

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF PENNSYLVANIA

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|-------------------------------------|-------------|------------------|
| DOGGIE DENTAL INC, <i>et al.</i> , | | |
| | Plaintiffs, | Civil Action No. |
| v. | | 19-682 |
| ANYWILL, <i>et al.</i> , | | (Judge Hornak) |
| | Defendants. | |
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| DOGGIE DENTAL INC., <i>et al.</i> , | | |
| | Plaintiffs, | Civil Action No. |
| v. | | 19-746 |
| MAX_BUY, <i>et al.</i> , | | (Judge Hornak) |
| | Defendants. | |
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| DOGGIE DENTAL INC, <i>et al.</i> , | | |
| | Plaintiffs, | Civil Action No. |
| v. | | 19-1282 |
| GO WELL, <i>et al.</i> , | | (Judge Hornak) |
| | Defendants. | |
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| DOGGIE DENTAL INC, <i>et al.</i> , | | |
| | Plaintiffs, | Civil Action No. |
| v. | | 19-1283 |
| WORTHBUYER, <i>et al.</i> , | | (Judge Hornak) |
| | Defendants. | |

**PLAINTIFFS' SUPPLEMENTAL SUBMISSION
IN SUPPORT OF MOTION FOR ENTRY OF
DEFAULT JUDGMENT AND PERMANENT INJUNCTION**

Plaintiffs submit this Supplemental Submission in accordance with the Court's Order of May 28, 2020, to address the issues set forth therein relating to the amount of damages sought on default against defendants located outside of the United States. This Supplemental Submission is being filed in all of the above cases, even though there are some differences in the theories of the cases and the damages being sought. In Case Nos. 19-682 (Amazon sellers) and 19-746 (eBay sellers), Plaintiffs are seeking disgorgement of admitted profit (*i.e.*, actual damages) from all Defaulting Defendants and an award of statutory copyright damages as to certain Defaulting Defendants; these two cases may be looked at as companion cases and were filed before Plaintiffs' U.S. trademark registrations issued. In Case Nos. 19-1282 (Amazon sellers) and 19-1283 (eBay sellers), Plaintiffs are seeking an award of statutory trademark damages from all Defaulting Defendants and an award of statutory copyright damages as to certain Defaulting Defendants; these two cases may also be looked at as companion cases and were filed after Plaintiffs' U.S. trademark registrations issued.

Also submitted herewith is the *Declaration of Stanley D. Ference III* ("Ference Dec.") and the *Second Declaration of Brian Samuel Malkin* ("Second Malkin Dec."). Like this Supplemental Submission, the Ference Declaration is being filed in all cases. The Second Malkin Dec. provides case specific information regarding the defaulting Defendants' restrained assets¹ (which range from \$0.00 to \$15,860.67) and copyright infringement by certain Defaulting

¹ In Case No. 19-682 (Amazon sellers) the restrained asset amounts range from \$0.00 to \$15,860.67; all but three Defaulting Defendants have less than \$4,600.00 restrained.

In Case No. 19-746 (eBay sellers) the restrained asset amounts range from \$0.00 to \$9,613.92; all but one Defaulting Defendant has less than \$4,000.00 restrained.

In Case No. 19-1282 (Amazon sellers) the restrained asset amounts range from \$0.00 to \$7,699.24; all but one Defaulting Defendant has less than \$2,600.00 restrained.

In Case No. 19-1283 (eBay sellers) the restrained asset amounts range from \$0.00 to \$8,936.26; all but two Defaulting Defendants have less than \$1,400.00 restrained.

Defendants; as such a different Second Malkin Dec. is being filed in each of the cases.

I. INTRODUCTION

In online counterfeiting case such as the present case, the cases usually end with the entry of a default judgment. *See Bose Corp. v. The Partnerships and Unincorporated Associations Identified on Schedule "A"*, No. 19-cv-7467 (N.D. Ill. Feb. 19, 2020) (Dkt. No. 46) (Durkin, J.) ("Probably none of the Defendants will ever make an appearance in this case and the default judgment process will determine the case's outcome in its entirety."). Of the more than five hundred (500) online counterfeiting cases with which the undersigned counsel is familiar, each one started with a temporary restraining order, then a preliminary injunction, and ended with a default judgment. (*Ference Dec.*, ¶ 3)

The total amount of each proposed default judgment in these cases is \$20,150,000 (19-1283), \$30,600,000 (19-1282), \$109,800,000 (19-682), and \$125,250,000 (19-746).² While large numbers in the abstract, these judgment amounts are smaller than default judgments entered by other courts in online counterfeiting cases. *See Gucci America, Inc. v. The Partnerships and Unincorporated Associations Identified on Schedule "A"*, No. 19-cv-62270 (S.D. Fla. Feb. 14, 2020) [ECF No. 44] (total amount of default judgment was \$110 million); *Juul Labs, Inc. v. The Partnerships and Unincorporated Associations Identified on Schedule "A"*, No. 19-cv-715 (E.D. Va. May 22, 2020) [ECF No. 169] (total amount of default judgment was \$156 million); *Luis Vuitton Malletier v. Aaalvshop.com*, No. 19-cv-61986 (S.D. Fla. Nov. 21, 2019) [ECF No. 24] (total amount of default judgment was \$159 million); *H-D U.S.A., LLC v. The Partnerships and Unincorporated Associations Identified on Schedule "A"*, No. 19-cv-

² These amounts may change prior to entry of a Final Default Judgment if any of the Defaulting Defendants reach out to Plaintiffs.

