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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

GUCCI AMERICA, INC. Plaintiff, 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.	:	Civil Action No. 09-6925-HB District Judge Harold Baer, Jr.

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

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I. THE MATERIAL FACTS HAVE NOT BEEN DISPUTED

The facts on which defendants' motion is based could not be more straightforward. On defendants' motion to dismiss, the Court found that the defendants Durango and Woodforest had not *used* counterfeits of Gucci's marks in commerce, and dismissed Gucci's claims for direct trademark infringement and vicarious liability. All that remain are the claims for indirect infringement; namely, intentional inducement by Durango and contributory infringement by Woodforest. (*See* Op. 15-16, 17-18, June 23, 2010 (Dkt.42).)

Gucci's evasive responses to defendants' Rule 56.1 Statement notwithstanding, Gucci admits the Court found that defendants "had not used infringing or counterfeit marks in commerce," and dismissed Gucci's claims for "either direct or vicarious theories of liability," allowing Gucci to proceed only on "a contributory liability theory." (*See* Dkt.63 Resps. to ¶ 4-6, at 4-6.) Those admissions alone provide the undisputed factual basis for defendants' motion.

II. GUCCI TRUNCATES § 1117(c) TO ARGUE THAT STATUTORY DAMAGES ARE AVAILABLE FOR CONTRIBUTORY INFRINGEMENT

Gucci's entire argument that 15 U.S.C. § 1117(c) allows an award of statutory damages for contributory infringement reduces this one-sentence section to only its beginning phrase. According to Gucci, "on its face" and based on "the words chosen by Congress," § 1117(c) makes an award of statutory damages available against all parties — irrespective of the nature and degree of their culpability — in any case "involving the use of a counterfeit mark." (Gucci Br. 1, 7, 9.) By Gucci's logic, so long as there has been use of a counterfeit mark, *all* defendants in an action "involving" such use are subject to statutory damages, whether they used the mark or not. Gucci's argument fails when one considers the entirety of § 1117(c):

> **(c) Statutory damages for use of counterfeit marks**
> (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. § 1117(c) (emphasis added). The term "statutory damages for any such use," which manifestly refers back to the beginning of § 1117(c), makes clear that statutory damages are only to be awarded against the user of a counterfeit mark. Thus, the plain meaning of the statute requires not simply that the case "involve" the use of a counterfeit mark (as a bare minimum), but that an award of statutory damages can only be assessed "for any such *use*," not merely for contributory infringement. And this is confirmed by the section heading, "Statutory damages for *use* of counterfeit marks." *See Almendarez-Torres v. United States*, 523 U.S. 237, 234 (1998) (section heading is a tool available to resolve doubt about the meaning of a statute).

Consistent with the foregoing, subparts (1) and (2) of § 1117(c), which set forth the amount of statutory damages available against users of counterfeit marks depending on their relative degree of culpability, also reaffirm that statutory damages are based on counterfeit goods "sold, offered for sale, or distributed" — *i.e.*, acts that constitute actual "use" of counterfeit goods. Thus, subparts (1) and (2) carefully delineate between those who use counterfeit goods depending on whether such use was willful. But according to Gucci, notwithstanding these subparts, the Court can assess statutory damages against mere contributory infringers, *who never actually "used" counterfeit goods or services at all*, simply because they are swept up in "a case involving the use of a counterfeit mark."

If Gucci were correct that the only requirement for the remedies set forth in § 1117(b) and (c) is that the case be one "involving" the use of a counterfeit mark, then the 2008 addition of

subsections (b)(1) and (2) (discussed *infra*) would have been unnecessary; and mandatory treble damages and fees would be available for *any* "involvement" with counterfeit goods, even though the statute takes pains to point out that this is not the case.

The snippet of § 1117(c) relied on by Gucci cannot support the weight of Gucci's argument. Because the Court has found that Gucci's complaint cannot support a claim that Woodforest and Durango had used a counterfeit mark, no statutory damages "*for any such use*" can be awarded against either defendant.

Gucci argues that "the statute is not ambiguous" (Gucci Br. 13) and there is no suggestion that Congress intended to "exempt" contributory infringers from statutory damages. (*Id.* at 16.) The statute is indeed unambiguous; but Gucci has it backwards: there is nothing in the statute or its legislative history that makes contributory infringers liable for statutory damages.

III. GUCCI'S ARGUMENTS FLY IN THE FACE OF THE HISTORY OF § 1117

A. The 1996 Amendment Of § 1117

As of early 1996, § 1117(a) set forth the remedies that were available for "a violation of *any* right of the registrant of a mark." Section 1117(b), on the other hand, required courts (absent extenuating circumstances) to assess treble damages *only* in the case of a violation "that consists of intentionally using a mark or designation, knowing such mark or designation is a counterfeit mark . . . ." Thus began Congress's consistent delineation between basic remedies available in connection with "a violation of *any* right of the registrant," and additional remedies available only against those who intentionally *use* counterfeit marks.

