against Speedy Shipping Services and others for their indirect role in furthering the counterfeiting operation. See Halter Decl. Ex. 1 (Order of Judgment in *Cartier Int'l B.V. v. Liu*).

Similarly, in *Cartier Int'l B.V. v. Ben-Menachem*, No. 06 Civ. 3917, 2008 WL 64005, at \*12 (S.D.N.Y. Jan. 3, 2008), Judge Sweet entered summary judgment against three defendants finding that they were “liable for contributory trademark infringement because they chose to be willfully blind to the counterfeiting business operated by two of their sons from [their] home [and] office.” Again, Judge Sweet did not find that these defendants themselves “used” the plaintiff’s trademarks on counterfeit goods, but that, for purposes of summary judgment, they were at least contributorially liable for the counterfeiting. Judge Sweet then awarded statutory damages against all defendants, without regard to which of the defendants was specifically liable for “using the mark.” Halter Decl. Ex. 2 (Order of Judgment in *Cartier Int'l B.V. v. Ben-Menachem*).

In fact, just last year, a Court in this Circuit rejected precisely the type of argument that Defendants advance here. Specifically, in *Church & Dwight Co., Inc. v. Kaloti Enterprises of Michigan, L.L.C.*, \_F.Supp.2d\_, 2009 WL 6093272 (E.D.N.Y. Dec. 23, 2009), a defendant “argue[d] that any ‘involvement’ in counterfeiting does not constitute . . . selling or otherwise directly using counterfeits in commerce.” *Id.* at \*16. The Court summarily rejected this argument, holding that it “lacks merit as his knowing participation in the large-scale trafficking of counterfeit goods is sufficient” to establish liability. *Id.* The Court then went on to award statutory damages and attorneys’ fees against the defendant. *Id.*

Indeed, it has been the common practice of Courts across the country to award statutory damages against contributory infringers. For example, Courts in each of the following cases

awarded statutory damages for trademark counterfeiting against a defendant found to be a contributory infringer.

- *Microsoft Corp. v. Silver Star Micro, Inc.*, No. 1:06-cv-1350-WSD, 2008 WL 115006, at \*8-9 (N.D. Ga. Jan. 9, 2008);
- *Microsoft v. Sellers*, 411 F. Supp. 2d 913, 920-22 (E.D. Tenn. 2006);
- *Tony Jones Apparel, Inc. v. Indigo USA LLC*, No. 03 C 0280, 2005 WL 1667789, at \*6-9 (N.D. Ill. July 11, 2005);
- *Microsoft Corp. v. Black Cat Computer Wholesale, Inc.*, 269 F. Supp. 2d 118, 123-24 (W.D.N.Y. 2002);
- *Council of Better Bus. Bureaus, Inc. v. Bailey & Assocs., Inc.*, 197 F. Supp. 2d 1197, 1222-24 (E.D. Mo. 2002);
- *Microsoft Corp. v. Logical Choice Computers, Inc.*, 2001 WL 58950, at \*10-11 (N.D. Ill. Jan. 22, 2001).

In contrast, Defendants point to *no* cases in which a court has found that “a case involving the use of a counterfeit mark” somehow excludes contributory infringers.

A Court in the Northern District of California has issued a series of decisions in recent years that best demonstrate that statutory damages are available against contributory infringers. In *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, No. C 07-03952 JW, 2009 WL 1636914 (N.D. Cal. June 10, 2009), a group of defendants accused of contributory liability by providing Internet website hosting services for a group of counterfeiters tried several different techniques to limit their exposure to statutory damages. First, they filed a motion asking the Court to force Louis Vuitton to “pare down” the number of trademarks asserted against the accused contributory infringers. *Id.* at \*1. The Court rejected the motion, precisely because



limiting the number of trademarks asserted would prejudice Louis Vuitton in the calculation of statutory damages. *Id.* at \*2.

