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Statutory damages provide key enforcement mechanism to curb counterfeiters

Nicholas J. Nowak, Matthew M. Zuziak and Will Rodenberg of Sterne, Kessler, Goldstein & Fox PLLC and Charles Hawkins, General Counsel, Intellectual Property & Litigation at Volkswagen Group of America, Inc., report on the *Verotec Wheels, Inc.* case that has solidified the structure for statutory damages.

The territoriality myth

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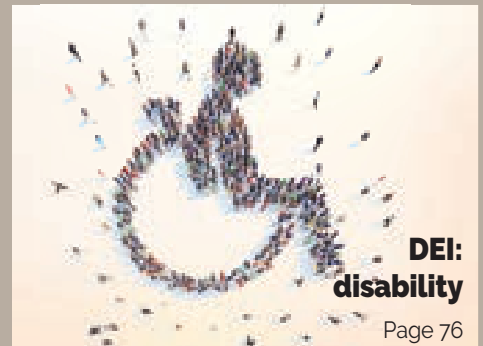
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Statutory damages provide key enforcement mechanism to curb counterfeiters

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In *Volkswagen Grp. of Am., Inc. v. Verotec Wheels, Inc.*, No. 19-24838-CIV, a federal magistrate judge in the Southern District of Florida ordered a counterfeiter to pay more than \$1.1 million in statutory damages, attorney's fees, and costs to Volkswagen and Audi for willful trademark infringement, false designation of origin, counterfeiting, and trademark dilution under the Lanham Act. The court also awarded additional damages upon finding the defendants liable for design patent infringement.

I. Background

Volkswagen and Audi filed suit against Verotec Wheels, Inc., and its CEO, Andy Varona, in November 2019, alleging that Verotec and Mr. Varona used an eBay account to sell counterfeit Audi wheel sets bearing the world-famous Audi rings logo. After more than a year of fact discovery, Volkswagen and Audi moved for summary judgment on all counts. Their motion also sought a finding that, under 15 U.S.C. § 1117(c), they were entitled to statutory, rather than actual damages, as well as a finding that the case was "exceptional" under subsection (a) of that statute, entitling Volkswagen and Audi to attorney's fees. The court granted the motion with respect to the question of Verotec and Mr. Varona's liability for trademark infringement, counterfeiting, false designation of origin, and trademark dilution, citing "overwhelming" photographic and documentary evidence demonstrating



that the defendants used the eBay account in question to sell wheel sets that bore marks that were identical to Audi's trademarked rings. The court tabled Volkswagen and Audi's request for statutory damages and attorney's fees, deciding to resolve these issues after a bench trial, in order to have an "opportunity to observe first-hand Mr. Varona's credibility (or lack thereof) for those factual issues on which he did not contradict his prior testimony with a later-filed affidavit."

II. Statutory damages

Following a bench trial on the issue of damages and fees, the court found that statutory damages under § 1117(c) were "particularly appropriate" in this case. As the court explained, Congress implemented § 1117(c)'s statutory damages provision for trademark counterfeiting cases "because evidence of a defendant's profits in such cases is almost impossible to ascertain." That was especially true here, the court remarked,

Résumés

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because Verotec and Mr. Varona not only "failed to produce any records of sales or revenue data in response to [Volkswagen and Audi's] discovery requests," they "repeatedly denied such records exist[ed]" in the first place. The defendants' intransigence, the court observed, forced Volkswagen and Audi "to obtain sales records through third-party discovery of eBay and PayPal," which, due to the retention policies of these entities, were limited to the years 2018-2020—even though Verotec and Mr. Varona started selling the counterfeit wheels on eBay at least as early as 2016. Because Volkswagen and Audi "exhausted all efforts to obtain records from Defendants throughout the case but were unable to do so," the court reasoned, "[s]tatutory damages [w]ere therefore the only viable method of recovery available" to Volkswagen and Audi.

The court then turned to the issue of calculating the appropriate amount of statutory damages Verotec and Mr. Varona owed Volkswagen and Audi under § 1117(c). Here again, the court emphasized the fact that the defendants "produced no evidence of sales or profits" and that "the only [sales] evidence available. . . [w]as incomplete and unreliable," which "favor[ed] awarding a significant statutory damages award to [Volkswagen and Audi]." But the court's damages calculation did not end there. Borrowing from cases in the copyright infringement context, the court considered a number of additional factors in its damages analysis, such as the need to deter the defendants and other counterfeiting entities, the willful nature of the defendants' activities, the defendants' litigation behavior throughout the case, and whether the defendants' counterfeit goods posed public safety risks.

Deterrence: The court doubled the statutory damages amount in view of the "strong need" to deter the defendants and other like-minded parties from engaging in this unlawful conduct in the future. It was undisputed, the court remarked, that "all infringing offers for sale and sales in this case took place via the Internet," which gave Verotec and Mr. Varona access to a "virtually limitless number of customers." Citing evidence of the increasing trend of counterfeiters turning to online marketplaces to sell infringing goods, the court concluded that a "significant statutory damages amount [w]as necessary here . . . to the curb the proliferation of counterfeiting operations on online marketplaces such as eBay."

Defendants' Willfulness: The court tripled the statutory damages award in light of the willful nature of Verotec and Mr. Varona's infringement of Audi's trademarks. The court observed that it was clear from the record that Verotec and Mr.

Varona “clearly aimed to cash in upon the reputation and goodwill associated with the Audi Trademarks.” Verotec and Mr. Varona further admitted, for example, to intentionally using misleading keywords such as “Audi,” “OEM,” and “authentic” in their eBay listings, which were “flagrant attempts at deceiving customers into believing that the counterfeit products were indeed authentic Audi wheels.”

