

# Exhibit D



LEXSEE 2002 U.S. DIST. LEXIS 10054

**ROLEX WATCH U.S.A., INC., Plaintiff, -against- ADAM BROWN dba LEXUS WATCHES & WWW.LEXUSWATCHES.COM, Defendant.**

**01 Civ. 9155 (JGK) (AJP)**

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

**2002 U.S. Dist. LEXIS 10054**

**June 5, 2002, Decided**

**DISPOSITION:** [\*1] Recommended that plaintiff be awarded statutory damages of \$ 1 million, attorneys' fees of \$ 5,000 and costs of \$ 1,150, for a total award of \$ 1,006,150.

**COUNSEL:** For ROLEX WATCH U.S.A., INC., plaintiff: John Macaluso, Gibney, Anthony & Flaherty, L.L.P., New York, NY.

**JUDGES:** ANDREW J. PECK, United States Magistrate Judge. Honorable John G. Koeltl, United States District Judge.

**OPINION BY:** ANDREW J. PECK

**OPINION**

**REPORT AND RECOMMENDATION**

**ANDREW J. PECK, United States Magistrate Judge:**

**To the Honorable John G. Koeltl, United States District Judge:**

On April 8, 2002, Judge Koeltl granted plaintiff Rolex Watch U.S.A., Inc. a default judgment on liability, including a permanent injunction, and referred the matter to me for an inquest on damages, attorneys' fees and costs. (Dkt. No. 7: 4/8/02 Default Judgment on Liability.) The default judgment further found that "the defendant is liable to Rolex for willful trademark counterfeiting under federal law, 15 U.S.C. § 1114 *et seq.* . . . resulting from his use in commerce of replica watches, watch parts and accessories bearing unauthorized copies

*of" Rolex's trademark registrations. (4/8/02 Default Judgment on Liability, [\*2] at 3.)*

*For the reasons set forth below, the Court recommends an award of statutory damages of \$ 1 million, attorneys' fees of \$ 5,000 and costs of \$ 1,150, for a total of \$ 1,006,150.*

**FACTS**

"Where, as here, 'the court determines that defendant 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 10A C. Wright, A. Miller & M. Kane, *Federal Practice & Procedure: Civil 2d* § 2688 at 58-59 (3d ed. 1998)).<sup>1</sup>

<sup>1</sup> *Accord, e.g., King Vision Pay-Per-View Corp. v. Drenca Rest. Corp.*, 2002 U.S. Dist. LEXIS 8636, 01 Civ. 9777, 2002 WL 1000284 at \*1 (S.D.N.Y. May 15, 2002) (Peck, M.J.); *Ainbinder v. Bernice Mining & Contracting, Inc.*, 2002 U.S. Dist. LEXIS 4910, 01 Civ. 2492, 2002 WL 461576 at \*2 (S.D.N.Y. Mar. 26, 2002) (Peck, M.J.); *Sterling Nat'l Bank v. A-1 Hotels Int'l, Inc.*, 2002 U.S. Dist. LEXIS 4944, 00 Civ. 7352, 2002 WL 461574 at \*3 (S.D.N.Y. Mar. 26, 2002) (Peck, M.J.); *King Vision Pay-Per-View Corp. v. Papacito Lidia Luncheonette, Inc.*, 2001 U.S. Dist. LEXIS 19968, 01 Civ. 7575, 2001 WL 1558269 at \*1 (S.D.N.Y. Dec. 6, 2001) (Peck, M.J.); *Trustees of the Pension & Welfare Funds of the Moving Picture Mach. Operators Union,*

*Local 306 v. Gordon's Film & Co. (New York Int'l Inc.*, 2001 U.S. Dist. LEXIS 18455, 00 Civ. 8452, 2001 WL 1415145 at \*1 (S.D.N.Y. Nov. 13, 2001) (Peck, M.J.); *Coast To Coast Fabrics, Inc. v. Tracy Evans, Ltd.*, 2001 U.S. Dist. LEXIS 1, 00 Civ. 4417, 2001 WL 5037 at \*1 (S.D.N.Y. Jan. 2, 2001) (Peck, M.J.); *Starbucks Corp. v. Morgan*, 2000 U.S. Dist. LEXIS 14677, 99 Civ. 1404, 2000 WL 949665 at \*1 (S.D.N.Y. July 11, 2000) (Peck, M.J.); *King Vision Pay-Per-View, Ltd. v. New Paradise Rest.*, 2000 U.S. Dist. LEXIS 8792, 99 Civ. 10020, 2000 WL 378053 at \*1 (S.D.N.Y. Apr. 11, 2000) (Peck, M.J.); *Independent Nat'l Distrib., Inc. v. Black Rain Communications, Inc.*, 1996 U.S. Dist. LEXIS 22576, 94 Civ. 8464, 1996 WL 238401 at \*2 (S.D.N.Y. Apr. 4, 1996) (Keenan, D.J. & Peck, M.J.).