2710 (N.D. Ill. July 7, 2019) [ECF No. 48] (total amount of default judgment was \$162 million); *Richemont Int'l SA v. The Partnerships and Unincorporated Associations Identified on Schedule "A"*, No. 19-cv-110 (N.D. Ill. March 11, 2019) [ECF No. 50] (total amount of default judgment was \$316 million); and *Luxottica Group S.p.A. v. The Partnerships and Unincorporated Associations Identified on Schedule "A"*, No. 19-cv-6529 (N.D. Ill. Dec. 3, 2019) (total amount of default judgment was \$727 million).

Rather than focus on the total amount of each judgment, Plaintiffs submit the analysis should be whether the amount sought against each defendant is proper. As discussed below, it is usual and customary for China based counterfeiters, such as Defaulting Defendants, to sell across multiple e-commerce platforms. Thus, it is highly likely that Defaulting Defendants are utilizing other e-commerce platforms to circumvent the TRO and PI Order to continue to engage in counterfeiting and infringing activities. Against this background, if the awarded damages are too low, the Defaulting Defendants are rewarded for choosing not to participate in the litigation. This results in the Defaulting Defendants simply viewing the damage award as a cost of doing business as they are permitted to keep the funds made as the result of their unlawful sales, and infringement of intellectual property rights becomes a profitable business model as any risk to the China based Defaulting Defendants is extremely low. Although Plaintiffs recognize the low likelihood of collecting anything more than the restrained assets to satisfy the requested individual defendant damages awards, Plaintiffs submit the requested individual defendant damage awards encompassed in the proposed default judgments are legally correct and proper, along with the other relief sought by Plaintiffs in the proposed default judgments. Indeed, the requested individual defendant damage awards send a strong message and create a deterrent

against each Defaulting Defendant and others to just opening another online store and continuing to unlawfully compete with Plaintiffs.

II. ARGUMENT

Courts have consistently awarded large damages on default in online counterfeiting cases given the nature of the harm caused by online counterfeiting and the requested individual defendant damage awards are reasonable. For foreign based sellers, use of e-commerce marketplaces like Amazon and eBay in the present cases provides direct access to millions of customers in the United States, which allows for distribution far greater than if the seller had sold counterfeit products in a brick-and-mortar store. Thus, the present cases are unlike the case cited by this Court, *Coach, Inc. v. Bags & Accessories*, No. CIV.A. 10-2555 JBS-J, 2011 WL 1882403 (D.N.J. May 17, 2011), in which the defaulting defendants sold counterfeit and infringing products at a single brick-and-mortar store on the Boardwalk in Atlantic City, New Jersey. Indeed, the Court itself in the *Coach* case noted that damages awards are higher in cases where counterfeit products are widely distributed via the Internet. Such high damage awards are even more appropriate and reasonable given how online shopping has increased in the past nine years, along with the increase in foreign third-party sellers, like the Defaulting Defendants, on e-commerce platforms.

A. The Online Counterfeiting Problem

In its 2018 10-K filed with the with Securities and Exchange Commission, Amazon.com, Inc. stated for the first time that “We also may be unable to prevent sellers in our stores or through other stores selling unlawful, counterfeit, pirated, or stolen goods, selling goods in an unlawful or unethical manner, violating the proprietary rights of others, or otherwise violating our policies...” (*Ference Dec.*, Ex. 1) In its 2018 Annual Report, Amazon disclosed that the

share of sales by third party sellers has grown from 3% to 58%. (*Id.*) These disclosures began to focus attention on the perils of online market places.

In August 2019, the Wall Street Journal published an article entitled “Amazon Has Ceded Control of Its Site. The Result: Thousands of Banned, Unsafe or Mislabeled Products.”

(*Ference Dec.*, Ex. 2) This was followed by a November article entitled “Amazon’s Heavy Recruitment of Chinese Sellers Puts Consumers at Risk.” (*Ference Dec.*, Ex. 3) (“Amazon’s China business is bigger than ever. That is because it has aggressively recruited Chinese manufacturers and merchants to sell to consumers outside the country. And these sellers, in turn, represent a high proportion of problem listings found on the site...”)