For trial, the parties vigorously contested the appropriate jury instructions. On the subject of damages, the Court specifically instructed the jury that “[i]f you find for the Plaintiff on the Plaintiff’s contributory trademark infringement claim, you must determine the Plaintiff’s damages,” including a “statutory damage award, established by Congress for each work infringed.” Halter Decl Ex. 3 (closing jury instructions from *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, at \*15). The Court made clear that the contributory infringement claim at issue was “*a case involving the use of a counterfeit mark* in connection with sale or distribution of goods or services.” *Id.* (emphasis added). And indeed, when the jury found the defendants liable for contributory trademark counterfeiting, it awarded Louis Vuitton \$10.5 million in statutory damages. *Id.* Ex. 6 (verdict form from *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*).

Predictably, after trial, the defendants moved to set aside the award of statutory damages on a motion for judgment as a matter of law, focusing on the theory that the award was unconstitutionally punitive. The judge also rejected this argument, citing to the “clear law permitting juries to decide the amount of statutory damages under both the Copyright Act and Lanham Act” to reject the defendants’ challenge to the statutory damages award. *See Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, No. C 07-03952 JW (N.D. Cal. March 19, 2010) (appended to Halter Decl. as Ex. 7).<sup>6</sup>

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<sup>6</sup> Defendants, moreover, are well aware of the *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.* case, because one of the decisions in the case was cited repeatedly in Gucci’s papers in opposition to summary judgment and even discussed by both sides at oral argument. *See* Dkt. No. 27 (Plaintiff’s brief), *passim*; Dkt. No. 40 (transcript of March 3 hearing).

The logic that underlies all these cases is clear: Regardless of who was directly responsible for the “use” of the plaintiffs’ marks, these were clearly cases “involving the use of a counterfeit mark” under 15 U.S.C. § 1117(c). There is thus *no ambiguity* in the statute, and case law *uniformly supports* the concept that Section 1117(c) allows an award of statutory damages against those held contributorially liable for counterfeiting. Defendants’ failure to address this case law—or any case law at all on point—is telling.

**C. The Relevant Statutory History Evinces Congress’ Intent to Increase The Penalties For Those Who Assist In Counterfeiting.**

As the Supreme Court held in one of the cases cited by the defendants, it is not appropriate to change the judicial interpretation of a statute unless Congress “makes that intent specific.” *Midlantic Nat’l Bank v. New Jersey Dep’t of Env’t Prot.*, 474 U.S. 494, 501 (1986) (cited in Moving Br. at 12). Indeed, in cases like this, where the statute is not ambiguous, there is no need for clarification from statutory history. *See, e.g., Frederick Music Co. v. Sickler*, 708 F. Supp. 587, 589 (S.D.N.Y. 1989). But here, if the Court were inclined to analyze the statutory history, it would find only that Congress created statutory damages to give plaintiffs as many opportunities as possible to recover damages in counterfeiting cases.

Congress created statutory damages in counterfeiting cases through a 1996 set of amendments to the Lanham Act styled as the “AntiCounterfeiting Consumer Protection Act.” The history of this act confirms that Congress’ intent was to “allow trademark owners to opt for judicially determined statutory damages.” H.R. Rep. No. 104-556, at 2 (1995) (Judiciary Comm. Rep.) (attached to Halter Decl. as Ex. 8); *see also id.* at 8. Nothing in this report can remotely be interpreted as evincing an intent to limit such statutory damages to direct infringers. *See id., passim.* Similarly, on the Senate side, the judiciary committee legislative report confirms that its purpose was to “strengthen[] the hand of businesses harmed by counterfeiters by updating

existing statutes and providing stronger civil penalties against counterfeiters, including . . . statutory damage awards of up to \$1,000,000 per mark.” S. Rep. No. 104-177, at 2 (1995) (Judiciary Comm. Rep.) (attached to Halter Decl. as Ex. 9).