[\*3] The complaint alleges that defendant Adam Brown resides in Campbell Hall, New York and does business on the internet under the names "Lexus Watches" and www.lexuswatches.com. (Dkt. No. 1: Compl. P 6.) Rolex owns the Rolex registered trademark and related registered trademarks for watches and related products. (Compl. PP 12-13.) Defendant Brown advertises and sells "Replica Rolex Watches" bearing counterfeits of one or more of the Rolex Trademarks through his website www.lexuswatches.com. (Compl. P 20.)

On May 22, 2001, Rolex's counsel notified Brown by email and first class mail that he was infringing on Rolex's trademarks. (Compl. P 21 & Ex. 4.) Nevertheless, on July 10, 2001 Rolex's investigators ordered a Replica Rolex Watch from Brown's website, and received the Replica Rolex Watch on August 4, 2001. (Compl. PP 24-26 & Ex. 7.) That watch bears various counterfeit Rolex trademarks. (Compl. P 27 & Ex. 8.)

The complaint alleges that Brown's "acts constitute willful and deliberate infringement of Rolex's rights in Rolex Trademarks." (Compl. P 29.) The complaint asserts claims for trademark counterfeiting, 15 U.S.C. § 1114 (Compl. PP 33-41), trademark infringement [\*4] (Compl. PP 42-52), false designations of origin, 15 U.S.C. § 1125(a) (Compl. PP 53-60), federal trademark dilution, 15 U.S.C. § 1125(c) (Compl. PP 61-68), and state law claims (Compl. PP 69-72).

#### ***Proceedings in This Action***

As noted above, on April 8, 2002, Judge Koeltl granted Rolex a default judgment on liability, including a finding that defendant Brown was a willful infringer. (Dkt. No. 7: 4/8/02 Default Judgment on Liability.)

Noting that Rolex was seeking statutory, not actual, damages, I ordered Rolex and Brown to submit memoranda of law in support of and in opposition to damages,

by May 24, 2002, later extended at Rolex's request to May 31, 2002. (Dkt. Nos. 10-11: 5/16/02 & 5/17/02 Orders.) Rolex timely submitted its brief; defendant Brown has not submitted any papers.

#### ***ANALYSIS***

The Second Circuit has approved the holding of an inquest 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) [\*5] (quoting *Fustok v. Conti Commodity Servs., Inc.*, 873 F.2d 38, 40 (2d Cir. 1989)).<sup>2</sup> Here, of course, the issue is statutory damages, making it even more appropriate to hold the inquest on a paper record.

<sup>2</sup> *Accord, e.g., King Vision Pay-Per-View Corp. v. Drenca Rest. Corp.*, 2002 U.S. Dist. LEXIS 8636, 01 Civ. 9777, 2002 WL 1000284 at \*1 (S.D.N.Y. May 15, 2002) (Peck, M.J.); *Ainbinder v. Bernice Mining & Contracting, Inc.*, 2002 U.S. Dist. LEXIS 4910, 01 Civ. 2492, 2002 WL 461576 at \*2 (S.D.N.Y. Mar. 26, 2002) (Peck, M.J.); *Sterling Nat'l Bank v. A-1 Hotels Int'l, Inc.*, 2002 U.S. Dist. LEXIS 4944, 00 Civ. 7352, 2002 WL 461574 at \*3 (S.D.N.Y. Mar. 26, 2002) (Peck, M.J.); *King Vision Pay-Per-View Corp. v. Papacito Lidia Luncheonette, Inc.*, 2001 U.S. Dist. LEXIS 19968, 01 Civ. 7575, 2001 WL 1558269 at \*1 (S.D.N.Y. Dec. 6, 2001) (Peck, M.J.); *Trustees of the Pension & Welfare Funds of the Moving Pictures Mach. Operators Union, Local 306 v. Gordon's Film & Co. (New York Int'l Inc.)*, 2001 U.S. Dist. LEXIS 18455, 00 Civ. 8452, 2001 WL 1415145 at \*1 (S.D.N.Y. Nov. 13, 2001) (Peck, M.J.); *Coast To Coast Fabrics, Inc. v. Tracy Evans, Ltd.*, 2001 U.S. Dist. LEXIS 1, 00 Civ. 4417, 2001 WL 5037 at \*1 (S.D.N.Y. Jan. 2, 2001) (Peck, M.J.); *Starbucks Corp. v. Morgan*, 2000 U.S. Dist. LEXIS 14677, 99 Civ. 1404, 2000 WL 949665 at \*2 (S.D.N.Y. July 11, 2000) (Peck, M.J.); *King Vision Pay-Per-View, Ltd. v. New Paradise Rest.*, 2000 U.S. Dist. LEXIS 8792, 99 Civ. 10020, 2000 WL 378053 at \*1 (S.D.N.Y. Apr. 11, 2000) (Peck, M.J.); *Chen v. Jenna Lane, Inc.*, 30 F. Supp. 2d 622, 624 (S.D.N.Y. 1998) (Carter, D.J. & Peck, M.J.); *see also, e.g., Semi Conductor Materials, Inc. v. Agriculture Inputs Corp.*, 1998 U.S. Dist. LEXIS 22939, 96 Civ. 7902, 1998 WL 388503 at \*8 (S.D.N.Y. June 23, 1998) (Kaplan, D.J. & Peck, M.J.).