The legislative history for the 1996 amendment, which added § 1117(c), further refutes Gucci's reading of the statute. Gucci argues that Congress created additional damage options in counterfeiting cases to allow trademark owners to opt for statutory damage awards against counterfeiters. (Gucci Br. 13-14.) Although Congress would have been aware of the potential

liability by contributory trademark infringers as set forth in the 1982 *Inwood* case, there was no mention made of contributory infringement, either in the statute or in the legislative history. (*See* Halter Decl. Exhs. 8-11, July 21, 2010.) On the contrary, Congress's clearly articulated purpose of allowing a plaintiff the option of statutory damages was to provide a remedy against *counterfeiters* (*i.e.*, those who *make and/or use* counterfeit goods) who may hide or destroy records needed to establish the extent of their actual sales:

> The committee recognizes that under current law, a civil litigant may not be able to prove actual damages if a sophisticated, large-scale counterfeiter has hidden or destroyed information about his counterfeiting.
>
> Moreover, counterfeiters' records are frequently nonexistent, inadequate or deceptively kept in order to willfully deflate the level of counterfeiting activity actually engaged in, making proving actual damages in these cases extremely difficult if not impossible. Enabling trademark owners to elect statutory damages is both necessary and appropriate in light of the deception routinely practiced by counterfeiters.

S. Rep. No. 104-177, at 10 (1995) (Judiciary Comm. Rep.). (Halter Decl. Exh. 9.) *Accord* 104 Cong. Rec. S12084 (daily ed. Aug. 9, 1995) (Section-by-Section Analysis) ("The option to elect statutory damages in counterfeit cases ensures that trademark owners are adequately compensated and that counterfeiters are justly punished, even in cases where the plaintiff is unable to prove actual damages because, for example, the defendant engages in deceptive record-keeping."). While direct infringers — *i.e.*, counterfeiters — have the ability to hide or destroy information regarding their profits and sales, contributory infringers are unlikely to have any control over the counterfeiters' records. Accordingly, Congress justifiably concluded that statutory damages were needed only against a party making use of a counterfeit mark — precisely as § 1117(c) provides — and not against a contributory infringer.

Congress thus amended § 1117 as of July 2, 1996, to add subsection (c), authorizing statutory damages. At this juncture, § 1117(b) allowing increased damages and § 1117(c) allowing statutory damages contained very similar language, limiting both categories of damages to direct trademark infringement involving actual "use" of a counterfeit mark. (Defs'. Br. 8-10

(Dkt.50).) No provision was made regarding contributory infringers. Indeed, what Gucci misses (Gucci Br. 13) is that Congress's decision to limit the recovery of statutory damages to acts of direct trademark infringement itself evinces Congress's intent that the statutory damages remedy would *not* extend to contributory infringement.

B. The 2008 Amendment To § 1117

In 2008, Congress again amended § 1117(b) to explicitly authorize — for the first time — the possible recovery of increased damages against contributory infringers of a counterfeit mark. But Congress chose *not* to similarly and concurrently amend § 1117(c). The legislative history cited by Gucci reveals that, in 2008, Congress fully understood that it was amending § 1117 to permit an award of increased damages against contributory infringers under subsection (b), but not to permit statutory damages under subsection (c):

> 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 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.
>
> The level of statutory damages that can be assessed against counterfeiters has not been adjusted since 1996. In the ensuing 12 years, the profits of counterfeiters and the volume of their traffic has skyrocketed. The existing statutory damage levels no longer serve as an adequate deterrent in the more lucrative environment. Therefore, the Act doubles current statutory damages for use of a counterfeit mark, raising the minimum to from $500 to $1,000 and the maximum from to $100,000 to $200,000 per mark with willful counterfeiting activity subject to a maximum statutory damage award of $2,000,000.

H.R. Rep. No. 110-617, at 24-25 (2008) (Judiciary Comm. Rep.). (Halter Decl. Exh. 12 (emphasis added).)

Thus, in the first paragraph reproduced above, Congress explicitly referenced contributory infringers who were now being made potentially liable for treble damages and attorney fees. But in the very next paragraph, where Congress was increasing the amount of

potential statutory damages, Congress made no mention of contributory infringers, but rather reaffirmed that statutory damages are available only "for use of a counterfeit mark . . . ."