In fact, the Senate report emphasized that the motivation was to create tools to stop the use of “powerful computers” to “sell knock-offs for a fraction of the legitimate company’s costs.” *Id.* at 4. This is precisely what Defendants are accused of doing here: by processing credit card orders for “replica” products over the Internet, they are facilitating the sale of “knock-offs” using “powerful computers.” Nothing else in the report hints at a limitation that would prevent the use of a statutory damages to punish and deter such conduct. *See, e.g., id.* at 7, 10 (describing change to the law and the goal of allowing trademark owners to rely on “judicially imposed damages in trademark counterfeiting cases, instead of actual damages”). To the contrary, the other reports of the bill’s history only confirm that statutory damages were designed to make it easier for trademark owners to collect damages, not more difficult. *See* Halter Decl. Ex. 10 (104 Cong. Rec. E1994 (daily ed. Oct. 19, 1995) (statement of Rep. Goodlatte)) (describing goal of statutory damages as making sure that trademark owners are not “frustrated by an inability to recover any meaningful damages”); *id.* Ex. 11 at 10 (104 Cong. Rec. S12084 (daily ed. Aug. 9, 1995) (Section-by-Section Analysis)) (describing goal of “ensur[ing] that trademark owners [are] adequately compensated”).

Moreover, Section 1117(c) must be interpreted against the settled backdrop of trademark law. Indeed, some of the very cases cited by Defendants emphasize that Courts must interpret a statutory provision “in a way that renders it consistent with the tenor and structure of the whole act or statutory scheme of which it is a part.” *Bechtel v. Competitive Techs., Inc.*, 448 F.3d 469, 471 (2d Cir. 2006); *see also United States v. Gayle*, 342 F.3d 89, 93 (2d Cir. 2003) (“The text’s

plain meaning can be understood by looking to the statutory scheme as a whole and placing the particular provision within the context of that statute.”) (internal quotation marks omitted) (both cited in *Moving Br.* at 11).

Critically, trademark law is a joint and several offense, and all those liable for trademark infringement are equally culpable for all the plaintiff’s damages regardless of their specific role in the offense. As Judge Owen described it, all “conspirator[s] in the counterfeiting operation and participant in the distribution chain [are] jointly and severally liable for plaintiff’s damages.” *Duracell, Inc. v. J & A Distribution, Inc.*, No. 88 CIV. 7462 (RO), 1990 WL 319974, at \*5 (S.D.N.Y. 1990), *aff’d*, 946 F.2d 882 (2d Cir. 1991). This is because “[c]ourts have long held that in patent, trademark, literary property, and copyright infringement cases, any member of the distribution chain can be sued as an alleged joint tortfeasor.” *Id.* (quoting *Stabilisierungsfonds Fur Wein v. Kaiser Stuhl Wind Distributors Pty., Ltd.*, 647 F.2d 200 (D.C. Cir. 1981)).

This doctrine clearly applies to those held liable as contributory infringers. In fact, in the very same case that is widely credited as creating the doctrine of contributory trademark liability, the Supreme Court stated that anyone found liable as a contributory infringer is also “contributorially responsible for any harm done as a result of the deceit.” *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 853-54 (1982). It is therefore black-letter law that “all persons who. . . actively take part in [the tort of trademark infringement], or further it by cooperation or request, or lend aid or encouragement, or ratify and adopt the acts done, are as equally liable as the person who performs the tortious act itself.” *See* 4 McCarthy on Trademarks and Unfair Competition § 25:23 (4th ed. 2010) (citing *Corning Glass Works*, 308 F. Supp. at 1321). As a result, a defendant found liable for contributory trademark infringement faces the *same* damages as a defendant found liable for direct trademark infringement.

Against this backdrop, there is nothing to suggest that Congress intended to exempt contributory infringers from statutory damages in “case[s] involving the use of a counterfeit mark.” Simply put, there is no support for Defendants’ claim that the “legislative history [of Section 1117] supports that statutory damages are limited to direct infringers.” Moving Br. at 14.

