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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK
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CARTIER, a Division of
RICHEMONT NORTH AMERICA, INC.;
and CARTIER INTERNATIONAL, B.V.,

Plaintiffs,

- against -

SAMO'S SONS, INC., et al.,

Defendants.
----------x

04 Civ. 2268(RMB)(DFE)
This is an ECF Case

REPORT AND RECOMMENDATION TO JUDGE BERMAN

DOUGLAS F. EATON, United States Magistrate Judge.

Only two of the defendants are discussed in this Report; they are Sardell Jewelry, Inc. and its president Eli Sardar. Judge Berman granted summary judgment on plaintiffs' Lanham Act claims that these two defendants infringed the trademark and the trade dress of plaintiffs' "Tank Francaise" watches. *Cartier, a Div. of Richemont North America, Inc. v. Samo's Sons, Inc., et al.*, 2005 WL 2560382 (S.D.N.Y. Oct. 11, 2005), *motions for reconsideration and interlocutory appeal denied*, 2006 WL 213090 (S.D.N.Y. Jan. 26, 2006). On October 28, 2005, Judge Berman referred this case to me to hold a damages hearing. I held the hearing on March 6, 2006, and heard testimony from Hanice Tavares (who had been a Cartier investigator) and from two of Sardell Jewelry's owners (Eli Sardar and his cousin Yakouv Sardar). The 186-page transcript will be referred to as "Tr." On March 7, Sardell sent me a computer printout of the twice-daily price of gold from January 2004 through December 2004; I hereby receive it and deem it marked as Defendants' Exhibit AA. The parties sent me proposed findings of fact and conclusions of law on April 11, April 25 and May 5, 2006.

MY FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. Plaintiff Cartier International, B.V. is the owner of all Cartier intellectual property, including the trade dress for "Tank Francaise" and "Tank Americaine" watches.

2. Plaintiff Cartier, a division of Richemont North America, Inc. is the exclusive licensee of such rights in the United States. The two plaintiffs are collectively referred to as "Cartier."

3. Defendant Sardell Jewelry, Inc. ("Sardell") is a New York corporation, having its principal office and place of business at 580 Fifth Avenue, New York, New York 10036. (Joint Pre-Trial Order, Stipulation 1.)

4. Defendant Eli Sardar ("Sardar") is the president of Sardell. (*Id.*, Stipulation 2.)

5. Plaintiffs "have been a world famous watch manufacturer and jeweler since 1847, and manufacture and distribute the Tank Francaise family of luxury watches." (SJ Op. at 2.)

6. Sardar started Sardell in 1993; he has been president since the company began. (Tr. 72:13-17.)

7. Sardar owns 40% of the company. Joseph Sardar, his brother, owns 30% and Yakouv Sardar, his cousin, owns the remaining 30%. (Tr. 72:2-73:2; 113:1-5.)

8. Sardell sells jewelry and watches at prices up to about $2,000. (Tr. 73:8-11.)

9. In each of the years 2002 and 2003, Sardell's gross sales were about $15 million. (Tr. 73:3-6.)

10. Sardar is responsible for buying merchandise for Sardell, and he also does some selling. (Tr. 72:18-21.) He "is responsible for and makes the final decision as to buying." (SJ Op. at 2-3.) The watches at issue in this case were purchased from an Italian company named Gold Enterprise s.r.l.; it was Sardar who selected the merchandise when a Gold Enterprise saleswoman periodically came to Sardell's office. (Tr. 115:17-116:2.)

11. Sardar testified that he had no idea that Cartier sold watches until he read Cartier's first cease-and-desist letter dated August 26, 2003. (PX-2; Tr. 122:4-17.) I find that testimony to be incredible. Cartier's landmark store is at the corner of Fifth Avenue and 52nd Street, just five blocks north of Sardell's office and on the way between Sardell's office and Sardell's bank. (Tr. 151:9-11.) Sardar had been selling jewelry and watches at Sardell's office since 1993. He testified that he only stopped at Cartier's store-windows and paid attention to their watches after he received Cartier's second letter, dated September 26, 2003 and enclosing another copy of the cease-and-desist letter. (PX-3; Tr. 122:1-20; 123:11-15.)

12. I find that Sardar was aware of the trade dresses of

Cartier's "Tank Francaise" and "Tank Americaine" watches at least as early as June 14, 2002, the date of the earliest documentation of his purchase of watches from Gold Enterprise. (See PX-49.)

13. The August 26, 2003 cease-and-desist letter from Cartier's attorneys included the following:

> ... Specifically, Cartier is the owner of the trade dress for the TANK Francaise and TANK Americaine watch designs (collectively the "Cartier Trade Dress"). ...
>
> In addition to its extensive rights for these designs under common law, Cartier is the owner of a federal registration for the TANK Francaise trade dress, U.S. Trademark Registration No. 2,322,769, ...
>
> We have been instructed by Cartier to demand that:
>
> 1. You immediately discontinue the advertising, promotion and sale of any merchandise incorporating the Cartier Trade Dress.
>
> 2. You promptly send us a fax containing the following:
>
> a. A representation that any merchandise incorporating the Cartier Trade Dress has been withdrawn from sale and will be held in inventory pending resolution of our client's claim against you for the sale of infringing merchandise. ...