Later that month, the *Washington Post* published an article entitled “How Amazon’s quest for more, cheaper products has resulted in a flea market of fakes.” (*Ference Dec.*, Ex. 4) (“The continued abundance of counterfeit goods on the site is the result of Amazon’s decisions to prioritize a broad selection of products and cheaper prices over the deployment of aggressive technologies and policies that could further stem the problem...” and “[l]etting so many sellers in with few limitations has also created a marketplace for fakes that were more often found on street corners or flea markets”).

Fox Business reports that while eBay’s counterfeit problem appears to be more serious, Amazon is significantly more popular in terms of market size and therefore has come under heavier scrutiny than other sites. (*Ference Dec.*, Ex. 5)

In December 2019 CNN published an article entitled “Fake and dangerous kids products are turning up for sale on Amazon.” (*Ference Dec.*, Ex. 6) As noted in the article, “businesses said Amazon put the onus on them to report suspicious listings and that this often amounted to a game of “whack-a-mole,” in which new listing appeared almost as soon as flagged ones were taken down.” The article continues, “Under current US case law, Amazon is not liable when

third-party products sold on its site directly infringe on intellectual property or have safety defects. The liability lies with the third-party sellers. This is fundamentally different from how the law treats brick-and-mortar retailers like Target (TGT) or Walmart (WMT) or even your corner grocery. If you find a product at a physical store that infringes on your trademark, or you buy something defective there, you can sue the store even though they didn't make the product.”

In 2020, the New York Times published an article entitled “Welcome to the Era of Fake Products.” (*Ference Dec.*, Ex. 7) The article opens with the following:

Imagine walking into your local grocery store and seeing two virtually identical cartons of milk right next to each other. The only discernible difference—and it's barely discernible—is that there's a tiny tag on one carton saying the milk is sold by a third-party seller. Oh, and it might have rat poop in it.

This scenario isn't all that far from what's happening in e-commerce retailers' massive, hard-to-police markets of third-party sellers.

The rise of counterfeit goods and other phony products sold on the Internet has been swift—and it has largely gone unnoticed by many shoppers. But make no mistake: The problem is extensive. Most people don't realize this, but the majority of listings on Amazon aren't actually for items sold by Amazon—they're run by third-party sellers. And even though many, many third-party sellers are upstanding merchants, an awful lot of them are peddling fakes.

As noted in the article, “Because there are rarely consequences for selling fakes, beyond a seller disappearing from a site, the seller can just reestablish its presence to continue to move its inventory. ‘Once they're off, they come back under a different brand and name.’” This article also noted how the third-party seller system is a boon to counterfeiters:

Counterfeits have always been an issue. But the Internet has exacerbated the problem.

In the brick-and-mortar days, a counterfeit product might have a harder time getting onto the shelves of a legitimate business, since it would be in a retailer's best interest to vet the validity and safety of products the retailer might be liable for selling to a customer. Business owners were gatekeepers, and counterfeits were largely relegated to back alleys, figuratively and literally.

Things are different online. Smaller vendors who peddle counterfeits, particularly pseudonymous third-party sellers on e-commerce platforms with broad reach and trust, now have access to millions of customers they never had when they were lurking in downtown alleys and flea markets.

* * *

Making things particularly tricky is the fact that a single e-commerce product page may include offerings from the manufacturer as well as from many third-party sellers, some honest and some not so honest. On an ecommerce site, it's as though those back-alley and swap-meet sellers have gotten to put their wares inside the store, on the same shelf as the real goods. And product placement relies on an algorithm that can push the cheapest version to the front of the shelf.

Also in 2020 the Canadian Broadcasting Company published an article entitled “We bought dozens of products from AliExpress, Amazon, eBay, Walmart and Wish. Over half were suspect fakes: Why you might want to think twice before shopping online.” (*Ference Dec.*, Ex. 8) As noted in this article, one counterfeit lipstick had over 751 times the amount of lead Health Canada considers acceptable in cosmetics.

The current Administration has taken note of the counterfeiting on online marketplaces. The *Fiscal Year 2018 Seizure Statistics* prepared by the U.S. Customs and Border Protection Office of Trade show that 87% of the seizures made of counterfeit goods originate in China (including Hong Kong). (*Ference Dec.*, Ex. 9) Plaintiffs believe all of the Defaulting Defendants are located in China. Peter Navarro, director of the White House Office of Trade and Manufacturing Policy, has said that “for all practical purposes, these e-commerce hubs are basically laundries for counterfeiting” and that “the administration also plans to target people offshore who ‘can’t be touched now.’” (*Ference Dec.*, Ex. 10)

On January 24, 2020, the Department of Homeland Security released a report entitled “Combating Trafficking in Counterfeit and Pirated Goods : Report to the President of the United

States.” (*Ference Dec*, Ex. 11) Section 5 of the Report is entitled “How E-Commerce Facilitates Counterfeit Trafficking” and begins:

While e-commerce has supported the launch of thousands of legitimate businesses, e-commerce platforms, third-party marketplaces, and their supporting intermediaries have also served as powerful stimulants for the trafficking of counterfeit and pirated goods. The central economic driver of such trafficking is this basic reality: **Selling counterfeit and pirated goods through e-commerce platforms and related online third-party marketplaces is a highly profitable venture.**

For counterfeiters, production costs are low, millions of potential customers are available online, transactions are convenient, and listing goods on well-known platforms provides an air of legitimacy. **When sellers of illicit goods are in another country, they are also exposed to relatively little risk of criminal prosecution or civil liability under current law enforcement and regulatory practices.** It is critical that immediate action be taken to protect American consumers and other stakeholders against the harm and losses inflicted by counterfeiters.

(p. 20) (emphasis added)

In discussing third-party marketplaces and counterfeiters (p. 22), the report states:

A counterfeiter seeking to distribute fake products will typically set up one or more accounts on third-party marketplaces, and these accounts can often be set up quickly and without much sophistication or many specialized skills. Under such circumstances, it is axiomatic that online retailers face much lower overhead costs than traditional brick-and-mortar sellers. There is no need to rent retail space or to hire in-person, customer-facing staff.

In a common scenario, third-party marketplace websites contain photos of the real product, fake reviews of the counterfeit product, and other such disinformation designed to mislead or fool the consumer into believing the legitimacy of the product. The proliferation of such disinformation is the hallmark of the successful online counterfeiter. Such deception not only provides counterfeiters with an enormous competitive advantage over their brick-and-mortar counterparts; legitimate sellers on the internet are harmed as well.

In some cases, counterfeiters hedge against the risk of being caught and their websites taken down from an e-commerce platform by preemptively establishing multiple virtual store-fronts. A key underlying problem here is that on at least some e-commerce platforms, little identifying information is necessary for a counterfeiter to begin selling. In the absence of full transparency, counterfeiters

can quickly and easily move to a new virtual store if their original third-party marketplace is taken down

(emphasis added)

In discussing warehouses, fulfillment centers and counterfeit trafficking (p. 24), the Report states:

Certain e-commerce platforms have adopted a business model that relies on North American warehouses to provide space for foreign-made goods, followed by one-at-a-time order fulfillment, at which point the goods are individually packed and shipped to U.S. consumers on much shorter delivery timelines.

* * * *

In situations where the fulfillment center is outside the U.S. Customs area, this model provides the opportunity to use ocean container shipping as the primary mode of transit for the shipment, which keeps overall shipping costs relatively low as ocean cargo is much cheaper than air delivery. It is in part because of these incentives that these fulfillment centers have emerged as an important element of the supply chains for many counterfeit traffickers.

This language is referring specifically to the Fulfilled by Amazon (FBA) model that underlies Amazon Prime, where Amazon is responsible for the quick (mostly overnight) delivery of goods.

In April 2020, the Office of the United States Trade Representative released the 2019 Special 301 Report (*Ference Dec.*, Ex. 12) which again included China on the Priority Watch List. Under the heading of “Manufacturing, Domestic Sale, and Export of Counterfeit Goods,” (p. 42), the Report states:

China continued to be the world’s leading source of counterfeit goods, reflecting its failure to take decisive action to curb the widespread manufacture, domestic sale, and export of counterfeit goods. According to a 2019 Organisation for Economic Co-operation and Development (OECD) report, China together with Hong Kong, through which Chinese merchandise often transships, continued to account for over 80 percent of seizures of counterfeit and pirated goods worldwide. Applying a different methodology, another analysis from the 2019 OECD report analyzed 2016 data and estimated that China and Hong Kong were the source of \$322 billion in fake exports, around 63.4 percent of the global total. This massive problem impacts not only the interests of IP right holders, but also poses health and safety risks.

(footnotes omitted) The Report continued that “OECD reports have noted that the growth of small parcels containing counterfeit and pirated goods reflected the move the offline to online sales, and China together with Hong Kong have been the leading source of seized counterfeit goods shipped by mail or express couriers.” (p. 43, footnotes omitted)

B. The Harm Suffered by Legitimate Sellers is Existential

The Introduction to the “Combating Trafficking in Counterfeit and Pirated Goods” Report (pp. 7-10) (*Ference Dec.*, Ex. 11) begins by stating “E-commerce platforms represent ideal storefronts for counterfeits...and provide powerful platform[s] for counterfeiters and pirates to engage large number of potential consumers.” The Report continues:

The rapid growth of e-commerce platforms, further catalyzed by third-party online marketplaces connected to the platforms, has revolutionized the way products are bought and sold. “Online third-party marketplace” means any web-based platform that includes features primarily designed for arranging the sale, purchase, payment, or shipping of goods, or that enables sellers not directly affiliated with an operator of such platforms to sell physical goods to consumers located in the United States.

