TRADEMARK INFRINGEMENT LIABILITY GETS REAL PERSONAL

by

Sheldon Mak Rose & Anderson

A series of recent cases in the Eleventh and Sixth Circuits illustrate how hard it is to avoid personal liability for trademark infringement. A trademark is any word, symbol or device which is used to identify the source of goods. Trademark infringement is a tort under common law, the federal Lanham Act and under most state laws as well. Infringement occurs when use is made of a trademark without the consent of the owner of the trademark.

Four recent cases establish the extent to which persons who are involved in the infringing activities may be held personally liable for trademark infringement. Chanel, Inc. v. Italian Activewear of Florida, Inc., 931 F.2d 1472 (11th Cir. 1991) shows that corporate officials may be held personally liable. Levis Strauss & Co. v. Diaz, 778 F.Supp. 1206, 1991 WL 259786, 19 U.S.P.Q. 2d 1792 (S.D. Fla., 1991) shows that persons who participated in the sale of counterfeit goods as brokers can be held liable for trademark infringement. Bauer Lamp Co., Inc. v. Shaffer, 941 F.2d 1165 (11th Cir. 1991) imposed liability upon persons who did not manufacture the infringing goods, but only induced or encouraged the manufacture of infringing goods, as "contributory infringers." Finally, Wynn Oil Co. v. American Way Service Corp., 941 F.2d 595 (6th Cir. 1991) shows that a district court is without discretion to decline to award defendant's profits as damages for trademark infringement.

These cases demonstrate that the courts are becoming increasingly hardened in their expectation that businesses will conduct a thorough investigation on the availability of a mark before its use. In light of the substantial liability which can result from a trademark infringement action, business lawyers should caution their clients about conducting an adequate trademark search and about confirming the supplier's authority to provide genuine goods.

Chanel Inc. v. Italian Activewear of Florida, Inc. This 1991 Eleventh Circuit case was decided on summary judgment brought by the plaintiff, Chanel. The district court found that there was no genuine issue of fact with respect to infringement by the corporate defendant and its president. However, the district court's holding on summary judgment that the infringement was intentional and that an employee of the defendant corporation should also be held personally liable were reversed because of the presence of genuine issues of material fact.

Chanel, of course, sells luxury items using registered, well-known trademarks. The defendant business, Italian Activewear, imported and began marketing a shipment of handbags and belt buckles bearing the infringing Chanel trademarks. The President of the defendant corporation, Brody, personally purchased these goods from a European broker. Brody stated that he did not know where his source got the bags and buckles from and that he did not ask about the source of the goods. Brody contended that he made efforts to ensure the goods were genuine (by comparing them with products he knew to be genuine).

The district court held that trademark infringement had occurred, noting that a showing of intent or bad faith is unnecessary to establish such a violation. The district court also found that Brody had been willfully blind and that "willful blindness is knowledge enough," citing Louis Vuitton S.A. v. Lee, 875 F.2d 584 (7th Cir. 1989). The court noted that Brody had been twice previously involved in trademark infringement litigation.

The court relied on Mead Johnson & Co. v. Baby's Formula Serv., Inc., 402 F.2d 19 (5th Cir. 1968) for the proposition that natural persons, as well as corporations, may be liable for trademark infringement under the Lanham Act. "Obviously . . . if there was an infringement by the corporation, this infringement was caused by one or more persons either officers or employees of the corporation who caused the acts to be done." Id. at 22. The court also held that an individual who actively and knowingly caused the infringement is personally liable, citing Wilden Pump & Eng. Co. v. Pressed & Welden Products Prods. Co., 655 F.2d 984 (9th Cir. 1981). Treble damages totalling $208,433.25 and attorneys' fees in the sum of $71,859.61 were awarded to Chanel.

Brody was necessarily liable since the evidence was uncontroverted that Brody was the President and Chief Executive Officer of the corporate defendant; he purchased the counterfeit goods; advertised them as Chanel products in local publications; and operated the showroom from which the goods were sold. The employee Greenberg, however, had not been shown to have "actively caused the infringement as a moving, conscious force," and so could not be held liable on summary judgment.

Levis Strauss & Co. v. Diaz

Diaz, in the name of Sterling Industries U.S.A. Corporation ("Sterling"), acted as a broker in the transfer of certain counterfeit jeans to France. The counterfeit Levis "501" jeans were seized by customs officials in France. The evidence disclosed that Sterling was a shell corporation owned by Mr. Diaz's son, a college student. Mr. Diaz was its sole employee, maintained all corporate records and negotiated all terms of the transfer of the counterfeit goods to France. The evidence also disclosed that Mr. Diaz purchased the goods from a man by the name of Suarez with whom he had no prior transactions. Mr. Diaz never inquired from Mr. Suarez if he was authorized to sell the Levi Strauss jeans. The evidence also disclosed that Mr. Diaz had been previously advised by Levi Strauss that legitimate merchandise could only be purchased from authorized Levi Strauss distributors.

The principal defense asserted by Mr. Diaz was that he had merely acted as a broker and was otherwise "an innocent infringer."

