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**DESIGNER DISCOUNTER INFRINGES TRADEMARK
AND GOES UNPUNISHED: A LOOK AT *GUCCI
AMERICA, INC. V. DAFFY'S, INC.* AND THE LANHAM
ACT**

*Note By: Sarah Cone**

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I. INTRODUCTION

[1] Regardless of the quality, a knockoff handbag is still a knockoff. It was on this premise that Gucci America, Inc. filed suit against Daffy's, Inc. for selling counterfeit Gucci handbags.¹ Gucci alleged that Daffy's violated its trademark protection under the Lanham Act.² In the lawsuit, Gucci asserted that it was concerned about the possible confusion of consumers who purchased counterfeit "Jackie-O" handbags, believing them to be genuine Gucci products.³ Neither the district court nor the circuit court allowed Gucci relief against Daffy's.⁴ This note examines how that decision fits within the Lanham Act.

II. TRADEMARK INFRINGEMENT

A. Historical Perspective on Trademarks

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¹ Gucci Am., Inc. v. Daffy's, Inc., No. CIV.A.00-4463, 2000 WL 1720738, at *1 (D.N.J. Nov. 14, 2000).

² 15 U.S.C. §§ 1051-1141 (2000).

³ Gucci Am., Inc. v. Daffy's, Inc., 354 F.3d 228, 234 (3d Cir. 2003).

⁴ *Id.* at 229.

[2] In ancient Rome, trademarks served much the same purpose as they do in the United States today.⁵ They helped consumers identify the creator of an object while creating a connection between the quality of the product and the creator's name.⁶ Even wine jugs in ancient Rome were marked with details such as the manufacturer and creation date to protect the producers.⁷ In the Middle Ages, paintings could be protected from trademark infringement, and innkeepers who sold ordinary wine under a false name could be hanged in the Fourteenth Century.⁸

B. *The Lanham Act*

1. Provisions

[3] The Lanham Act is the current federal statute governing trademark registration and infringement.⁹ The Act permits civil action against anyone who

[U]ses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person¹⁰

Under the statute, a plaintiff may be entitled to profits, damages, and costs of the action if there is “a violation under section 1125(a) or (d) . . . or a willful violation under section 1125(c).”¹¹

⁵ Edward S. Rogers, *Some Historical Matter Concerning Trademarks*, 9 MICH. L. REV. 29, 30 (1911).

⁶ Jed S. Rakoff & Ira B. Wolff, *Commercial Counterfeiting: The Inadequacy of Existing Remedies*, 73 TRADEMARK REP. 493, 496-97 (1983).

⁷ *Id.* at 496.

⁸ Rogers, *supra* note 5, at 32-33.

⁹ 1 JEROME GILSON ET AL., TRADEMARK PROTECTION AND PRACTICE § 1.04(3)(a) (51st ed. 2004).

¹⁰ 15 U.S.C. § 1125(a)(1)-(a)(1)(A) (2000).

¹¹ 15 U.S.C. § 1117(a). Section 1125(c) enumerates remedies for the “dilution of famous marks”; section 1125(d) discusses cyberpiracy, 15 U.S.C. § 1125(c)-(d).

2. In Need of Botox

[4] The judicial circuits are “effectively the courts of last resort” in trademark infringement cases because “Congress rarely intercedes, and ... the Supreme Court has other things on its mind.”¹² Despite the existence of the Lanham Act, “each circuit continues to create and apply its own version of trademark law.”¹³ For instance, in the Second Circuit “willful deceptiveness” is a hurdle to an award of profits,¹⁴ while the Seventh Circuit does not require willfulness to “justify an award of profits.”¹⁵ “Each circuit has developed its own test for deciding whether or not to grant preliminary injunctive relief.”¹⁶ Most circuits consider the likelihood of success on the merits, irreparable injury to the plaintiff, injury to the defendant versus injury to the plaintiff, and public interest.¹⁷ However, the Second and Ninth Circuits require fewer of these considerations, and the Seventh Circuit splits them into a two-tiered test.¹⁸ Even those courts that consider the same factors do so in an inconsistent way.¹⁹ Inconsistent holdings, as well as court-invented doctrines and standards, permeate trademark litigation, leading some to believe the precedent surrounding the Lanham Act may need a “face-lift.”²⁰ Unfortunately, Congress may not be prepared for a complete overhaul of the Act,²¹ leaving different rules in force in different circuits.²²

III. DESIGNER V. DISCOUNTER

A. Case History

¹² JEROME GILSON & ANNE GILSON LALONDE, *THE LANHAM ACT: TIME FOR A FACE-LIFT?* 1 (2002).

