

Exhibit J



LEXSEE 2004 U.S. DIST. LEXIS 19787

SILHOUETTE INTERNATIONAL SCHMIED AG & SILHOUETTE OPTICAL LTD., Plaintiffs, -against- VACHIK CHAKHBAZIAN d/b/a VERONA EYEWEAR, et al., Defendants.

04 Civ. 3613 (RJH) (AJP)

UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK

2004 U.S. Dist. LEXIS 19787

October 4, 2004, Decided

SUBSEQUENT HISTORY: Adopted by, Costs and fees proceeding at Silhouette Int'l v. Marina's Boutique Eyewear, 2004 U.S. Dist. LEXIS 30480 (S.D.N.Y., Oct. 26, 2004)

DISPOSITION: Magistrate recommended that plaintiff be awarded damages, including costs and attorney's fees.

COUNSEL: [*1] For Silhouette International Schmied AG, Silhouette Optical Ltd., Plaintiffs: Lara A. Holzman, Robert Eliot Hanlon, Alston & Bird LLP, New York, NY.

JUDGES: Andrew J. Peck, United States Chief Magistrate Judge.

OPINION BY: ANDREW J. PECK

OPINION

REPORT AND RECOMMENDATION

ANDREW J. PECK, United States Chief Magistrate Judge:

To the Honorable Richard J. Holwell, United States

District Judge:

On August 24, 2004, Judge Holwell granted a default judgment for plaintiffs Silhouette International Schmied and Silhouette Optical Ltd. (collectively, "Silhouette") against all defendants, and referred the matter to me for an inquest as to damages, attorneys' fees and costs. (Dkt. No. 20: 8/24/04 Default Judgment.) I directed Silhouette to provide proof of its inquest damages by September 22, 2004 (Dkt. Nos. 21, 23), which it did, and for defendants to file opposition papers by September 29, 2004, which defendants did not.

For the reasons stated below, the Court should award plaintiff Silhouette statutory damages of \$ 250,000, attorneys' fees of \$ 49,596.50 and costs of \$ 3,957.80, for a total of \$ 303,554.30.

FACTS

"Where, as here, 'the court determines that defendant [*2] is in default, the factual allegations of the complaint, except those relating to the amount of damages, will be taken as true.'" *Chen v. Jenna Lane, Inc.*, 30 F. Supp. 2d 622, 623 (S.D.N.Y. 1998) (Carter, D.J. & Peck, M.J.) (quoting C. Wright, A. Miller & M. Kane, *Federal Practice & Procedure: Civil 3d* § 2688 at 58-59 (3d ed. 1998)).

The Amended Complaint (Dkt. No. 11) asserts that defendants have infringed on plaintiffs' Silhouette trademarks for eyewear and related products by advertising and selling counterfeits of the Silhouette mark on Ebay, on the internet. The amended complaint asserts claims for federal trademark infringement and counterfeiting (Am. Compl. PP 40-51), false advertising (*id.* PP 52-57), trademark dilution (*id.* PP 58-65), and various state law claims (*id.* PP 66-119).

Defendants retained but then dismissed their counsel and did not provide any discovery to Silhouette. (Dkt. No. 25: Hanlon 9/22/04 Aff. P 7.)

In granting the default judgment, Judge Holwell found this to be an "exceptional case," thus justifying attorneys' fees. (Dkt. No. 20: 8/23/04 Default Judgment.) Indeed, the amended complaint asserts, and the Hanlon Affidavit [*3] further demonstrates, that defendants' infringement has been and is willful. (Am. Compl. PP 27-33, 42, 48, 54, 62, 68, 74, 81, 87, 94, 100; Hanlon 9/24/04 Aff. PP 14-17 & Exs. B-C.)

ANALYSIS

The Second Circuit has approved the holding of an inequity by affidavit, without an in-person court hearing, "as long as [the Court has] ensured that there was a basis for the damages specified in the default judgment." *Transatlantic Marine Claims Agency, Inc. v. Ace Shipping Corp.*, 109 F.3d 105, 111 (2d Cir. 1997) (quoting *Fustok v. ContiCommodity Servs., Inc.*, 873 F.2d 38, 40 (2d Cir. 1989)).

Because defendants have failed to provide any discovery, plaintiff Silhouette is unable to prove actual damages, and so relies on statutory damages pursuant to 15 U.S.C. § 1117(c). (Dkt. No. 26: Silhouette Br. at 3.) That section provides:

(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 [*4] 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)(1)-(2).