* * * *

While the expansion of e-commerce has led to greater trade facilitation, its overall growth— especially the growth of certain related business models—has facilitated online trafficking in counterfeit and pirated goods. American consumers shopping on e-commerce platforms and online third-party marketplaces now face a significant risk of purchasing counterfeit or pirated goods. This risk continues to rise despite current efforts across e-commerce supply chains to reduce such trafficking.

The rise in consumer use of third-party marketplaces significantly increases the risks and uncertainty for U.S. producers when creating new products. **It is no longer enough for a small business to develop a product with significant local consumer demand and then use that revenue to grow the business regionally, nationally, and internationally with the brand protection efforts expanding in step. Instead, with the international scope of e-commerce platforms, once a small business exposes itself to the benefits of placing products online — which creates a geographic scope far greater than its more limited brand protection efforts can handle — it begins to face increased foreign infringement threat.**

Moreover, as costs to enter the online market have come down, such market entry is happening earlier and earlier in the product cycle, further enhancing risk. If a new product is a success, counterfeiters will attempt, often immediately, to outcompete the original seller with lower-cost counterfeit and pirated versions while avoiding the initial investment into research and design.

In other words, on these platforms, the counterfeit and pirated goods compete unfairly and fraudulently against the genuine items. While counterfeit and pirated goods have been sold for years on street corners, alleys, and from the trunks of cars, these illicit goods are now marketed to consumers in their homes through increasingly mainstream e-commerce platforms and third party online marketplaces that convey an air of legitimacy.

(emphasis added)

As noted under “Key Drivers of Counterfeiting and Piracy in E-Commerce” (pp. 10-11):

Historically, many counterfeits were distributed through swap meets and individual sellers located on street corners. Today, counterfeits are being trafficked through vast e-commerce supply chains in concert with marketing, sales, and distribution networks. The ability of e-commerce platforms to aggregate information and reduce transportation and search costs for consumers provides a big advantage over brick-and-mortar retailers. Because of this, **sellers on digital platforms have consumer visibility well beyond the seller’s natural geographical sales area.**

Selling counterfeit and pirated goods through e-commerce is a highly profitable activity: production costs are low, **millions of potential customers are available online**, transactions are convenient, and listing on well-branded e-commerce platforms provides an air of legitimacy.

When sellers of illicit goods are in another country, they are largely outside the jurisdiction for criminal prosecution or civil liability from U.S. law enforcement and private parties.

* * * *

Third-party online marketplaces can quickly and easily establish attractive “store-fronts” to compete with legitimate businesses. On some platforms, little identifying information is necessary to begin selling.

A counterfeiter seeking to distribute fake products will typically set up one or more accounts on online third-party marketplaces. **The ability to rapidly proliferate third-party online marketplaces greatly complicates enforcement efforts, especially for intellectual property rights holders. Rapid proliferation also allows counterfeiters to hop from one profile to the next even if the**

original site is taken down or blocked. On these sites, online counterfeiters can misrepresent products by posting pictures of authentic goods while simultaneously selling and shipping counterfeit versions.

Counterfeiters have taken full advantage of the aura of authenticity and trust that online platforms provide. While e-commerce has supported the launch of thousands of legitimate businesses, their models have also enabled counterfeiters to easily establish attractive “store-fronts” to compete with legitimate businesses.

(emphasis added)

As recognized by this Report, online counterfeiting is an existential threat to small business in the United States, particularly to startup companies with a limited product line. An example of such a business is Forearm Forklift (*Ference Dec.*, Ex. 13) As noted in the CNBC article entitled “How Amazon put this man’s business on the brink of collapse,” “Forearm Forklift is hanging on by a thread. The company is down to 21 full-time employees from 52 at its peak and recorded less than \$500 in profit last year. Annual revenue in 2008 topped \$4 million and has since plunged 30 percent. **Retailers stopped placing orders because they were finding what appeared to be the same thing online for much cheaper.**” (emphasis added) As noted in the New York Times, the business of one company – Brush Hero – “could not stand the effect of counterfeits and would be laying off most of its staff.” (*Ference Dec.*, Ex. 7)

In the present cases, without the injunctive relief previously entered by the Court, the Plaintiffs would already be out of business because of the actions of the Defaulting Defendants. Plaintiffs business is not yet out of the woods, as other sellers have followed Defaulting Defendants in selling counterfeit products. By willfully selling on online marketplaces such as Amazon and eBay, the Defaulting Defendants have deliberately taken advantage of the anonymity provided by selling online. The equities weigh in favor of Plaintiffs.