¹³ *Id.* at 3.

¹⁴ *Id.* at 19 (quoting *George Basch Co. v. Blue Coral, Inc.*, 968 F.2d 1532, 1537 (2d Cir. 1992)).

¹⁵ *Id.* at 20 (quoting *Ruolo v. Russ Berrie & Co.*, 886 F.2d 931, 941 (7th Cir. 1989)).

¹⁶ 3 JEROME GILSON ET AL., *TRADEMARK PROTECTION AND PRACTICE* § 14.02(3)(b) (51st ed. 2004).

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ *Id.* (explaining that the Fourth Circuit permits an injunction if there is a “decided imbalance,” yet the Eighth and Tenth Circuits look for a need “for more deliberate investigation”).

²⁰ JEROME GILSON & ANNE GILSON LALONDE, *THE LANHAM ACT: TIME FOR A FACE-LIFT?* 1 (2002).

²¹ *Id.* at 22.

²² *Id.* at 3.

1. The Purchase and Sale of Gucci Handbags

[5] Daffy's sells popular brands of clothing at discount prices.²³ Among the items it once sold were Gucci handbags.²⁴ Daffy's bought 594 handbags from supplier Sara's Collection, Inc. for \$238 to \$250 each; the bags appeared to be Gucci's "Jackie-O" model.²⁵ Because Sara's Collection was not in Gucci's authorized chain of distribution, Daffy's decided to exercise "an excess of caution."²⁶ Daffy's attempted to authenticate the bags through an inspection by a salesclerk at a New Jersey Gucci outlet store and by sending one for repair to the Gucci repair center in New York.²⁷ The salesclerk examined the bag, compared it to another in the store, and told the Daffy's employee who made the inquiry that it was authentic Gucci.²⁸ Because the damaged bag was repaired and returned without question, Daffy's concluded it too was genuine.²⁹ Daffy's sold 588 of the bags before receiving a letter from Gucci insisting that it stop selling the bags and disclose its supplier.³⁰ Despite the belief that it had done nothing wrong, Daffy's removed the remaining handbags from its stores.³¹

2. Gucci's Lawsuit

[6] Gucci filed suit for an Order to Show Cause why Daffy's should not be enjoined from selling the counterfeit bags and for expedited discovery of Daffy's supplier.³² The district court first evaluated whether or not the bags were authentic.³³ The bags did turn out to be counterfeit, but were virtually indistinguishable from genuine Gucci bags.³⁴ The court then considered Gucci's requests for a recall, an injunction forbidding Daffy to use the Gucci trademark, a finding of willful infringement, and

²³ *Gucci Am., Inc. v. Daffy's, Inc.*, 354 F.3d 228, 229 (3d Cir. 2003).

²⁴ *Gucci Am., Inc. v. Daffy's, Inc.*, No. CN.A.00-4463, 2000 WL 1720738, at *1 (D.N.J. Nov. 14, 2000).

²⁵ *Gucci*, 354 F.3d at 229.

²⁶ *Gucci*, 2000 WL 1720738, at *1.

²⁷ *Gucci*, 354 F.3d at 230.

