

Memorandum

Date: July 22, 2004
To: Paul Foley
From: Marc Fleischaker
Anthony Lupo
CC: Vanessa Garcia-Brito
Sarah Long
Re: Civil and Criminal Counterfeiting Penalties

I. Question Presented

You have asked us whether a distributor, retailer, wholesaler or installer (collectively referred to as “Resellers”) may be held liable for selling counterfeit products.

II. Short Answer

Yes, a Reseller may be held liable for selling counterfeit products if he knew or had reason to know that the products were counterfeit.

III. Discussion

a. *Liability*

Counterfeiting is defined as “the act of producing or selling a product with a sham trademark that is an intentional and calculated reproduction of the genuine trademark.”¹ Counterfeiting can extend to the reproduction of all details of construction and appearance of a well-known product. There is a wide range of products and goods that are counterfeited, including but not limited to high quality "status" products such as watches and leather goods, drugs, computer components, and auto and aircraft parts.²

Resellers may be held liable for counterfeiting if they had knowledge or had reason to know that the products were counterfeit. Knowledge can be demonstrated by several factors, including but not limited to the quality, price and manner of distribution of the products and notification in the form of a cease and desist letter. In addition, knowledge may be established

¹ J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, §25:20 (2004).

² *See*, McCarthy, at § 25:10.

through “wilfull blindness” where the Reseller fails to inquire about the authenticity of the products for fear of what such inquiry may yield.³

For example, in *Louis Vuitton S.A. v. Lee*, the resellers of counterfeit Louis Vuitton and Gucci leather goods clearly knew or should have known that the goods were counterfeit. The goods at issue were purchased by the resellers from “itinerant peddlers at bargain-basement prices.”⁴ Furthermore, the goods demonstrated poor quality workmanship unlikely to be associated with high end Louis Vuitton and Gucci goods.⁵ The resellers’ experience in the retail handbag and luggage business as well as the well-known association of the Louis Vuitton and Gucci brands with high end goods should have alerted and, in fact, “obligated” the resellers to question the legitimacy of these goods.⁶ The court concluded that such wilfull blindness was sufficient to establish knowledge and liability.⁷

Likewise, in *Gucci America v. Duty Free Apparel, Ltd.*, the court concluded that the reseller knowingly sold counterfeit goods. The court found that the unusual channels of distribution (through an unauthorized dealer) as well as the lack of authenticating documentation were sufficient to impute knowledge to the reseller. Furthermore, the court found that the reseller should have known to inquire about the authenticity of the goods after receiving the plaintiff’s cease and desist letters.⁸

The cease and desist letters sent by the plaintiff in *Sebastian International, Inc. v. Russolillo*, were also deemed sufficient to impart knowledge to the resellers. The plaintiff’s cease and desist letters detailed the counterfeit nature of the products at issue, thereby putting the resellers on notice. However, the defendants continued to distribute and sell the plaintiff’s products after receiving the letters. The court, therefore, concluded that the defendants knowingly and intentionally took part in counterfeiting.⁹

b. Damages

Once knowledge has been established, a Reseller may be held civilly and criminally liable for counterfeiting.

i. Civil Damages

Civil damages may include special monetary damages, statutory monetary damages and non-monetary relief.

³ See, McCarthy, at § 25:15.

⁴ *Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 590 (7th Cir. 1989).

⁵ See *id.*

⁶ See *id.*

⁷ See *id.*

⁸ *Gucci America v. Duty Free Apparel, Ltd.*, 315 F.Supp.2d 511, 514-516 (S.D. N.Y. 2004).

⁹ *Sebastian International, Inc. v. Russolillo*, 186 F. Supp. 2d 1055, 1064. One defendant, CVS, was not found to have engaged in counterfeiting conduct. Plaintiff failed to adequately allege that this defendant intentionally and willfully engaged in counterfeiting.

Special monetary damages are calculated by trebling the profits or damages and may include reasonable attorneys' fees.¹⁰ Such damages may also include the prejudgment interest on the amount of damages awarded. For example, in a case brought by the Ford Motor Company ("Ford") against Kuan Tong Industrial Company, the court awarded Ford treble damages, including a monetary award of \$2,522,198.88, prejudgment interest in the amount of \$270,754.70, costs in the amount of \$18,865.29, and attorneys' fees in the amount of \$153,639.31.¹¹ In this instance, Ford alleged that the defendant used simulated and counterfeit Ford trademarks in importing, packaging, marketing, advertising, selling or distributing merchandise. The court rejected the defendant's alleged ignorance of U.S. laws and held in favor of Ford.