The rationale for this section is the practical inability to determine profits or sales made by counterfeiters. *See, e.g., Gucci America, Inc. v. Duty Free Apparel, Ltd.*, 315 F. Supp. 2d 511, 520 (S.D.N.Y. 2004) ("Congress added the statutory damages provision of the Lanham Act in 1995 because 'counterfeiters' records are frequently nonexistent, inadequate, or deceptively kept . . . , making proving actual damages in these cases extremely difficult [*5] if not impossible.") (quoting Senate report); *Tiffany (NJ) Inc. v. Luban*, 282 F. Supp. 2d 123, 124 (S.D.N.Y. 2003) (same); *Polo Ralph Lauren, L.P. v. 3M Trading Co.*, 1999 U.S. Dist. LEXIS 6251, 97 Civ. 4824, 1999 WL 33740332 at *4 (S.D.N.Y. Apr. 19, 1999) ("It is often the case that 'counterfeiters' records are 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."); *Sara Lee Corp. v. Bags of New York, Inc.*, 36 F. Supp. 2d 161, 165 (S.D.N.Y. 1999) ("Statutory damages are most appropriate when infringer nondisclosure during fact finding leaves damages uncertain.").

Section 1117(c) "does not provide guidelines for courts to use in determining an appropriate award,' as it is only limited by what 'the court considers just.' 15 U.S.C. § 1117(c). However, courts have found some guidance in the caselaw of an analogous provision of the Copyright Act, 17 U.S.C. § 504(c), which also provides statutory damages for willful infringement." *Gucci America, Inc. v. Duty Free Apparel, Ltd.*, 315 F. Supp. 2d at 520 [*6]

(citations omitted).¹ Among the appropriate factors particularly relevant here are the deterrent effect on defendants and others, and the defendants' failure to produce records from which more traditional damages could be computed. *See, e.g., Gucci America, Inc. v. Duty Free Apparel, Ltd.*, 315 F. Supp. 2d at 520; *see also* cases cited in fn. 1 above.

1 *Accord, e.g., Tiffany (NJ) Inc. v. Luban*, 282 F. Supp. 2d at 124-25; *see, e.g., Polo Ralph Lauren, L.P. v. 3M Trading Co.*, 1999 U.S. Dist. LEXIS 6251, 1999 WL 33740332 at *5; *Sarah Lee Corp. v. Bags of New York, Inc.*, 36 F. Supp. 2d at 165-67.

In this case, defendants having been found to be willful infringers who have not provided discovery, and based on defendants' Ebay (internet) sales, the Court agrees with Silhouette that \$ 250,000 in statutory damages based on willful infringement is appropriate to deter defendants [*7] and others. This amount is consistent with (indeed, lower than) awards in similar cases. *See, e.g., Gucci America, Inc. v. Duty Free Apparel, Ltd.*, 315 F. Supp. 2d at 520-21 (\$ 2 million award for use of two counterfeit marks); *Tiffany (NJ) Inc. v. Luban*, 282 F. Supp. 2d at 124-25 (Awarding plaintiff the \$ 550,000 in statutory damages sought by plaintiff because "by virtue of the default, [defendants'] infringement is deemed willful, and therefore the Court has discretion to award anywhere between \$ 500 and \$ 1,000,000 per counterfeit mark per type of good sold," and amount plaintiff sought was "within the range of awards in similar cases."); *Rolex Watch U.S.A., Inc. v. Brown*, 2002 U.S. Dist. LEXIS 10054, 01 Civ. 9155, 2002 WL 1226863 at *2 (S.D.N.Y. June 5, 2002) (Peck, M.J.) (awarding \$ 1 million damages despite defendant's use of multiple Rolex marks) (& cases cited therein); *Rolex Watch U.S.A., Inc. v. Jones*, 2002 U.S. Dist. LEXIS 6657, 99 Civ. 2359, 2002 WL 596354 at *6 (S.D.N.Y. Apr. 17, 2002) ("In short, statutory damages of less than \$ 1 million but more than \$ 25,000 per category of trademarked goods are appropriate to compensate the plaintiffs [*8] for their losses and to deter [defendant] from violating the plaintiffs' trademarks anew upon his release from jail." Recommends award of \$ 500,000 for infringement of Rolex trademarks and \$ 100,000 for infringement of Ralph Lauren trademarks); *Sara Lee Corp. v. Bags of New York, Inc.*, 36 F. Supp. 2d at 170 (awarding \$ 750,000 in statutory damages).