²⁸ *Id.*

²⁹ *Id.*

³⁰ *Id.*

³¹ *Id.*

³² *Id.*

³³ *Id.*

³⁴ *Id.* at 230-31.

the profits from Daffy's sales.³⁵ Finding only that Daffy's had infringed Gucci's trademark, the court denied all of Gucci's requests.³⁶ On appeal, the Third Circuit affirmed the ruling.³⁷

B. *The Majority Opinion*

[7] The circuit court examined the decision of the district court for an abuse of discretion.³⁸ It explained that an abuse of discretion has occurred if there has been an error in fact-finding, in legal conclusions, or in applying the law to the facts.³⁹ Although Gucci requested a recall of the counterfeit products, the court did not agree that the public benefit of such an action would outweigh harm to Daffy's, which the court deemed an innocent infringer.⁴⁰ The court also reviewed Gucci's request for an injunction against Daffy's, as well as an award of lost profits.⁴¹

1. Injunctive Relief

[8] The court could grant injunctive relief "according to the principles of equity and upon such terms as the court may deem reasonable."⁴² After Daffy's pulled the counterfeit Gucci handbags from its shelves, it "voluntarily enacted" a policy of "not dealing in Gucci products."⁴³ Unsatisfied with what it considered an impermanent arrangement, Gucci asked the court to grant a permanent injunction court-ordering this policy and protecting Gucci from potential future infringement.⁴⁴

[9] Considerations for a permanent injunction, as required by the Third Circuit in *Shields v. Zuccarini*, include "actual success on the merits," irreparable injury from denial of the injunction, greater harm to defendant from granting the injunction, and the public interest.⁴⁵ The court admitted that "trademark infringement amounts to irreparable injury as a matter of

³⁵ *Id.* at 231.

³⁶ *Id.* at 231-32.

³⁷ *Id.* at 229.

³⁸ *Id.* at 233.

³⁹ *Id.* (citing *Charles Jacquin Et Cie, Inc. v. Destileria Serralles, Inc.*, 921 F.2d 467, 472 (3d Cir. 1990) (quoting *International Union United Auto., Aerospace, & Agric. Implement Workers of Am. v. Mack Trucks, Inc.*, 820 F.2d 91, 95 (3d Cir. 1987)).

⁴⁰ *Gucci*, 354 F.3d at 234.

⁴¹ *Id.* at 235.

⁴² 15 U.S.C. § 1116(a) (2000).

⁴³ *Gucci*, 354 F.3d at 236.

⁴⁴ *Id.*

⁴⁵ *Id.* at 236-37 (citing *Shields v. Zuccarini*, 254 F.3d 476, 482 (3d Cir. 2001)).

law,” even in the case of a high-quality counterfeit.⁴⁶ However, Gucci did not argue loss of control until its appeal. The court concluded “that aspect of irreparable injury was [sic] therefore been waived.”⁴⁷

[10] Additionally, Gucci claimed that it was up to Daffy’s to refute future harm.⁴⁸ The court considered Gucci’s arguments in light of a case involving Barney, the purple dinosaur.⁴⁹ The Third Circuit noted that the defendant in the Barney case continued to rent the costumes after being informed of the infringement and that the plaintiff lacked control over the behavior of the person inside the costume.⁵⁰ In that case, the circumstances required a permanent injunction.⁵¹ The Third Circuit explained, however, that the injunction prohibiting future costume rentals did not automatically require an injunction against Daffy’s because the infringements were not analogous.⁵² The Barney trademark could suffer much more harm through the actions of costume renters than could Gucci from the sale of high-quality bags.⁵³ Therefore, the appellate court determined that the district court did not overstep its discretion in refusing Gucci’s request under the *Shields* test.⁵⁴

2. Profits

[11] Gucci was eligible to recover Daffy’s profits “subject to the principles of equity.”⁵⁵ The district court relied on *SecuraComm Consulting, Inc. v. Securacom, Inc.*⁵⁶ to assess the principle of equity as it applied to Gucci and Daffy’s.⁵⁷ The court in *SecuraComm* explained that

⁴⁶ *Gucci*, 354 F.3d at 237 (quoting *S & R Corp. v. Jiffy Lube Int’l, Inc.*, 968 F.2d 371, 378 (3d Cir. 1992)).

⁴⁷ *Gucci*, 354 F.3d at 237.

⁴⁸ *Id.*

⁴⁹ *Id.* at 237-38. *Lyons Partnership v. Morris Costumes, Inc.*, 243 F.3d 789 (4th Cir. 2001), involved the rental of costumes that looked similar to the characters on the popular children’s show.