A plaintiff may also seek statutory damages where there is insufficient information or evidence to establish actual damages. A plaintiff may be awarded statutory damages in the range of \$500 to \$100,000 per counterfeit mark per type of good or service, and up to \$1 million if the violation is willful.¹² If a court finds that the use of the counterfeit mark was willful or intentional then it may award statutory damages up to \$1,000,000 per counterfeit mark per type of goods or services sold or offered for sale. In addition, it is within a court's discretion to award attorney's fees. In determining whether attorney's fees should be included, a court may consider whether the statutory damage adequately compensates the plaintiff while advancing the goal of deterrence.¹³ For example in the Gucci case discussed above, the court decided not to include attorney's fees in addition to the \$2 million dollars statutory damages award because it concluded that the award together with a five month injunction sufficiently compensated Gucci while having a material, "if not fatal," effect on the reseller's business.¹⁴

A party involved with the importation of counterfeit goods in any manner may also be fined an amount equal to the market value of the genuine merchandise for first offenses. Repeat offenders may be fined the double of this amount.¹⁵

In addition to the monetary damages discussed above, courts may issue preliminary injunctions, permanent injunctions, temporary restraining orders, and seizure orders and may order the freezing of assets, the attachment of property and the destruction of counterfeited goods.¹⁶

ii. Criminal Penalties

Resellers may also be held criminally liable. The range of criminal penalties that may be imposed depends on whether the accused is an individual or a corporation and whether it is a

¹⁰ McCarthy, at § 30:94.

¹¹ *Ford Motor Co. v. Kuan Tong Industrial Co.*, 697 F. Supp. 1108, 1111 (N.D.Cal. 1987).

¹² See 15 U.S.C.A. § 1117(c)(1).

¹³ See *Gucci*, 315 F. Supp.2d at 522.

¹⁴ *Id.*

¹⁵ McCarthy, at 25:12.

¹⁶ See McCarthy, at § 30:34 – 30:42.

first or subsequent offense. For example, individuals who knowingly use a counterfeit mark on or in connections with goods or services may be fined up to \$2,000,000 and/or imprisoned for up to ten years for a first offense and fined up to \$5,000,000 and/or imprisoned for up to twenty years for a subsequent offense.¹⁷ By comparison, corporations may be fined up to \$5,000,000 for a first offense and up to \$15,000,000 for a subsequent offense.

Sentencing guidelines allow for harsher sentences where the retail value of the counterfeit item exceeds \$2,000.¹⁸ Furthermore, if a court determines that the articles at issue bear counterfeit marks, U.S. Customs may obtain an order for the destruction of the articles.¹⁹ For example, in *U.S. v. Koehler*, the court affirmed the defendant's conviction for "knowingly using a counterfeit mark in intentionally trafficking in automobile parts, labels and containers" and *enhanced* the defendant's sentencing after finding that the defendant was "in the business" of dealing in stolen goods.²⁰ The enhanced sentence included a longer prison term and a special assessment fee. At trial, the defendant had been found guilty of selling an undercover FBI agent 89 counterfeit air conditioner compressors, 107 counterfeit automobile part labels and 100 counterfeit automobile part containers.²¹

The Racketeer Influenced and Corrupt Organizations Act ("RICO") provides additional penalties for parties guilty of transferring or transporting counterfeit goods for value. Under RICO, law enforcement officials may seize counterfeit goods and non-monetary assets associated with the criminal counterfeiting enterprise, such as property, equipment and storage facilities.²²

II. Conclusion

As discussed above, Resellers may be found liable if he knew or had reason to know that the products were counterfeit. Whether sufficient knowledge exists to establish liability must be considered on a case by case basis. However, courts have considered cease and desist letters, the distribution channels, quality and prices for certain products sufficient to establish knowledge. Resellers found to be liable may be assessed both civil and criminal penalties.

¹⁷ 18 U.S.C.A. § 2320(a).

¹⁸ *See id.*

¹⁹ 18 U.S.C.A. § 2320(b).

²⁰ 24 F.3d 867, 868 (3d Cir. 1994) (upholding a violation for trafficking in counterfeited goods even where defendant received "good will" as compensation for the sale of counterfeited goods as opposed to receipt of monetary compensation).

²¹ *See id.*

²² *See* McCarthy, at § 30:116.