The cases that Defendants cite are simply inapposite. For example, *United States ex rel. St. Regis Mohawk Tribe v. President R.C.-St. Regis Mgmt. Co.*, 451 F.3d 44, 51 (2d Cir. 2006) is a case about the exhaustion of *administrative* remedies in the context of the Indian Gaming Regulatory Act. It has nothing to do with trademark law. Understood correctly, it merely stands for the unremarkable administrative law principle that when Congress provides for administrative remedies, Courts should not imply additional judicial remedies outside the administrative appeal process. As a result, it says nothing about how one should interpret 15 U.S.C. § 1117(c). Similarly, *Gozlon-Peretz v. United States*, 498 U.S. 395 (1991) addressed conflicting provisions of the Anti-Drug Abuse Act that had created “anomalies” concerning the effective date of the relevant provisions. The opinion merely stands for the proposition that “it is well established that, absent a clear direction by Congress to the contrary, a law takes effect on the date of its enactment.” *Id.* at 404. If anything, this principle, supports an award of statutory damages against contributory infringers under Section 1117(c), because “well established” law here also allows plaintiffs to recoup statutory damages against contributory infringers, and there is no “clear direction from Congress to the contrary.”<sup>7</sup>

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<sup>7</sup> The other cases cited by Defendants are likewise inapplicable here. Defendants cite two out-of-Circuit cases under the Wiretap Act and the Patent Act for the proposition that when Congress “includes particular language in one section of a statute but omits it in another” Congress is presumed to have acted intentionally and purposefully. Moving Br. at 13 (quoting *United States v. Steiger*, 318 [Footnote continued on following page.]

The one trademark case that Defendants do cite is *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111 (2004), which concerned the statutory fair use defense, and not any provisions related to damages. In *KP Permanent*, however, the Supreme Court was considering two different sections of the Lanham Act with entirely different functions. There, the trademark owner's counsel had asserted that the language providing an affirmative cause of action under 15 U.S.C. § 1114 in cases "likely to cause confusion" should be effectively imported into the statutory fair use defense created by 15 U.S.C. § 1115(b)(4) rather than the clear text, which renders the defense applicable when a mark is "used fairly." 543 U.S. at 118. The Court reasonably concluded that "it takes a long stretch to claim" that language in one section was meant to be effectively imported into the other. Here, in contrast, there is no need to import contributory infringement language into Section 1117(c) because it already applies, on its face, in all "case[s] involving the use of a counterfeit mark."

**D. The Recent Lanham Act Amendments Did Not Change The Availability of Statutory Damages In Contributory Trademark Infringement Cases.**

Defendants imply that in enhancing the remedies available with respect to actual damages in 2008, Congress was somehow signaling that statutory damages should *not* be applied in cases of contributory counterfeiting infringement. Again, any fair review of the statutory history does not bear out Defendants' argument. There is nothing in either the legislative history or the language of the amendment to suggest that Congress intended to overturn the cases from all

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[Footnote continued from previous page.]

F.3d 1039 (11th Cir. 2003)); *id.* at 14 (citing *King Pharm., Inc. v. Teva Pharm. USA, Inc.*, 409 F. Supp. 2d 609 (D.N.J. 2006)). But in both of these cases, there was a direct contradiction between the plain meaning of the sections in question. See *Steiger*, 318 F.3d at 1050 (one provision applies to "electronic communications" and another does not); *King Pharm.*, 409 F. Supp. 2d at 614 (one provision provided for an explicit patent term extension in specified circumstances and another did not). Here, again, no one but Defendants have purported to find any contradiction between the section that awards enhanced actual damages and the section that allows statutory damages.

across the country, such as *Microsoft Corp. v. Logical Choice Computers, Inc.* (2001), *Microsoft Corp. v. Black Cat Computer Wholesale, Inc.* (2002), *Tony Jones Apparel, Inc. v. Indigo USA LLC* (2005), *Microsoft v. Sellers* (2006), *Cartier Int’l B.V. v. Liu* (2007), or *Cartier Int’l B.V. v. Ben-Menachem* (Jan. 2008), that have awarded statutory damages against contributory infringers. If Congress had intended to overturn this widespread use of statutory damages to deter contributory infringers, it certainly would have said so. To the contrary, a main point of the 2008 amendment was to make it easier to pursue contributory infringers—not to make it harder.