Gucci argues policy, asserting that the goal of the 2008 amendments was to strengthen the penalties against counterfeiting activities (Gucci Br. 18-19); and Congress indeed strengthened the penalties against contributory infringers by making them potentially liable for increased damages and attorney fees. But Congress also struck a logical balance by providing for an award of statutory damages only against the direct counterfeiters who are primarily responsible for the counterfeiting activities, but not against less culpable contributory infringers. In all events, even a broadly stated Congressional policy to protect intellectual property rights cannot justify "stretch[ing]" statutory language and thus "stray[ing] from the statutory text." *Eli Lilly & Co. v. Am. Cyanamid Co.*, 82 F.3d 1568, 1572-73 (Fed. Cir. 1996). And to the extent Gucci believes there is an undesirable gap in the statute, "it is up to Congress rather than the courts to fix it." *Exxon Mobil Corp. v. Allapattah Servs., Inc.*, 545 U.S. 546, 565 (2005).

This history makes clear that when Congress wanted to authorize remedies for "any" violation it did so, *see* § 1117(a); when Congress wanted to make remedies available for certain types of contributory infringement, it did so, *see* § 1117(b)(2); and when Congress wanted to make additional remedies available for use of a counterfeit mark, it did so as well, *see* § 1117(b)(1) and (c). Here, as in *King Pharmaceuticals, Inc. v. Teva Pharmaceuticals USA, Inc.*, 409 F. Supp. 2d 609 (D.N.J. 2006): "Where Congress knows how to say something but chooses not to, its silence is controlling." *Id.* at 615.

IV. NO COURT HAS SQUARELY ADDRESSED THIS ISSUE

Gucci cites cases that it contends show a practice of courts awarding statutory damages against contributory infringers. But Gucci fails to cite *a single case* in which a defendant raised and the court addressed the issue of whether § 1117(c) authorizes such an award.

Council of Better Business Bureaus, Inc. v. Bailey & Associates, Inc., 197 F. Supp. 2d 1197 (E.D. Mo. 2002), the one case cited by Gucci in which a court addressed the language of § 1117(c), actually conflicts with Gucci's position. There, the plaintiff CBBB moved for summary judgment that it was entitled to recover statutory damages against defendants found to be *direct* infringers: "The evidence is clear that defendants intentionally, *i.e.* purposefully, used CBBB's Marks." *Id.* at 1221. To decide whether statutory damages were available, the court focused on the critical language from § 1117(c), requiring *use* of a counterfeit mark, and found that the defendants had "distributed and used [counterfeit BBB reports] in connection with sales and offers to sell." *Id.* at 1223. Having found that the defendants' conduct fit the language of direct infringement under § 1117(c), the court granted the plaintiff's motion. Here, in contrast, this Court has found that Woodforest and Durango were not adequately alleged to have used counterfeit Gucci marks in connection with the sale, offering for sale, or distribution of goods.

In the other cases cited by Gucci, no defendant raised the issue of whether § 1117(c) permits statutory damages against a contributory infringer. In *Cartier International B.V. v. Liu*, No. 02-7926, 2003 WL 1900852 (S.D.N.Y. Apr. 17, 2003), the court found on a preliminary injunction motion that defendant JAC was a contributory infringer by receiving a "steady stream of the other defendants' counterfeit merchandise," collecting the payments, and issuing checks for payment to the counterfeiters. *Id.* at *2. The court later granted Cartier's motion for summary judgment and awarded statutory damages against certain defendants, but there is no indication that any defendant raised the issue of whether § 1117(c) permitted such an award in the first place. (*See* Halter Decl. Exh. 1 ¶ 3.)

In *Cartier International B.V. v. Ben-Menachem*, No. 06-3917, 2008 WL 64005 (S.D.N.Y. Jan. 3, 2008), the district court granted plaintiff's unopposed summary judgment motion against

the defendants for direct trademark infringement from counterfeiting or, in the alternative, for contributory trademark infringement. *Id.* at *12. As to the award of statutory damages, again there is no indication that any defendant raised, and the court clearly did not address whether contributory infringers could be subject to statutory damages under § 1117(c). *Id.* at *14-*15.

Gucci incorrectly touts *Church & Dwight Co. v. Kaloti Enterprises of Michigan, L.L.C.*, No. 07-0612, 2009 WL 6093272 (E.D.N.Y. Dec. 23, 2009), as a case in which a court "rejected precisely the type of argument that Defendants advance here." (Gucci Br. 10.) There, defendant Jiang, having pled guilty to knowingly trafficking in counterfeit goods, opposed a summary judgment motion by arguing that he was not involved in directly using counterfeits in commerce. Defendant Zhang had admitted that he had purchased over $1 million worth of counterfeit condoms from defendant Jiang. On summary judgment, the court found that defendant Jiang was liable for contributory infringement, and awarded statutory damages. *Id.* at *16. But once again, there is no indication that the defendant Jiang raised, and the court did not discuss, whether § 1117(c) permitted statutory damages for contributory infringement.