Attorneys' Fees and Costs

Judge Holwell already determined that this is an "exceptional" case entitling Silhouette to attorneys' fees. (Dkt. No. 20: 8/23/04 Default Judgment.) *See also, e.g., Microsoft Corp. v. Black Cat Computer Wholesale, Inc.*, 269 F. Supp. 2d 118, 124 (W.D.N.Y. 2002) ("The Lanham Act specifically provides that 'the court in exceptional cases may award reasonable attorney fees to the prevailing party.' 15 U.S.C. § 1117(a). A willful infringement may be considered an exceptional case under the Lanham Act.") (citing Second Circuit authority); *GTFM, Inc. v. Solid Clothing Inc.*, 215 F. Supp. 2d 273, 305-06 (S.D.N.Y. 2002) ("'Exceptional' circumstances include willful infringement. . . . [Defendant] Solid engaged in [*9] willful infringement. If defendant's bad faith alone were not sufficient to make this an exceptional case, its continued sales between March and November 2001, its conduct during discovery, and its perjury during deposition and at trial make this an exceptional case. GTFM is entitled to reasonable attorney's fees."); *Rolex Watch U.S.A., Inc. v. Brown*, 2002 U.S. Dist. LEXIS 10054, 2002 WL 1226863 at *3 (citing cases).

This Court has previously noted that there is some question as to the availability of attorneys' fees where statutory damages are awarded under § 1117(c) as opposed to § 1117(a) or (b). *See Rolex Watch U.S.A., Inc. v. Brown*, 2002 U.S. Dist. LEXIS 10054, 2002 WL 1226863 at *3.² While at least one judge has declined to award attorneys' fees under § 1117(c), *see, e.g., Gucci America, Inc. v. Duty Free Apparel, Ltd.*, 315 F. Supp. 2d at 522, most decisions have awarded attorneys' fees even where the damage award is pursuant to § 1117(c). *See, e.g., Tiffany (NJ) Inc. v. Luban*, 282 F. Supp. 2d at 125 (*Gucci* judge awards attorneys' fees without discussion); *Rolex Watch U.S.A., Inc. v. Jones*, 2002 U.S. Dist. LEXIS 6657, 2002 WL 596354 at *6; [*10] *Sara Lee Corp. v. Bags of New York, Inc.*, 36 F. Supp. 2d at 170-71. Here, as in my prior decision in *Rolex Watch U.S.A., Inc. v. Brown*, "the Court, however, need not resolve this issue in this default judgment case. The default judgment here also found [defendants] liable to [plaintiff] for [false advertising] under 15 U.S.C. § 1125(a)," which entitles plaintiff to attorneys' fees in an "exceptional case" pursuant to 15 U.S.C. § 1117(a). *Rolex Watch U.S.A., Inc. v. Brown*, 2002 U.S. Dist. LEXIS 10054, 2002 WL 1226863 at *3. Thus, Silhouette is entitled to attorneys' fees.

2 In *Brown*, I wrote:

Section 1117(a) provides for actual damages plus attorneys' fees in "exceptional cases," and § 1117(b) provides for enhanced damages and attorneys' fees in cases where the defendant intentionally used a counterfeit mark. Rolex here, however, seeks, and is receiving, enhanced willfulness statutory damages under 15 U.S.C. § 1117(c), which refers to awarding statutory damages "instead of" damages under § 1117(a). . . . Perhaps Congress intended § 1117(c) to replace only the damages available under § 1117(a) while leaving available the "exceptional case" attorneys' fee provision of § 1117(a). Or perhaps because of the enhanced amount of statutory damages under § 1117(c) or a legislative oversight, attorneys' fees are not available where statutory damages are awarded under § 1117(c).

Rolex Watch U.S.A., Inc. v. Brown, 2002 U.S. Dist. LEXIS 10054, 2002 WL 1226863 at *3.

[*11] Silhouette seeks \$ 60,096.50 in attorneys' fees. (Dkt. No. 25: Hanlon 9/22/04 Aff. P 18.) The Court agrees that the hours spent and the attorneys' billing rates are reasonable. (*See* Hanlon 9/22/04 Aff. PP 18-26 & Exs. D-G.) One adjustment needs to be made, however. Silhouette includes in the amount requested 30 hours at a "blended" billing rate of \$ 350 per hour for its preparation of this motion, its anticipated need to respond to defendants' objections to this Report and Recommendation, and for oral argument. It is not clear that defendants will file objections (in this Court's experience, that rarely occurs in default cases) or that oral argument will be needed. The Court therefore disallows this \$ 10,500, reducing the attorneys' fee award to \$ 49,596.50. In any event, the legal fees incurred but only estimated for this motion are a small amount compared to the statutory damages awarded.