The district court found his claims incredible in view of his personal involvement in the activities. The court denied his attempt to hide behind the corporate shield and held him personally liable for all infringing acts. The court noted that the goods were of such inferior quality that even a minimal inquiry by Mr. Diaz would have disclosed a counterfeit nature. Mr. Diaz was ordered to pay treble damages and attorneys' fees pursuant to 15 U.S.C. § 1117(b). Treble damages amounted to $178,500. Plaintiffs were directed to submit their fee claims to the court.

Bauer Lamp Co., Inc. v. Schaffer

In this Florida case, the defendants, Shaffer and Levi, were formally exclusive sales representatives for Florida territory for the plaintiff for a period of seven years. The plaintiff, Bauer Lamp Co. is in the business of manufacturing and distributing lighting fixtures. Upset with their termination, Shaffer and Levi openly expressed an intention to copy Bauer's lamps and to sell them at a lower price in order to put Bauer out of business. These threats were made at various trade shows and in the presence of various prospective clients.

At a trade show in Miami in 1984, Shaffer and Levi exhibited Bauer's original lamps and solicited orders from customers for their own copies. Even Shaffer and Levi's trade literature used the original lamps of the plaintiff. Defendants ultimately began to distribute copies of the plaintiff's lamps which were then manufactured by two other companies. The two manufacturers were also defendants in the case. These manufacturers consented to the entry of permanent injunctions and to cease the manufacture and sale of the infringing lamps.

The court after trial held that it was not necessary that the defendants actually manufacture the infringing lamps to be liable for trade dress infringement. "A person who knowingly participates in furthering the trade dress infringement is liable as a contributing party." Styx Products, Inc. v. United Merchants & Manufacturers, Inc., 295 F.Supp. 479 (S.D.N.Y. 1968). Furthermore, since trade dress infringement is a tort, defendants may be held responsible as joint tortfeasors. J. McCarthy,

TRADEMARKS AND UNFAIR COMPETITION SECTION 25:3 (2d Ed. 1984).
The trial court's judgment was affirmed.

Wynn Oil Co. v. American Way Service Corp.

In this case, the trial court found that the defendants had infringed plaintiff's trademark "X-TEND" for a product warranty program. However, the district court declined to award damages to the plaintiff based upon defendants' profits, despite its own finding of intentional infringement, ostensibly because it could not "ascertain the profits made as a result of defendant's willful infringement."

Plaintiff was in the business of selling a line of car care products through professional automobile repairmen. The X- TEND mark was used by plaintiff for a product warranty program. Defendant introduced an extended warranty program to new and used car dealers using the mark "THE AMERICAN WAY X-TEND." Defendant's corporate name was American Way. Defendant's program was launched without conducting any search or investigation to ascertain whether the term "X-TEND" was registered or in use.

The Sixth Circuit Court of Appeals noted that "although the district court was convinced that defendants used the "X- TEND" mark for the purpose of securing an unjust gain," the district court's hesitancy to award damages appeared to be in contravention of the statutory directive that, subject to certain exceptions which do not apply in this case, "plaintiff shall be entitled . . . to recover any profits defendants gained by the infringement. 15 U.S.C. § 117(a)." The court went on to declare that "it is not the plaintiff's burden to prove the profits with exactness because the statute places the burden on the defendant once the plaintiff comes forward with proof of the defendants' gross sales."

In this case, the plaintiffs went to great lengths to ascertain the profits made by the defendants. Plaintiff's efforts were frustrated by defendants' elusive tactics and discovery. Defendant's claims that they had earned no profits were deemed to be devoid of credibility.

The court of appeals remanded to the district court, directing that the district court should place the burden on defendants to prove deductions from gross receipts and instructing the district court to resolve uncertainty in favor of the plaintiff. The Court of Appeals stated:

> "The profits made on sales of goods bearing the infringing mark properly belong to the owner of the mark. There may be a windfall to the trademark owner where it is impossible to isolate the profits which are attributable to the use of the infringing mark. But to hold otherwise would give the windfall to the wrongdoer." Brunswick Corp. v. Spinit Real Co., 832 F.2d 513 (10th Cir. 1987).

The Court of Appeals reminded the trial court that "the trial court's primary function is to make violations of the Lanham Act unprofitable to the infringing party."

CONCLUSION

Once an infringement of the trademark has been established, the plaintiff is entitled to just compensation and the defendants must be disgorged of their profits. Citing a Ninth Circuit case, Frank Music Corp. v. Metro Goldwyn Mayer, Inc., 772 F.2d 505 (9th Cir. 1985), the Wynn court explained that "a defendant [infringer] whose wrongful conduct has caused the difficulty in assessing damages cannot complain that the damages are somewhat speculative." All natural persons who knowingly participated in the infringing activities, or were active moving parties in causing the infringement, are personally liable to the plaintiff. Those who encourage infringement and even those who act merely as brokers may be held personally liable. A corporation is no shield to liability in a trademark infringement action.

These cases highlight the need for an adequate trademark search and for the implementation of adequate systems to ensure that goods being offered for sale are genuine and authorized by the trademark owners.

Sheldon Mak Rose & Anderson PC
100 E. Corson Street, Third Floor
Pasadena, California 91103-3842
626-796-4000
626-795-6321 fax