Defendants’ Litigation Behavior: Mr. Varona’s “uncooperative and disingenuous” behavior throughout the case also “militat[e]d in favor of a higher statutory damages amount,” the court reasoned. Besides refusing to produce any sales records for the counterfeit wheels, and outright refuting their existence, Mr. Varona, at deposition and in a sham declaration submitted to the court during the summary judgment phase, repeatedly denied owning the eBay account in question. He also refused to cooperate during discovery by either failing to respond to or submitting contradictory responses to Volkswagen and Audi’s written discovery requests, resulting in extensive and unnecessary motion practice and wasted time and resources.

Public Safety Interests: The court lastly considered the safety risks Verotec and Mr. Varona created

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by selling counterfeit car wheels to the public, noting that courts have heightened statutory damages where the counterfeit goods also posed a danger to public safety. The court credited testimony offered by Audi demonstrating that, while genuine Audi wheels must adhere to strict internal testing and government regulations designed to ensure the structural integrity of the wheels under various driving conditions, there was no evidence that Verotec and Mr. Varona’s counterfeit wheels were subject to such safety standards. This was further supported by the fact that Audi’s investigator, after purchasing a set of the counterfeit wheels, determined that the wheel caps did not properly fit the wheels and could potentially detach while on the road. In sum, the court reasoned that the risks to public safety posed by the defendant’s unregulated and untested counterfeit wheels “further support[ed] a larger statutory damages award.”

Based on these factors and available information, the court assessed statutory damages at \$609,227.10.

III. Attorney’s Fees and Costs

As for attorney’s fees and costs, the court concluded that Verotec and Mr. Varona’s behavior, both inside and outside the court, “[w]as exactly



the type of intentional, non-accidental conduct that warrants the imposition of [attorney's] fees" under § 1117(a). To start, they willfully infringed Audi's trademarks by "knowingly us[ing] identical marks on counterfeit products appearing to be identical to those sold by Audi, a world-famous automobile maker." That alone, the court remarked, mandated an award of attorneys' fees under § 1117(b). Verotec and Mr. Varona also continued to act in bad faith during litigation by, for example, repeatedly and falsely denying, under oath, their ownership of the eBay account despite overwhelming evidence to the contrary, further justifying an award of attorney's fees. For these same reasons, the court concluded, Verotec and Mr. Varona were also obligated to pay Volkswagen and Audi for the costs of the action under § 1117(a)(3), which, combined with attorney's fees, amounted to \$509,695.53.

IV. Takeaways

The advent of e-commerce sites like eBay has enabled counterfeiters and trademark infringers to create virtual platforms for selling their infringing goods globally. The actual damages trademark owners suffer at the hands of these online counterfeiters can be significant, but can often times be impossible to prove in the first instance. In addition, actual financial losses are, in most instances, significantly outweighed by the reputational harm these infringing entities inflict by capitalizing on the goodwill, social trust, and brand name recognition that trademark owners have spent considerable time and resources cultivating over the years.

That is why seeking statutory damages under 15 U.S.C. § 1117(c), rather than actual damages under § 1117(a), may prove a far more effective strategy for deterring counterfeiters of valuable, universally-recognized trademarks. The district court's decision in Verotec therefore offers useful insight into what plaintiffs should keep in mind when seeking statutory damages against counterfeiting entities:

Early and aggressive third-party discovery strategy: Plaintiffs should consider going the extra mile by diligently seeking sales records from third parties in the likely event the counterfeiting entity either does not have records or refuses to turn them over. That Volkswagen and Audi exhausted their discovery options by subpoenaing eBay and PayPal for sales records, for example, only reinforced in the court's mind that a heightened award of statutory damages against Verotec and Mr. Varona was warranted by showing some evidence of the large amount of money flowing through the defendants PayPal account resulting from the sale of counterfeit goods.



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Setting a good example: The defendant's litigation behavior will likely factor into the court's statutory damages calculus, which bodes well for plaintiffs if the evidence of infringement is overwhelming and the defendant's incentive to protract litigation is therefore high. Plaintiffs should therefore consider capitalizing on this advantage by expeditiously meeting discovery obligations, making reasonable demands of the other side, and compromising when appropriate.

Proving willfulness: Where willful trademark infringement is shown, § 1117(c)(2) raises the ceiling for statutory damages to \$2,000,000 per counterfeit mark. In Verotec, the district court tripled the statutory damages award based on the willful nature of the defendant's conduct while starting its calculation based on the sales figures that were made available by PayPal. Willfulness can be shown by a multitude of factors in these actions, including defendants aiming to cash in upon the reputation and goodwill associated with authentic goods, litigation misconduct, and continuing to operate their counterfeit operations even after litigation has been initiated.

Well-documented test buys of the counterfeit goods: A well-documented test buy and inspection of the counterfeit goods by qualified corporate representatives during the pre-suit investigation phase is crucial.

Meticulous accounting of attorney invoices and efficient use of attorney time: § 1117(a) allows for the plaintiff to recover reasonable attorney's fees for "exceptional" cases. A thorough and consistent record-keeping of reasonable legal expenses incurred throughout the case can assist the court in assessing the appropriate amount of attorney's fees and costs owed to the plaintiff if the circumstances of the case warrant such an award. In Verotec, the court found the fees reasonable given the large amount of resources that the Volkswagen and Audi were forced to expend during discovery and from dealing with uncooperative and deceptive defendants.

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