⁵⁰ *Gucci*, 354 F.3d at 238, 239 n.12.

⁵¹ *Id.* at 239.

⁵² *Id.* at 238, 239 n.12.

⁵³ *Id.* at 238, 239 n.12.

⁵⁴ *Id.* at 238-39.

⁵⁵ 15 U.S.C. § 1117(a) (2000).

⁵⁶ 166 F.3d 182 (3d Cir. 1999).

⁵⁷ *Gucci*, 354 F.3d at 239.

willful infringement is central to awarding profits.⁵⁸ When the Third Circuit decided *SecuraComm*, the Lanham Act's language read:

[w]hen a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, or a violation under section 43(a), shall have been established in any civil action arising under this Act, the plaintiff shall be entitled ... to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action.⁵⁹

Gucci claimed that amendments to the Lanham Act since *SecuraComm* have clarified Congress' intention to require willfulness only in situations involving the dilution of a famous mark.⁶⁰ The Act now reads:

[w]hen a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, a violation under section 43(a) or (d), or a willful violation under section 43(c), shall have been established in any civil action arising under this Act, the plaintiff shall be entitled ... to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action.⁶¹

However, in *Quick Technologies, Inc. v. Sage Group PLC*,⁶² the court refused "to adopt a bright-line rule in which a showing of willful infringement is a prerequisite to an accounting of profits."⁶³ Instead, the Fifth Circuit deemed willfulness "an important factor which must be considered when determining whether an accounting of profits is appropriate."⁶⁴ The Third Circuit recognized that equitable factors should still be considered, including whether or not there was willful infringement, and determined that the district court did not abuse its discretion by not awarding Daffy's profits to Gucci.⁶⁵

⁵⁸ *SecuraComm*, 166 F.3d at 187.

⁵⁹ *Id.* at 186 (quoting 15 U.S.C. § 1117 (2000)).

⁶⁰ *Gucci*, 354 F.3d at 240.

⁶¹ 15 U.S.C. § 1117(a) (2000) (emphasis added).

⁶² 313 F.3d 338 (5th Cir. 2002).

⁶³ *Id.* at 349.

⁶⁴ *Id.*

⁶⁵ *Gucci*, 354 F.3d at 241-42.

C. *The Dissent*

[12] Judge Rosenn dissented, pointing out that the district court ignored that one purpose of the trademark statute is “to protect the public from deceit.”⁶⁶ Rosenn argued that the court’s decision did “nothing to discourage trade-mark infringement.”⁶⁷

1. Injunctive Relief

[13] Although Judge Rosenn cited the *Shields* test as the appropriate determination for whether to issue an injunction, he disagreed that the burden of proof was on Gucci to prove irreparable harm.⁶⁸ Instead, he alleged that the burden was on Daffy’s to prove otherwise because of the majority’s admission that “trademark infringement amounts to irreparable injury as a matter of law.”⁶⁹ For the same reason, Judge Rosenn refuted the majority’s assertion that Gucci waived its claim of irreparable harm.⁷⁰ Further, he explained the need for an injunction because “[n]o legal obligation prevents Daffy’s from ... resuming sales of purported Gucci products.”⁷¹ He pointed out “[t]he unwillingness of Daffy’s to stipulate that in the future it would not sell Gucci bags” as justification for issuing the injunction.⁷²

2. Profits

[14] Agreeing with Gucci, Judge Rosenn explained that amendments to the Lanham Act superseded *SecuraComm*: “[t]he specific inclusion of the word ‘willful’ prior to ‘violation’ in the same sentence with the word ‘violation’ without any adjective suggests an intentional contrast between the requirements for proving each type of violation.”⁷³ Without willfulness, an equitable remedy requires the trademark owner not “retain the beneficial interest.”⁷⁴ Judge Rosenn claimed that the majority

⁶⁶ *Id.* at 244 (Rosenn, J., dissenting).

⁶⁷ *Id.* (Rosenn, J., dissenting).