[\*6] The Anticounterfeiting Consumer Protection Act of 1996, codified in relevant part at 15 U.S.C. § 1117(c), provides for damages for use of counterfeit trademarks, as follows:

(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); <sup>3</sup> [\*7] *see generally* 5 J. Thomas McCarthy, *McCarthy on Trademarks & Unfair Competition* § 30:95 (4th ed.).

3 Section 1116(d) defines counterfeit mark, as follows:

(B) As used in this subsection the term "counterfeit mark" means --

(i) a counterfeit of a mark that is registered on the principal register in the United States

Patent and Trademark Office for such goods or services sold, offered for sale, or distributed and that is in use, whether or not the person against whom relief is sought knew such mark was so registered; or

(ii) a spurious designation that is identical with, or substantially indistinguishable from, a designation as to which the remedies of this chapter are made available by reason of section 380 of Title 36; . . .

15 U.S.C. § 1116(d)(1)(B).

***Statutory Damages Under § 1117(c)***

Rolex here seeks \$ 8 million in statutory damages, which it describes as the maximum statutory damages. (*E.g.*, Rolex 5/31/02 Damages Br. at [\*8] 1.) <sup>4</sup>

4 The Court finds that somewhat confusing, because it appears from the complaint that defendant Brown has infringed more than eight Rolex trademarks. (*E.g.*, Compl. PP 13, 27 & Exs. 1, 3.) In any event, because the Court is awarding Rolex less than the maximum statutory willfulness counterfeit trademark damages that Rolex seeks, the Court need not determine if Rolex could have sought even more than it did.

The Court believes the \$ 1 million maximum statutory damage amount, without multiplication for multiple Rolex marks, is sufficient to serve as a deterrent to Brown (and infringers like him) and to compensate Rolex. Defendant Brown was selling the "replica," *i.e.*, counterfeit, Rolex watches for between \$ 45 to \$ 199 each, depending on the model. (Compl. Ex. 3.) Assuming that Brown had an average profit of \$ 100 per watch, a \$ 1 million damage award would wipe out Brown's profits on the sale of 10,000 watches. There is no evidence in

the record as to the scope of Brown's business, but the Court [\*9] believes the \$ 1 million damage amount is appropriate and sufficient. *See, e.g., Rolex Watches U.S.A., Inc. v. Jones*, 2002 U.S. Dist. LEXIS 6657, 99 Civ. 2359, 2002 WL 596354 at \*1-6 (S.D.N.Y. Apr. 17, 2002) (awarding Rolex \$ 500,000 in counterfeiting statutory damages in similar case involving sale of "replica" Rolex watches via the internet) (collecting cases); *Altadis U.S.A., Inc. v. Monte Cristi de Tabacos*, 96 Civ. 4209, 2001 U.S. Dist. LEXIS 6892 at \*15-17 (S.D.N.Y. May 17, 2001) (although plaintiff sought \$ 2 million in counterfeit damages for two marks, court awards \$ 250,000); *Microsoft Corp. v. Compusource Distrib., Inc.*, 115 F. Supp. 2d 800, 812 (E.D. Mich. 2000) (in a counterfeit trademark case where the Court found defendant's willful conduct "egregious," the court awarded statutory damages under § 1117(c) "of \$ 50,000.00 for each of its eight trademarks at issue"); *Rolex Watch U.S.A., Inc. v. Voiers*, No. 99-11328, unpublished Report & Rec. at pp. 6-7 (S.D.N.Y. Aug. 10, 2000) (refusing to award Rolex multiples of \$ 1 million as "excessive", and finding \$ 1 million sufficient), *adopted by unpublished order* (S.D.N.Y. Aug. 25, 2000); *Sara Lee Corp. v. Bags of New York, Inc.*, 36 F. Supp. 2d 161, 168-70 (S.D.N.Y. 1999) [\*10] (\$ 750,000); *but see Playboy Enter., Inc. v. Asiafocus Int'l, Inc.*, 1998 U.S. Dist. LEXIS 10459, No. Civ. A. 97-734, 1998 WL 724000 at \*9 (E.D. Va. Apr. 10, 1998) (counterfeit case, awarding \$ 1 million for internet site itself and \$ 500,000 each for four merchandise categories of infringing merchandise sold on the website).