C. The Requested Individual Judgment Amounts are Proper

In Case Nos. 19-682 (Amazon sellers) and 19-746 (eBay sellers), Plaintiffs are seeking individual defendant damage awards of disgorgement of \$2 million in admitted profit (*e.g.*, actual damages) from all Defaulting Defendants and an award of \$150,000 in statutory copyright damages per copyrighted work infringed as to certain Defaulting Defendants. In Case Nos. 19-1282 (Amazon sellers) and 19-1283 (eBay sellers), Plaintiffs are seeking individual defendant damage awards of \$2 million in statutory trademark damages from all Defaulting Defendants and an award of \$150,000 in statutory copyright damages per copyrighted work infringed as to certain Defaulting Defendants. The individual damage awards requested by Plaintiffs are proper and equitable in the circumstances. In online counterfeiting cases, other Courts have entered default judgments awarding: 1) disgorgement of admitted profit; 2) statutory trademark damages; and 3) statutory copyright damages. Substantial damage awards further the goal of deterring similar conduct by others.

1. The Court Should Award Disgorgement of Defendants' Admitted Profit in Case Nos. 19-682 (Amazon sellers) and 19-746 (eBay sellers)

In *Banjo Buddies, Inc. v. Renosky*, 399 F.3d 168 (3d Cir. 2005), the Court of Appeals affirmed Judge Ambrose's estimate of the defendant's profits awarded in an action under the Lanham Act. In doing so, the Third Circuit cited with approval *Tamko Roofing Products, Inc. v. Ideal Roofing Co., Ltd.*, 282 F.3d 23, 39 (1st Cir. 2002), for the proposition that calculation of profits under section 35(a) [15 USC § 1117(a)] is left to the trial court's discretion, and will not be disturbed unless "it rests on clearly erroneous findings of fact, incorrect legal standards, or a meaningful error in judgment." The Third Circuit also stated "Section 35(a) provides that '[in] assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed,'" citing *Caesar's World, Inc. v. Venus Lounge*,

Inc., 520 F.2d 269, 273 (3d Cir. 1975). A Plaintiff need not demonstrate actual damage to obtain an accounting of an infringer's profits under Section 35 of the Lanham Act. *See Wesco Mfg. v. Tropical Attractions of Palm Beach, Inc.*, 833 F.2d 1484, 1488 (11th Cir. 1987).

Where, as here, an “infringer has failed to produce any evidence ... the Court must determine the costs to be subtracted from revenue based on the evidence it has to determine profits.” *See Nike, Inc. v. Wal-Mart Stores, Inc.*, 138 F.3d 1437, 1447 (Fed. Cir. 1998). The evidence before the Court includes the Defaulting Defendants' deemed admissions that profits from the sale of the infringing products totals more than \$2 million. (*Second Malkin Dec.*, ¶ 8) The evidence also includes the deemed admissions that each Defaulting Defendant has also admitted is sold more than 150,000 units of infringing product. (*Id.*) These deemed admissions are not unreasonable given that China based sellers, such as Defaulting Defendants, sell into the United States across multiple e-commerce platforms and do not limit their sales to one e-commerce platform. (*Second Malkin Dec.*, ¶ 9) Examples of such other e-commerce platforms include Alibaba.com, AliExpress.com, DHgate.com, and Wish.com. (*Id.*) The amount of profit and number of sales deemed admitted is also reasonable given the infringing product was sold on the Internet to millions of potential customers in the United States and there are nearly 78 million dogs in the United States (as reported by the American Veterinary Medical Association). (*Ference Dec.*, Ex. 14)

This Court would also not be the first court to use deemed admissions to determine the amount of profit to be disgorged in an online counterfeiting case. *Oakley, Inc. v. The Partnerships and Unincorporated Associations Identified on Schedule “A”*, No. 20-cv-277 (N.D. Ill. June 9, 2020) (Gettleman, J.) (product was Oakley sunglasses); *Fitness Anywhere LLC v. The Partnerships and Unincorporated Associations Identified on Schedule “A”*, No. 19-cv-4155

(N.D. Ill. Sept. 26, 2019) (Lee, J.) (product was TRX fitness suspension trainers), and *LMVH Swiss Manufactures S.A. v. The Partnerships and Unincorporated Associations Identified on Schedule "A"*, No. 19-cv-4383 (N.D. Ill. Sept. 25, 2019) (Coleman, J.) (product was TAG Heuer watches). Although the amount of profit disgorged in these cases was less than the amount sought in the present cases, the plaintiffs in those cases were large established companies with multiple products and established retail distribution for whom counterfeiting is not an existential threat – unlike the Plaintiffs in the present cases. As such, the requested individual defendant damage awards of \$2 million in disgorged profit are an appropriate use of the Court’s discretion and does not “rest[] on clearly erroneous findings of fact, incorrect legal standards, or a meaningful error in judgment.” The Defaulting Defendants also agree the use of deemed admissions is appropriate, as no Defaulting Defendant has appeared to challenge their use.