⁶⁸ *Id.* at 247 (Rosenn, J., dissenting).

⁶⁹ *Id.* at 247-48 (Rosenn, J., dissenting) (quoting *S & R Corp. v. Jiffy Lube Int’l, Inc.*, 968 F.2d 371, 378 (3d Cir. 1992)).

⁷⁰ *Id.* at 248 (Rosenn, J., dissenting).

⁷¹ *Id.* at 249 (Rosenn, J., dissenting).

⁷² *Id.* (Rosenn, J., dissenting).

⁷³ *Id.* at 245 (Rosenn, J., dissenting).

⁷⁴ *Id.* at 246 (Rosenn, J., dissenting).

unreasonably burdened Gucci to prove that Daffy's customers purchased the handbags because of the Gucci name, but "[i]t cannot be seriously doubted that customers paid a premium for the Gucci name."⁷⁵

[15] Judge Rosenn also refuted the majority's characterization of Daffy's as an innocent infringer because of the high-risk nature of the discount business and the purchase of the Gucci handbags from a business outside of Gucci's distribution chain.⁷⁶ He claimed that Daffy's authentication attempt was "simply a superficial effort to cover itself in the event of a lawsuit."⁷⁷ Between the innocent infringer and the innocent infringed, the equities favor the latter.⁷⁸ Since equity principles favored Gucci, and willfulness is not a requirement for awarding profits, Gucci was eligible to recover profits against Daffy's.

IV. ANALYSIS

[16] Gucci is perhaps among the most recognized names in the fashion world. Its reputation and relatively high price tags make Gucci a likely target for counterfeiters looking to make a quick dollar. Although Gucci was the victim of counterfeiting,⁷⁹ the Third Circuit held that the district court's denial of injunctive relief and profits under the Lanham Act was reasonable.⁸⁰

A. *Injunctive Relief*

1. The Standard

[17] The Lanham Act permits courts to grant an injunction "according to the principles of equity and upon such terms as the court may deem reasonable, to prevent the violation of any right of the registrant of a mark. . . ."⁸¹ It does not, however, enumerate the principles of equity or which terms are "reasonable." Therefore, a court must look to precedent and apply its interpretation of the law to the facts of the case.

⁷⁵ *Id.* at 246-47 (Rosenn, J., dissenting).

⁷⁶ *Id.* at 244 (Rosenn, J., dissenting).

⁷⁷ *Id.* (Rosenn, J., dissenting).

⁷⁸ *Id.* at 246 (quoting *Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 589 (7th Cir. 1989)).

⁷⁹ *Gucci*, 354 F.3d at 230.

⁸⁰ *Id.* at 229.

⁸¹ 15 U.S.C. § 1116(a) (2000).

2. Third Circuit Precedent

[18] Under the *Shields* test, the district court was required to consider four factors in assessing a request for injunctive relief.⁸² Irreparable injury is one of these four factors.⁸³ Even if the dissent correctly characterized the lack of an irreparable harm waiver, the district court still had discretion in evaluating the other considerations.⁸⁴ After determining that the handbags were counterfeit, the district court considered the factors of harm to the defendant and the public interest.⁸⁵ The Third Circuit considered the district court's decision and deemed it reasonable in light of the *Shields* test.⁸⁶

3. In Other Circuits

[19] In the Eleventh Circuit, the issuance of an injunction is “an extraordinary and drastic remedy not to be granted unless the movant clearly established the ‘burden of persuasion’ as to all four elements.”⁸⁷ However, the Sixth Circuit described the same factors as considerations “to be balanced and not prerequisites that must be satisfied.”⁸⁸ As each appellate court may have different interpretations of how to apply the same or similar factors, it follows that the district courts also evaluate the factors differently. Thus, the district court could still have deemed an injunction inappropriate.

B. Profits

1. Requiring Willfulness

[20] Deciding when to award an accounting of profits has been the least clear issue surrounding the Lanham Act in federal jurisprudence.⁸⁹ Based

⁸² *Gucci*, 354 F.3d at 236-37.

⁸³ *Id.* at 236.

⁸⁴ *See supra* Part III.C.1.