Once again, the goal of the 2008 amendments was to “strengthen civil . . . intellectual property laws,” including “stiffer penalties for piracy and counterfeiting activities.” Halter Decl. Ex. 12 at 20 (H.R. Rep. No. 110-617 (2008) (Judiciary Comm. Rep.)); *see also id.* at 23; *id.* Ex. 13 at 17 (110 Cong. Rec. H3067 at H3075 (daily ed. May 6, 2008) (Statement of Rep. Conyers)) (“[T]oday we move to dramatically step up our nation’s intellectual property laws” and “to enhance the ability of intellectual property owners to effectively protect their rights.”).

Nothing in the legislative history demonstrates that Congress intended its amendment to Section 1117(b) to be read as basis to stop awarding damages under Section 1117(c). *See* Halter Decl. Ex. 12 at 39-40 (H.R. Rep. No. 110-617) (describing changes to the law with no hint of any intent to limit statutory damages against contributory infringers).

The text of the report, if anything, reinforces why statutory damages are necessary, recounting that “growing evidence indicates that intellectual property thieves have become more sophisticated, employing loosely organized, decentralized multinational networks to facilitate the movement of illegal goods.” *Id.* at 22. This is exactly what the Defendants are accused of doing here: By processing credit card orders, they effectively fronted the money that allowed for the ordering of counterfeit goods in China for shipment to the United States. As a result, it would

only frustrate Congress' intent to read this law in a way that diminishes the number of remedies available to victims of counterfeiting. *See also* Halter Ex. 13 (May 6, 2008 record at 19) (Statement of Rep. Smith) (reciting that the change in law was designed to make it easier to "attack the organizational structures intellectual property thieves are using").

Importantly, the House Judiciary Committee Report confirms that "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." H.R. Rep. No. 110-617, at 24 (emphasis added). Before 2008, Section 1117(b) only provided for the mandatory trebling of actual damages "in a case that . . . consists of intentionally using a mark" knowing it to be counterfeit. The 2008 amendment simply eliminated any ambiguity that could be read as limiting the mandatory trebling of damages to cases "that consists of intentionally using a" trademark knowing that it was counterfeit.

Section 1117(c), in contrast, never had any such limitation. To the contrary, Section 1117(c) contains broader language, authorizing statutory damages in all "case[s] involving the use of a counterfeit mark." As a result, there was no need to revise the language of Section 1117(c), and so Congress merely increased the amount of the statutory penalties.

Put simply, Defendants' motion is nothing more than a last-ditch effort to avoid responsibility for the assistance they knowingly provided websites in selling counterfeit Gucci merchandise. There is no support for their proposition in the language of 15 U.S.C. § 1117(c), its legislative history, or the 2008 amendments to it. This Court may properly award statutory damages in this case.



**CONCLUSION**

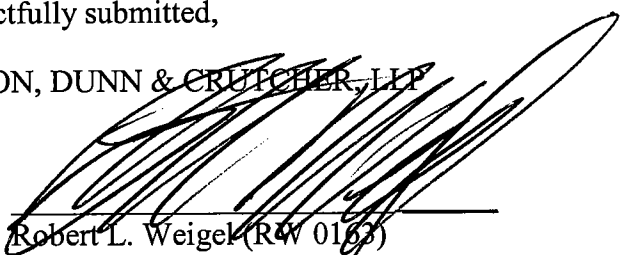
For the foregoing reasons, Plaintiff respectfully requests that this Court deny Defendant's motion for summary judgment.

Dated: New York, New York  
July 21, 2010

Respectfully submitted,

GIBSON, DUNN & CRUTCHER, LLP

By:



Robert L. Weigel (RW 0163)  
Howard S. Hogan (HH 7995)  
Jennifer C. Halter (JH 7032)  
Anne Coyle (AC 3158)  
200 Park Avenue  
New York, New York 10166  
(212) 351-4000

*Attorneys for Plaintiff Gucci America, Inc.*