Statutory trademark damages are intended not merely for the restitution of profit or reparation of injury, but to deter wrongful conduct. The Lanham Act provides that the Plaintiffs may elect at any time to recover statutory damages “if the court finds that the use of the counterfeit mark was willful, not more than \$2,000,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed, as the court considers just.” 15 U.S.C. § 1117(c)(2). The Court has asked Plaintiffs to address *Coach, Inc. v. Bags & Accessories*, No. CIV.A. 10-2555 JBS-J, 2011 WL 1882403, at *6 (D.N.J. May 17, 2011). This case awarded trademark statutory damages for localized brick-and-mortar counterfeiting, not online counterfeiting.

In an online counterfeiting case, each of the Defaulting Defendants has access to millions (if not billions) of potential customers. Courts have recognized the reach of the Internet in awarding damages in online counterfeiting case. In a few online counterfeiting cases where a

few of the defendants appeared (and the other defendants defaulted), damages were dealt with in connection with the plaintiff's motion for summary judgment. In each case a significant damage award was entered, despite the defendants' lack of default. In one case, the court awarded \$2 million in trademark statutory damages against the defaulting defendants, and then awarded \$1 million in trademark statutory damages against the two non-defaulting defendants. In declining to adopt plaintiffs' argument that \$2 million should be awarded because that is what the court had already awarded against the defaulting defendants, the Court pointed out these two defendants were not in default. *Monster Energy Co. v. Meng Chun Jing*, No. 15-CV-2019, 2015 WL 4081288 (N.D. Ill. July 6, 2015). Of note, the amounts of the restrained assets were \$15,941.95 for one of the defendants and \$8,512.60 for the other defendant; these amounts are consistent with the restrained amounts in the present cases. In another case, the non-defaulting defendant argued it had only sold eleven infringing hats for a total \$62 and statutory damages should be minimal. The Court, however, awarded Plaintiffs \$100,000 in damages based in part on "Defendant [having] the potential to reach a wide audience with its counterfeit goods because it advertised them on the internet, allowing for distribution far greater than if it had sold the hats in a brick-and-mortar store." *Luxottica Group S.p.A. v. Li Chen*, No. 16-CV-6850, 2017 WL 836228 (N.D. Ill. March 2, 2017). The Court specifically contrasted this with the damage award in *Coach, Inc. v. Becka*, No. 5:11-CV-371, 2012 WL 5398830 (M.D. Ga. Nov. 2, 2012), where \$2,000 in damages was awarded and the Georgia Court noting the defendant "was operating out of a single small retail location, and [she] did not sell or advertise the counterfeit items on the Internet."

This Court would not be the first Court to award \$2 million in statutory trademark damages in a default judgment in an online counterfeiting case. The most recent award of this

amount in this District was in *Airigan Solutions, LLC v. Belvia*, No. 20-cv-284 (W.D. Pa., April 21, 2020) (Schwab, J.) (\$2 million in damages against each defendant) [DE 34]. Other courts have likewise entered maximum statutory trademark damage awards in online counterfeiting cases. See *Volvo Trademark Holding AB v. The Unincorporated Associations Identified in Schedule "A"*, No. 19-cv-974 (E.D. Va. Dec. 30, 2019) (O'Grady, J.) (\$2 million dollars in statutory damages awarded against each defendant) [DE 62 and 63]; *Michael Kors, L.L.C. v. The Partnerships and Unincorporated Associations Identified on Schedule "A"*, Case No. 15-cv-00124 (N.D. Ill. Mar. 25, 2015 and May 12, 2015) (\$2 million dollars in statutory damages awarded against each defendant) [DE 44 and 61]; and *Monster Energy Co. v. The Partnerships and Unincorporated Associations Identified on Schedule "A"*, Case No. 15-cv-00277 (N.D. Ill. March 25, 2015) (\$2 million dollars in statutory damages awarded against each defendant) [DE 50].

The statutory damages award is available for each trademark asserted. In Case Nos. 19-1282 and 19-1283, Plaintiffs are asserting **two** U.S. trademark registrations. Nonetheless, Plaintiffs are only requesting one \$2 million statutory damage award. At least one court has awarded \$2 million per registration in online counterfeiting cases. See *Juul Labs, Inc. v. The Unincorporated Associations Identified in Schedule "A"*, No. 19-cv-1063 (E.D. Va. May 22, 2020) (O'Grady, J.) (\$2 million per registration awarded, for a total of \$4 million per defendant) [DE 169]; and *Juul Labs, Inc. v. The Unincorporated Associations Identified in Schedule "A"*, No. 18-cv-1382 (E.D. Va. June 27, 2019) (Hilton, J.) (same) [DE 82].

The Defaulting Defendants' actions of willful counterfeiting to millions (if not billions) of potential customers through the internet warrants a severe deterrent. In the present case, an award of the maximum statutory damages of \$2 million dollars is appropriate to serve the

purposes of: (1) deterring each defendant and others situated like it from bringing into commerce counterfeit goods, (2) punishing each defendant appropriately for its counterfeiting activities, and (3) providing some compensation to Plaintiffs for damages caused by each defendant's infringement.