⁸⁵ *Gucci*, 354 F.3d at 236-37.

⁸⁶ *Id.* at 238-39.

⁸⁷ *Davidoff & Cie S.A. v. PLD Int'l Corp.*, 263 F.3d 1297, 1300 (11th Cir. 2001) (citing *Siegel v. LePore*, 234 F.3d 1163, 1176 (11th Cir. 2000)).

⁸⁸ *In re Eagle-Picher Indus., Inc.*, 963 F.2d 855, 859 (6th Cir. 1992); *In re DeLorean Motor Co.*, 755 F.2d 1223, 1229 (6th Cir. 1985).

⁸⁹ Danielle Conway-Jones, *Remedying Trademark Infringement: The Role of Bad Faith in Awarding an Accounting of Defendant's Profits*, 42 SANTA CLARA L. REV. 863, 863-64 (2002).

on the black-and-white language of the Lanham Act, there is no willfulness requirement to allow remedies for infringement,⁹⁰ yet the courts have been reluctant to award profits without at least a consideration of willfulness.⁹¹ The Fifth Circuit has been “the only” appellate court to consider how willfulness comports with the 1999 amendment to the Lanham Act.⁹²

2. The Third Circuit’s “Kinda, Sorta” Requirement of Willfulness

[21] If *SecuraComm* is no longer binding precedent in the Third Circuit, willful infringement may still have “a central role” in alternative guidelines.⁹³ To eliminate consideration of willfulness “would require awarding profits in all cases of infringement.”⁹⁴ The appellate court admitted that its holding in *SecuraComm* may have changed after the Lanham Act amendment.⁹⁵ It found, however, that by either standard the district court committed no error.⁹⁶ Thus, the Third Circuit also considered the district court’s denial of profits a reasonable decision by the balance of equities.⁹⁷

C. Results

1. Still Murky Rules Regarding Willfulness

[22] Unfortunately, the *Gucci* court created no definite answer to clarify the muddled waters of Lanham Act jurisprudence. In February 2003,

⁹⁰ GILSON, *supra* note 12, at 20.

⁹¹ *See, e.g., Quick Techs., Inc. v. Sage Group PLC*, 313 F.3d 338, 349 (5th Cir. 2002) (affirming a factor-based approach, including intent to confuse or deceive, to determine an accounting of profits), *cert. denied*, 540 U.S. 814 (2003).

⁹² *Gucci*, 354 F.3d at 245 (Rosenn, J., dissenting); *Quick Techs.*, 313 F.3d at 348-49.

⁹³ *Gucci*, 354 F.3d at 239. *See also* Conway-Jones, *supra* note 81, at 864 (explaining that, despite an apparent Supreme Court answer of not requiring bad faith, subsequent circuit and district court decisions left a “schizophrenic view” of the issue). *SecuraComm* was filed on Jan. 20, 1999, *SecuraComm Consulting, Inc. v. Securacom Inc.*, 166 F.3d 182 (3d Cir. 1999); the Lanham Act amendment was made on Nov. 29, 1999, 15 U.S.C. § 1117 (2000).

⁹⁴ *Gucci*, 354 F.3d at 243.

⁹⁵ *Id.* at 242. *See also* MasterCard Int’l, Inc. v. First Nat’l Bank, No. 02 Civ. 3691, 2004 WL 326708, at *11 n.16 (S.D.N.Y. Feb. 23, 2004) (explaining that the Third Circuit left open the issue of whether or not the existing precedent was altered by the 1999 amendment).

⁹⁶ *Gucci*, 354 F.3d at 242.

⁹⁷ *Id.* at 243.

