

Election of Statutory Damages Does Not Preclude an Award of Attorney's Fees in Lanham Act Counterfeiting Cases

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The Second Circuit last week decided an anticounterfeiting case with important guidance on the availability of attorney's fees in cases where a brand owner opts for statutory damages as a remedy and not lost profits or recapture of defendant's profits. In *Louis Vuitton Malletier SA v. LY USA, Inc.*, 08-4483 (2d Cir. March 29, 2012), the Court resolved an issue that has divided district courts in the Second Circuit and, in so doing, created a possible circuit split with the Ninth Circuit, holding that attorney's fees are available under 15 USC § 1117(a) even where a plaintiff elects to recover statutory damages under 15 USC § 1117(c).

In this counterfeiting case, Louis Vuitton sought the then-maximum statutory damages award of \$8 million, plus attorney's fees, costs, and investigative fees. Statutory damages are determined per counterfeit mark per type of goods or services sold, offered for sale, or distributed. At the present time, the statutory damage amount is between \$1,000 and \$200,000 per counterfeit mark per type of goods or services; or not more than \$2 million per counterfeit mark per type of goods or services for willful counterfeiting. Those amounts were effective October 13, 2008, doubling the prior statutory damage amounts.

On October 3, 2008, the district court awarded Louis Vuitton \$3 million in statutory damages and \$556,934.22 in attorney's fees and costs. The court explained that the "[d]efendants, despite their protestations to the contrary, have produced limited records, accountings, and sales invoices regarding the merchandise at issue. Their failure to do so invites an inference of a massive counterfeiting enterprise." The court concluded that an award of half of the then \$1,000,000 maximum statutory damages – \$500,000 – was appropriate for each of four marks (4 x \$500,000 = \$2,000,000) for one type of goods; plus \$250,000 for another mark, and \$250,000 each for three other types of goods (4 x \$250,000 = \$1,000,000), for a total of \$3 million.

The attorney's fee award of \$556,034.22, was the full amount of the attorney's fees, expenses, and investigative costs that Louis Vuitton had sought. The defendants argued on appeal that because Louis Vuitton opted to receive statutory damages pursuant to 15 USC § 1117(c), it waived the ability to receive an award of attorney's fees. The defendants pointed out that, unlike subsections (a) and (b) of § 1117, which explicitly provide for an attorney's fee award, subsection (c) does not.

Under Section 35 of the Lanham Act, a plaintiff seeking damages for counterfeiting has the option of seeking either actual or statutory damages, but not both. A plaintiff may recover actual

damages equal to “(1) defendant’s profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action.... The court in exceptional cases may award reasonable attorney fees to the prevailing party.” 15 USC § 1117(a). Alternatively, a plaintiff may elect to recover, instead of actual damages and profits under subsection (a), statutory damages for the use of a counterfeit mark. 15 USC § 1117(c).

The question for the Second Circuit was whether the election to seek statutory damages under § 1117(c), instead of actual damages and profits under § 1117(a):

- supplants only that part of § 1117(a) that provides the method for ascertaining the amount of damages with the method set forth for ascertaining damages in § 1117(c), while leaving unaffected the last sentence of §1117(a) – “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party”; or
- supplants the entirety of § 1117(a), including the availability of attorney’s fees in “exceptional cases”?

The Second Circuit found that the former statutory construction was proper.

The Court noted a split in the district courts in the Second Circuit on the issue, as well as a Ninth Circuit decision, *K & N Engineering, Inc. v. Bulat*, 510 F.3d 1079 (9th Cir. 2007), finding that attorney’s fees were not available in a statutory damages case.

The Second Circuit distinguished K&N, explaining:

In *K & N Engineering*, the district court awarded attorney’s fees under section 1117(b) – not, as in the present case, under the last sentence of section 1117(a) – to a plaintiff who, like Vuitton here, opted to receive statutory damages under section 1117(c). 510 F.3d at 1081. On appeal, the Ninth Circuit explained that “Section 1117(c) makes no provision for attorney’s fees.” *Id.* at 1082. It ruled that because the plaintiff had elected to receive statutory damages under section 1117(c), there was “no statutory basis to award [the plaintiff] attorney’s fees under § 1117(b).” *K & N Engineering* is, however, critically different from the case at bar. There, as here, statutory damages were awarded under section 1117(c). But there, unlike here, attorney’s fees had been awarded by the district court under section 1117(b), rather than 1117(a). As the court of appeals explained, “Section 1117(b)’s attorney’s fees provision applies only in cases with actual damages under § 1117(a).”

Reviewing the text of § 1117, the Second Circuit found that attorney’s fees were available even where there is an election of statutory damages. Dispositively, the Court explained that § 1117(c) expressly characterizes plaintiff’s recovery of statutory damages as being “instead of **actual damages and profits** under subsection (a) of this section.” 15 U.S.C. § 1117(c). In the view of the Second Circuit, § 1117(a) distinguishes between actual profits and damages on the

one hand, and an award of attorney's fees on the other; and the alternative recovery statutory damages is expressly in lieu of **damages and profits** under § 1117(a), **not** in lieu of damages, profits and (in some "exceptional cases") attorney's fees under § 1117(a). An award of attorney's fees in an exceptional case is thus not foreclosed. Under this reading, § 1117(a) is the primary or default source of remedies available to a victorious plaintiff, and § 1117(c) represents a special exception for **part** of the remedy otherwise available under section 1117(a): "actual damages and profits."

The Court also noted – although one judge did not reach the issue because § 1117 was clear on its face – that consideration of the history of the statute and Congress's purpose in enacting § 1117(c), reinforces the view that the election of statutory damages under § 1117(c) does not foreclose the possibility of a recovery of attorney's fees under § 1117(a).

The Second Circuit explained that § 1117(c) was added in 1996 by the Anticounterfeiting Consumer Protection Act. That Act was designed to provide an alternative to the type of recovery provided in § 1117(a), not to all of the remedies provided for in that section. The Act was meant to **expand** the range of remedies available to a trademark plaintiff, not restrict them. In light of that history, it seemed unlikely to the Court that Congress intended to prevent a plaintiff who opts to recover statutory damages from also receiving attorney's fees.

The decision is important because, in many circumstances, a counterfeiting defendant will have no records of sales or costs, or will default in producing them – in this case, because of criminal prosecution and seizure of the records by search warrant. And proving plaintiff's lost profits is typically difficult. Having the availability of both statutory damages and attorney's fees is important, at least where the defendants have some ability to pay a judgment.

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