2. The Court Should Award the Requested Maximum Statutory Copyright Damages in All Cases as to Certain Defendants

Statutory copyright damages are intended not merely for the restitution of profit or reparation of injury, but to deter wrongful conduct. The Copyright Act provides statutory damages may range from a sum of not less than \$750 or more than \$30,000 as the court considers just. 17 U.S.C. § 504(c)(1). If the infringement was committed willfully, the court in its discretion may increase the award of statutory damages to a sum of not more than \$150,000. 17 U.S.C. § 504(c)(2).

As this Court has previously noted, “the Court has ‘broad discretion in setting the amount of statutory damages under the Copyright Act.’” *Zuffa, LLC v. Perris*, No. 19-cv-938, 2020 U.S. Dist. LEXIS 17123, at *13 (W.D. Pa. Jan. 31, 2020) (quoting *Joe Hand Promotions, Inc. v. Aguilar*, 2019 WL 4071776, at *4 (D. Md. Aug. 29, 2019)). In determining the appropriate award of statutory damages, this Court has previously considered:

(1) expenses saved and profits reaped by the infringer; (2) revenues lost by the plaintiff; (3) the strong public interest in insuring the integrity of the copyright laws; and (4) whether the infringement was willful and knowing or innocent and accidental.

Broad. Music, Inc. v. George Moore Enters., 184 F. Supp. 3d 166, 171 (W.D. Pa. 2015) (Gibson, J.) (case involved unauthorized public performances of musical compositions).

With respect to the first two factors, the Defaulting Defendants' propensities to secret evidence pertaining to sales and profits, along with their failure to cooperate (*e.g.*, to appear,

answer, or otherwise respond to the Complaint), have made it impossible to determine Defaulting Defendants' profits, quantify any expenses that Defaulting Defendants may have saved by infringing Plaintiff's Copyrighted Works, and access any revenues lost by Plaintiffs as a result of Defaulting Defendants; infringing and counterfeiting activities. Thus, these two factors weigh in favor of a higher statutory damage award for Plaintiffs. *See AW Licensing, LLC v. Bao*, No. 15-cv-1373, 2016 WL 4137453, at *3 (S.D.N.Y. Aug. 2, 2016) ("courts have supported an inference of a broad scope of operations in cases dealing specifically with websites that ship and sell to a wide geographic range ... [t]herefore, factors (1) and (2) weigh in favor of [Plaintiff].") The remaining factors also support a significant statutory damages award against Defaulting Defendants. Particularly where, such as here, Defaulting Defendants have acted willfully as an award of statutory copyright damages should incorporate not only a compensatory, but also a punitive component to discourage further wrongdoing by the Defaulting Defendants and others.

This Court would not be the first court to award statutory copyright damages in an online counterfeiting case. *See Millennium IP, Inc. v. The Partnerships and Unincorporated Associations Identified on Schedule "A"*, No. 19-cv-3608 (N.D. Ill. July 25, 2019) (Norgle, J.) (default judgment awarded \$100,000 in copyright statutory damages); and *Nu Image, Inc. v. The Partnerships and Unincorporated Associations Identified on Schedule "A"*, No. 17-cv-1423 (N.D. Ill. April 10, 2017) (same). Nor would this Court be the first to award statutory copyright damages in addition to trademark statutory damages or disgorgement of defendant's profit under the Lanham Act. *Yash Raj Films (USA), Inc. v. Sidhu*, 2010 WL 1032792 (E.D. Cal. 2010) (court awarded statutory damages under the Copyright and Lanham Act as a deterrence); *Starbucks Corporation v. Hitman Glass*, 2016 WL 6126255 (C.D. Cal. 2016) (awarding statutory

copyright damages and disgorgement of defendant's profit under the Lanham Act), *citing* *Nintendo of Am., Inc. v. Dragon Pac. Int'l*, 40 F.3d 1007, 1011 (9th Cir. 1994).

III. CONCLUSION

For the reasons set forth above, Plaintiffs respectfully request that their motion for default judgment be granted and a Judgment in the form previously submitted be entered. Plaintiffs note the that Court's Order placed Plaintiffs on notice of additional questions the Court has. Plaintiffs are currently evaluating whether to submit a pre-hearing submission to address those questions.

Respectfully submitted,

Dated: June 15, 2020

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CERTIFICATE OF SERVICE

I hereby certify that on June 15, 2020, the foregoing document is being filed via the Case Management/Electronic Case Filing (CM/ECF) system; I also certify that on the same day, a true copy of the foregoing is being served in accordance with the Order Authorizing Alternate Service.

/s/ Stanley D. Ference III
Stanley D. Ference III