MasterCard and the First National Bank of Omaha disagreed regarding the use of trademarks “OneSmart” and “Smart One.”⁹⁸ The district court pointed to cases from 1992 and 1996 to explain the law of the Second Circuit: as a prerequisite to recovery, “a plaintiff must prove that the infringer acted in bad faith.”⁹⁹ The court explained that the part of the amendment to the Lanham Act that did not include “willful” merely affirms the “existing judicial interpretation of that language.”¹⁰⁰ Without sufficient evidence of MasterCard’s willful infringement, the district court denied First National Bank’s motion for summary judgment on its claims for monetary relief.¹⁰¹ The Southern District of New York ruled on another trademark infringement case in 2003 bearing remarkable resemblance to *Gucci*.¹⁰² In its decision, the court did not point out the same precedents as its February case in awarding damages, nor did it make clear whether it still considered bad faith a prerequisite to awarding damages. It relied on what it regarded as obvious willful action and awarded relief under the Lanham Act’s statutory damages provision.¹⁰³

2. The Decision Fell Short of the Statute’s Intent

[23] The court’s decision in *Gucci* failed to penalize the infringer. Daffy’s voluntarily adopted a “no Gucci” policy, but, as the dissent pointed out, nothing prevented Daffy’s from rescinding that policy.¹⁰⁴ In the meantime, Daffy’s netted \$51,064 selling counterfeit Gucci handbags.¹⁰⁵ The court assumed that the people who purchased the handbags thought they were buying genuine Gucci bags.¹⁰⁶ To the contrary, New York City and the surrounding areas are known for having

⁹⁸ *MasterCard*, 2004 WL 326708.

⁹⁹ *Id.* at *11 (quoting *Int’l Star Class Yacht Racing Ass’n v. Tommy Hilfiger*, U.S.A., Inc., 80 F.3d 749, 753 (2d Cir. 1996)).

¹⁰⁰ *MasterCard*, 2004 WL 326708, at *11.

¹⁰¹ *Id.* at *12. *But cf.* *Int’l Star Class Yacht Racing Ass’n v. Tommy Hilfiger*, U.S.A., Inc., No. 99-7329, 2000 U.S. App. LEXIS 660, at *2 (2d Cir. Jan. 12, 2000) (refusing to change the legal standard requiring a showing of bad faith to recover monetary damages after two remands).

¹⁰² *Gucci Am., Inc. v. Duty Free Apparel, Ltd.*, 315 F. Supp. 2d 511 (S.D.N.Y. 2004), *amended in part by* *Gucci Am., Inc. v. Duty Free Apparel, Ltd.*, 328 F. Supp. 2d 439 (S.D.N.Y. 2004).

¹⁰³ *Id.* at 520. *See* 15 U.S.C. § 1117(c) (2000).

¹⁰⁴ *Gucci Am., Inc. v. Daffy’s, Inc.*, 354 F.3d 228, 248-49 (3d Cir. 2003) (Rosenn, J., dissenting).

¹⁰⁵ *Id.* at 246 (Rosenn, J., dissenting).

¹⁰⁶ *Id.* at 246 (Rosenn, J., dissenting).

designer handbags at discount prices, many of which are fake. Not only is Daffy's in a business involving "considerable risk,"¹⁰⁷ but its customers must also have some concept of *caveat emptor*. Proof that customers bought the product because of the trademark would be nearly impossible to obtain, short of polling the purchasers. Whether customers bought them because they thought they were Gucci, thought they were good Gucci knockoffs, or thought they were nice bags even though they had no idea what the "GG" logo represented, is of no consequence because Daffy's still profited from the unlawful use of Gucci's mark. It made money selling a product bearing a false trademark.

[24] Daffy's covered itself by attempting to authenticate the suspect bags and posing as an innocent infringer.¹⁰⁸ In addition, the only deterrent preventing the discounter from selling counterfeit Gucci bags again is the fear of being dragged back into court. As such, the result of *Gucci* is that "innocent infringers are effectively immune from having to disgorge profits, despite the fact that innocence is no defense to a charge of infringement."¹⁰⁹

V. FORECAST

[25] The circuit courts have wrapped themselves in a quandary of inconsistent decisions. Even though over ninety-five percent of trademark cases settle before trial,¹¹⁰ there is good potential for considerable legal discrepancies and a lot of forum shopping as a result.¹¹¹

A. *Injunctive Relief*

[26] Without Supreme Court precedent or statutory overhaul, the principles of equity considerations and reasonable injunction terms will remain cloudy. Each circuit has made up its own mind as to what comprises the principles of equity, and there are "sixty-six jurisdictions capable of making or changing trademark law, not to mention several

¹⁰⁷ *Id.* at 244 (Rosenn, J., dissenting).