Silhouette also seeks costs of \$ 3,957.80, including "traditional" costs incurred by counsel (telephone and postage costs, online legal research, etc.) and Silhouette's cost for a private investigator. (Hanlon 9/22/04 Aff. PP 27-31 & Exs. D, H-J.) The Court finds these costs reasonable. The [*12] Court also notes that investigator fees have been allowed as part of attorneys' fees and/or costs in prior trademark cases. *See, e.g., Levi Strauss & Co. v. Shilon*, 121 F.3d 1309, 1314 (9th Cir. 1997); *Ahava (USA), Inc. v. J.W.G., Ltd.*, 286 F. Supp. 2d 321, 325 (S.D.N.Y. 2003) (Plaintiff's "law firm retained an outside investigator to investigate [defendant's] actions and conduct trademark searches, incurring a cost of \$ 1,410.61 . . . The Court will allow the fee."); *Brown v. Party Poopers, Inc.*, 2001 U.S. Dist. LEXIS 9246, 00 Civ. 4799, 2001 WL 1380536 at *7 (S.D.N.Y. July 9, 2001) ("Plaintiffs' law firm retained Associated Investigative Services, Inc. to investigate Party Poopers. . . . The fee of \$ 1,373 seems a bit high, but I will allow it."); *but see Rolex Watch U.S.A., Inc. v. Jones*, 2002 U.S. Dist. LEXIS 6657, 2002 WL 596354 at *7 (disallowing investigator costs). While the cost of an investigator is not a "traditional" recoverable cost (nor could it be recovered as a cost if attorneys' fees were not awarded), the Court believes it appropriate here (and if necessary, could be awarded by increasing the statutory award in the same amount).

CONCLUSION

[*13] Plaintiff should be awarded judgment for \$ 250,000 in statutory damages, \$ 49,596.50 in attorneys' fees and \$ 3,957.80 in costs, for a total of \$ 303,554.30.

SERVICE

Mr. Hanlon is to serve this Report and Recommendation on defendants and file proof of service with the Clerk of Court (with a courtesy copy to my chambers).

FILING OF OBJECTIONS TO THIS REPORT AND RECOMMENDATION

Pursuant to 28 U.S.C. § 636(b)(1) and Rule 72(b) of the Federal Rules of Civil Procedure, the parties shall have ten (10) days from service of this Report to file written objections. *See also* Fed. R. Civ. P. 6. Such objections (and any responses to objections) shall be filed with the Clerk of the Court, with courtesy copies delivered to the chambers of the Honorable Richard J.

Holwell, 500 Pearl Street, Room 1950, and to my chambers, 500 Pearl Street, Room 1370. Any requests for an extension of time for filing objections must be directed to Judge Holwell. Failure to file objections will result in a waiver of those objections for purposes of appeal. *Thomas v. Arn*, 474 U.S. 140, 106 S. Ct. 466, 88 L. Ed. 2d 435 (1985); [*14] *IUE AFL-CIO Pension Fund v. Herrmann*, 9 F.3d 1049, 1054 (2d Cir. 1993), *cert. denied*, 513 U.S. 822, 115 S. Ct. 86, 130 L. Ed. 2d 38 (1994); *Roldan v. Racette*, 984 F.2d 85, 89 (2d Cir. 1993); *Frank v. Johnson*, 968 F.2d 298, 300 (2d Cir.), *cert. denied*, 506 U.S. 1038, 113 S. Ct. 825, 121 L. Ed. 2d 696 (1992); *Small v. Secretary of HHS*, 892 F.2d 15, 16 (2d Cir. 1989); *Wesolek v. Canadair Ltd.*, 838 F.2d

55, 57-59 (2d Cir. 1988); *McCarthy v. Manson*, 714 F.2d 234, 237-38 (2d Cir. 1983); 28 U.S.C. § 636(b)(1); Fed. R. Civ. P. 72, 6(a), 6(e).

DATED: New York, New York

October 4, 2004

Respectfully submitted,

Andrew J. Peck

United States Chief Magistrate Judge