#### **Attorney's Fees and Costs**

Rolex also seeks reasonable attorneys' fees and costs. (Rolex 5/31/02 Br. at 1 & Ex. 4.) 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). (*See* page 4 above.) 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, [\*11] attorneys' fees are not available where statutory damages are awarded under § 1117(c). The Court, however, need not resolve this issue in this default judgment case.<sup>5</sup> The default judgment here also found Brown liable to Rolex for unfair competition under 15 U.S.C. § 1125(a). (Dkt. No. 7: 4/8/02 Default Judgment on Liability, at 3.) That entitles Rolex to attorneys' fees in "exceptional cases." 15 U.S.C. § 1117(a); *see, e.g., New York State Soc. of*

*Certified Public Accountants v. Eric Louis Assoc., Inc.*, 79 F. Supp. 2d 331, 347 (S.D.N.Y. 1999); 5 J. Thomas McCarthy, *McCarthy on Trademarks & Unfair Competition* § 30:104. The Court also already has found Brown's violation to be willful, and a willful violation satisfies the "exceptional case" requirement of § 1117(a), thus justifying the award of attorneys' fees and costs. *See, e.g., International Star Class Yacht Racing Ass'n v. Tommy Hilfiger, U.S.A., Inc.*, 80 F.3d 749, 753 (2d Cir. 1996) ("an award of attorney fees may be justified when bad faith infringement has been shown"); *Bambu Sales, Inc. v. Ozak Trading Inc.*, 58 F.3d 849, 854 (2d Cir. 1995) [\*12] ("'Exceptional' circumstances include willful infringement."); *Sara Lee Corp. v. Bags of New York, Inc.*, 36 F. Supp. 2d 161, 170 (S.D.N.Y. 1999); 5 J. Thomas McCarthy, *McCarthy on Trademarks & Unfair Competition* § 30:99 (citing Senate Committee report for proposition that willful infringement constitutes "exceptional case"), § 30:100 (courts routinely awarded attorneys' fees to prevailing plaintiffs in counterfeiting cases even before enactment of 1996 counterfeiting amendments, citing cases).

5 The Court notes that prior cases have awarded statutory damages under § 1117(c) and also awarded attorneys' fees and costs, without discussion of the interplay between § 1117(c) and § 1117(a). (*See, e.g.,* cases cited on page 6 above.) Most of these cases, like this one, have involved default judgments.

Rolex's counsel's computer printout of work performed shows 80.4 hours for a total of \$ 13,365.50 in legal fees. The Court has reviewed those time entries. Unfortunately, there appears [\*13] to be duplication of effort by the two attorneys who worked on the matter, and more importantly, excessive work on issues that Rolex and its current law firm researched and drafted before. Indeed, the Court has reviewed the complaints and damage submissions in the two *Rolex* cases in this District cited above -- *Rolex v. Jones* and *Rolex v. Voiers* (in both of which Rolex was represented by its current law firm, Gibney, Anthony & Flaherty) -- and finds them very similar to the submissions in this case. Accordingly, the Court believes \$ 5,000 is a more appropriate amount for reasonable attorneys' fees in this case.

Rolex also seeks costs of \$ 2,907.24. The bulk of that, \$ 2,500, is for investigative fees. The Court has no way to know if that was on a flat fee or hourly basis, or what the investigators did besides buy one watch from defendant's web site. Nor does the Court know what was photocopied or sent by Federal Express, or why. The Court therefore allows \$ 1,000 for investigative fees and the \$ 150 court filing fee. If the Court is being conserva-

tive in these areas, it is more than offset by the award of \$ 1 million in statutory damages.

### **CONCLUSION**

For the [\*14] reasons set forth above, the Court should award Rolex statutory damages of \$ 1 million, attorneys' fees of \$ 5,000 and costs of \$ 1,150, for a total of \$ 1,006,150.

### **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 John G. Koeltl, 500 Pearl Street, Room 1030, and to my chambers, 500 Pearl Street, Room 1370. Any requests for an extension of time for filing objections must be directed to Judge Koeltl. 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); *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); [\*15] *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 Health & Human Servs.*, 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

June 5, 2002

Respectfully submitted,

**Andrew J. Peck**

United States Magistrate Judge