¹⁰⁸ *Id.* at 244. *Cf. Gucci Am., Inc. v. Duty Free Apparel, Ltd.*, 315 F. Supp. 2d 511 (S.D.N.Y. 2004) (finding willfulness existed when an infringer did not attempt a reasonable inquiry into the authenticity of the infringing goods it sold).

¹⁰⁹ GILSON, *supra* note 12, at 19.

¹¹⁰ *Id.* at 6.

¹¹¹ *See Id.* at 20 (questioning why a plaintiff would file in the Second Circuit where additional hurdles must be jumped).

hundred individual district court judges.”¹¹² While some may utilize the same factors, each may evaluate them differently, a practice that inevitably results in inconsistent decisions in varying courts based on similar circumstances.

B. Profits

[27] Again, absent binding precedent or statutory clarification, the ability to recover profits from the sale of infringing goods will continue to be determined based on different factors. However, there is hope for more consistency as some courts appear to be shying away from their own statute-changing precedents. For example, although the Third Circuit did not announce in *Gucci* that *SecuraComm*'s willful infringement requirement is no longer binding, it left the door open for that issue to be considered in the future.¹¹³ Similarly, even though the Southern District of New York refused to reconsider its requirement of bad faith, pointing out that it was inappropriate to change the legal standard after two remands, it did not close the door to the possibility that the legal standard was actually in need of changing.¹¹⁴

[28] Unfortunately, the outcome in *Gucci* may have unintentionally opened a Pandora's box. Even if bad faith may no longer be a prerequisite to awarding damages, the Third Circuit still allowed Daffy's to benefit from its infringement.¹¹⁵ It pointed to “[t]he price and quality of the handbags at issue, the small number of bags sold, Daffy's status as an innocent infringer, and the possibility that Gucci could recover from the actual manufacturer of the bags” as justification for not awarding profits.¹¹⁶ Such a statement is extraordinarily helpful to counterfeiters who can now use that criterion to avoid a judgment against them.

VI. CONCLUSION

[29] The Third Circuit's ruling in *Gucci* comported with the language of the Lanham Act but failed to reach its goals. Trademarks are meant to protect both the mark owner and the public. For as long as people have been making products, this has been the intention. Congress added the

¹¹² *Id.* at 3.

¹¹³ *Gucci Am., Inc. v. Daffy's, Inc.*, 354 F.3d 228, 241-42 (3d Cir. 2003).

¹¹⁴ *See Gucci Am., Inc. v. Duty Free Apparel, Ltd.*, 315 F.Supp.2d 511 (S.D.N.Y. 2004).

¹¹⁵ *See infra* Part IV.C.

¹¹⁶ *Gucci Am., Inc. v. Daffy's, Inc.*, 354 F.3d 228, 242-43 (3d Cir. 2003).

protection to federal statutory law through the Lanham Act, providing civil action and remedies when a trademark is infringed. However, these civil actions have created a body of jurisprudence as diverse as the judges who wrote the decisions.

[30] Regrettably for Gucci, this has resulted in the sale of almost 600 counterfeit accessories for which it received no compensation. Further, the Third Circuit's decision has done nothing to bestow Gucci with any confidence that the same discounter will be prevented from infringing on its trademark again in the future and profiting as a result.

[31] Most notably at issue was the idea of willful infringement as a prerequisite to an awarding of damages or profits. The court admitted that while willfulness or bad faith may not be a prerequisite to recovering profits, they could fit within factors and considerations the court uses to assess such a request. As case precedent currently stands, some circuits consider willfulness a prerequisite while others do not.¹¹⁷ For the judicial system, this could mean increased forum shopping in trademark infringement claims. However, the bottom line is that the outcome of *Gucci* proves that it is very possible that a court may permit an infringer to profit from its actions.

¹¹⁷ See GILSON, *supra* note 9, at § 14.03(3)(c)(i).