

Fashion Apparel Law Blog

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The Southern District Of New York Sends A Clear Message To Retailers Selling Counterfeits That Failing To Exercise Due Diligence In Purchasing Products After An Injunction May Result In Trebled Damages Of Millions Of Dollars

In [Fendi Adele S.R.L. v. Burlington Coat Factory](#), No. 06 Civ. 85 (LBS), 2010 WL 431509 (S.D.N.Y. Feb. 8, 2010), the United States District Court for the Southern District of New York, in light of the prior 1987 injunction prohibiting defendant Burlington Coat Factory ("Burlington") from selling counterfeit Fendi products in its stores, recently held that the continued sale of counterfeit handbags featuring the trademarks of plaintiff Fendi Adele S.R.L. ("Fendi") violated the prior order, was in contempt of the district court's prior order, and awarded treble damages against Burlington. This decision provides yet another reminder of how courts have dealt harshly with retail vendors who have willfully purchased and sold counterfeit goods, especially where there was a prior injunction against violation of the Fendi trademarks.

Fendi brought trademark infringement, false designation of origin, and trademark dilution claims against Burlington. The district court found that Burlington not only continued to sell Fendi-branded items in contempt of the 1987 injunction, but *39 out of 43* Fendi-branded items sold by Burlington or purchased from their inventory were counterfeit.

According to the facts as set forth in the Court's opinion, Fendi and Burlington entered into an injunction prohibiting defendant Burlington Coat Factory ("Burlington") from selling counterfeit Fendi products in its stores in 1987. Counsel for Louis Vuitton Malletier (a company that has a common parent with Fendi) advised Burlington's in-house counsel on April 12, 2004 that a Fendi handbag purchased from Burlington was counterfeit. Burlington's in-house counsel had signed the agreement underlying the injunction in 1987. During the next year following the meeting, Fendi sent Burlington two letters formally placing Burlington on notice that it was selling counterfeit Fendi goods and demanding that Burlington cease and desist. Nonetheless, Fendi-branded items still could be found at Burlington's stores as late as March 2008.

Fendi's first two claims alleged counterfeiting in violation of 15 U.S.C. §1114(a) and false designation of origin in violation of 15 U.S.C. §1125(a). To prevail on these claims, Fendi had to establish that: (1) it had a valid mark entitled to protection under the Lanham Act; and (2) Burlington used a similar mark in commerce in a way that would likely cause confusion among

the relevant consuming public. See Louis Vuitton Malletier v. Dooney & Bourke, Inc., 454 F.3d 108, 114-15 (2d Cir. 2006). As to the first element, the court held that both the FENDI and the FF monogram trademarks were valid marks entitled to protection and had been extensively advertised and were regarded as "prestigious symbols of fashion." As to the second element, the court held that because "counterfeit marks are inherently confusing," a court need only determine that the items at issue are counterfeit and that the defendant distributed, offered for sale, or sold the items. See Gucci Am., Inc. v. Duty Free Apparel, 286 F. Supp.2d 284, 287 (S.D.N.Y. 2003). Burlington neither disputed that the goods at issue were purchased from its retail stores nor did it present any credible evidence that the goods at issue were genuine goods as opposed to counterfeit. Burlington has attempted to rely upon a letter which claimed that the goods were genuine and Fendi responded that the letter had been forged.

Burlington asserted an affirmative defense and counterclaim seeking cancellation of Fendi's trademarks under the "naked licensing" doctrine. Burlington contended that Fendi had not exercised sufficient quality control as the licensor of its marks and that, as a result, Fendi had *abandoned* its rights. Burlington argued that Fendi's manufacturers were distributing and selling non-conforming bags without its approval and that such Fendi goods did not always conform with Fendi's quality control standards. Specifically, Burlington alleged that "a witness" saw a "bolt of fabric" in an assembly warehouse, which should not have existed given Fendi's "one kit per bag" assembly procedure. The Court was not persuaded and held that Fendi had put forward sufficient evidence demonstrating its comprehensive quality control mechanisms. The court held that a single alleged incident of non-compliance with those mechanisms was insufficient to support a "naked licensing" theory. The Court concluded that, because the goods sold by Burlington were counterfeit, Burlington was liable for counterfeiting and false designation of origin.

Fendi, among other remedies, sought disgorgement of profits and treble damages. In cases involving counterfeit marks, the court has discretion to award treble profits or damages if the court finds that the counterfeiter willfully used a mark or designation in connection with a sale or distribution of a good, knowing that the mark or designation is counterfeit. 15 U.S.C. §1117(b). The Court held Burlington's failure to investigate the nature of the Fendi-branded goods after Fendi's two cease and desist letters (in light of the 1987 injunction) and Burlington's failure to comply with its own internal procedures demonstrated that Burlington was "willfully blind." Having determined that Burlington acted willfully, the Court then held that Fendi is entitled to treble damages of approximately \$1.6 million in prejudgment interest and \$2.5 million in disgorgement of profits.

The Fendi ruling is a victory for fashion designers across the nation but also provides a cautionary tale for discount retailers and inexpensive chain stores who may be selling counterfeits without investigating the source or genuineness of the goods. Retailers need to be careful to not "bury their heads in the sand" because this may result in a claim of "willful blindness." Instead, retailers need to carefully investigate the source and genuineness of goods sold within its stores to avoid a serious risk that trebling of damages may be imposed for willful infringement. The Fendi case should also be a warning to designers that counterfeiters could allege a counterclaim and attack their trademarks under a "naked licensing" theory. In order to prevent such a counterclaim from succeeding, care should be taken to implement comprehensive

quality control measures and to make sure that all manufacture, distribution and approvals with respect to licenses are carefully monitored.