In *Louis Vuitton Malletier, S.A. v. Akanoc Solutions, Inc.*, 591 F. Supp. 2d 1098 (N.D. Cal. 2008), the court upheld a sizeable jury award of statutory damages against defendants Akanoc Solutions and Steven Chen for contributory infringement involving counterfeiting. These defendants were operators of Web sites hosted on their servers, who were aware of direct infringement occurring on the Web sites. *Id.* at 1112. The defendants, however, did not object or assert that § 1117(c) did not permit the award of statutory damages for contributory infringement. Thus, the court there did not consider — and we are aware of no court that has considered — the legal issue presented here.

Gucci has also string cited additional decisions in which courts have awarded statutory damages against contributory infringers; but as in the cases discussed above, there is no indication that any defendant in those cases challenged whether § 1117(c) permits an award of statutory damages against a contributory infringer.[1]

V. JOINT TORTFEASOR LIABILITY DOES NOT EXTEND TO STATUTORY DAMAGES

Gucci also argues that because trademark infringement is a tort, all joint tortfeasors are jointly and severally liable for damages. (Gucci Br. 15.) Gucci cites *Inwood* for the proposition that contributory infringers are "contributorily 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). But the harm and damages for which joint tortfeasors may be liable are *actual* damages, and this motion addresses *statutory* damages only, which are set by the statute. Congress, of course, is free to provide different remedies as between defendants having different levels of culpability — and has done just that by § 1117(c).

Gucci, however, argues that joint and several liability of joint tortfeasors means that "a defendant found liable for contributory trademark infringement faces the **same** damages as a defendant found liable for direct trademark infringement." (*Id.*) But the very authorities cited by

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[1] *Tony Jones Apparel, Inc. v. Indigo USA LLC*, No. 03-0280, 2005 WL 1667789, at *6-9 (N.D. Ill. July 11, 2005) (defendant Kim found individually liable under separate theories of "vicarious liability, contributory liability, and piercing the corporate veil," and the court awarded statutory damages of $50,000 when "Defendants have not challenged Plaintiff's request for statutory damages"); *Microsoft Corp. v. Silver Star Micro, Inc.*, No. 1:06-1350, 2008 WL 115006, at *8-9 (N.D. Ga. Jan. 9, 2008) (officer of company found individually liable as moving force behind infringing activity, and statutory damages awarded without challenge by defendant or that § 1117(c) did not permit such an award); *Microsoft Corp. v. Logical Choice Computers, Inc.*, No. 1:99-cv-01300, 2001 WL 58950, at *10-11 (N.D. Ill. Jan 22, 2001) (same); *Microsoft Corp. v. Sellers*, 411 F. Supp. 2d 913, 920-22 (E.D. Tenn. 2006) (same); *Microsoft Corp. v. Black Cat Computer Wholesale, Inc.*, 269 F. Supp. 2d 118, 123-24 (W.D.N.Y. 2002) (defendant held liable for *actual* and contributory infringement, and statutory damages awarded without challenge that § 1117(c) did not permit such an award).

Gucci make clear that, to find joint tortfeasors, "there must be a finding that the defendant and the direct infringer 'have an apparent or actual partnership, have authority to bind one another in transactions with third parties or exercise joint ownership or control over the infringing product.'" *See* 4 J. Thomas McCarthy, *McCarthy On Trademarks & Unfair Competition* § 25:23 (4th ed. 2010) (quoting *Hard Rock Café Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992)). This doctrine has no application here, because the Court, in dismissing Gucci's claim for vicarious liability, has already found that defendants Woodforest and Durango are *not* joint tortfeasors with the Laurette Company:

> Gucci's allegations are also unable to support a claim for vicarious liability. Vicarious trademark infringement, a theory of liability considered elsewhere but not yet the subject of a decision by this Circuit, "requires a finding that the defendant and the infringer have an apparent or actual partnership, have authority to bind one another in transactions with third parties or exercise joint ownership or control over the infringing product."

(Dkt.42, at 15 (quoting same statement from *Hard Rock*).) In sum, this Court has rejected the allegation that defendants and the Laurette Company were joint tortfeasors, leaving only allegations that defendants were contributory infringers who are not joint tortfeasors.

In the end, Gucci confuses liability and remedies. Defendants may be shown to have liability in this case, but that does not mean defendants can be subjected to remedies that are not authorized by statute.

Respectfully submitted,

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