14. Sardar received the first copy of that letter shortly after August 26, 2003, but he did not respond. He testified that he "just [took a] fast look" and "didn't give it attention." (Tr. 74:9; 76:2-3.)

15. He received the second copy of the letter shortly after September 26, 2003. He responded with a handwritten letter dated October 1, 2003 (PX-4):

> We like to inform you that we don't have any of those watches you describe as Tank Francaise or American Tank, ...

> And I want to assure you if any company offer[s] to sell us this item, we will not carry it in our stock.

16. Contrary to his letter saying "we don't have any," Sardar concedes that, as of October 1, 2003, he possessed approximately 61 watches that he had received from Gold Enterprise and that seemed to fit the description of what Cartier was complaining about. (Tr. 77:8-23.) He did not take steps to meet Cartier's demand that such watches "be held in inventory pending resolution of [Cartier]'s claim." Instead, he returned them to the Gold Enterprise saleswoman, who picked them up. Sardar testified that this happened around the end of October 2003. (Tr. 79:13-80:21.) I find that this happened after February 13, 2004, and probably after March 23, 2004, when he was served with the summons and complaint in this lawsuit.

17. In February 2004, Cartier employed an investigator, Hanice Tavares of Counter-Tech Investigations, Inc. On February 13, 2004, at the request of Cartier's counsel and in his presence, Ms. Tavares visited certain jewelry stores on 47th Street, including Sardell's office at 580 Fifth Avenue. I find her testimony entirely credible, including her Declaration, which I treated as her direct testimony. (Tr. 7:16-18.)

18. It is undisputed that Yakouv Sardar waited on her and sold her a men's watch (PX-17) for $1,000, and that Judge Berman found it to be infringing. It appears to be undisputed that the display case contained about six trays of watches, with 6 to 12 watches per tray. (Tr. 129:5-19.) The nature of those watches is disputed. Tavares conceded that some were not Tank watches (Tr. 66:22-67:3), but she saw "approximately five dozen Tank watches in several styles, some with diamonds and others without." (Tavares Declaration ¶3.) She testified that approximately 30 of them were substantially identical to the watch she purchased. (Tr. 69:9-16; 70:4-9.)

19. The defendants strongly dispute her testimony about seeing approximately five dozen Tank watches. Sardar and his cousin assert that, on February 13, 2004, their store contained only one or two watches having a trade dress at all similar to Cartier's. Their explanation asserts that (a) those one or two watches had recently arrived as returns, (b) Sardell did not intend to sell them but intended to melt them for their gold content, and (c) Sardell put them in the display case through negligent mistake. (Tr. 171:5-172:19.)

20. The defendants' explanation further asserts the

following: Four months earlier, in October 2003, Sardell possessed about 61 such watches, which had earlier been purchased from the Gold Enterprise saleswoman. Sardar allegedly told her about Cartier's infringement claim. A short while later, she assured him that a Gold Enterprise attorney said there was no problem with these watches. (Tr. 124:1-16; 141:13-16.) Sardar was not satisfied with this assurance. On her next visit, the saleswoman took back the 61 watches. (Tr. 80:17-21.) Sardar asserts that such transfer occurred around the end of October 2003, yet he has no 2003 receipt showing this; he claims she gave him a 2003 receipt but he "misplaced" it. (Tr. 143:1-5; 4/25/06 Proposed Findings ¶19.) The lack of a 2003 receipt is particularly telling because Sardar asserts that the saleswoman insisted that he would still have to pay the full price for the 61 watches (some $43,721). Apparently Sardell's normal purchasing practice was to give Gold Enterprise a check that was post-dated by two or three months. (Tr. 143:12-144:2.) Sardell testified that he stopped payment on checks roughly equal to $43,721, and that after about two months Gold Enterprise capitulated and gave him a full credit. (Tr. 134:18-139:11.)

21. To corroborate their version, the defendants point to Defendants' Exhibit A, but I find that, more likely than not, it is a backdated document supplied by Gold Enterprise. DX-A was received into evidence at Tr. 95-96; I have annexed a copy of DX-A to this Report. It is a photocopy of a telefax to Sardell from Gold Enterprise saying:

> We rec[e]ive as a return 61 PCs of 14kt gold watches.
> We therefore credit your account a[s] follow[s]
>
> 4416.30 g. X 9.90 $/g = $43,721.00

The typewritten date says "3 gennaio, 2004" (Italian for January 3, 2004) but DX-A does not contain a fax transmission line showing a transmission on that date. Someone (presumably Gold Enterprise) stamped it as a "REFAX" and the fax transmission line reads: "02-OTT[October]-04." There may well be an explanation of why it was transmitted from the fax number of Tabaccheria Monica rather than from the fax number of Gold Enterprise. And it may well be that this is a re-fax of a previous fax by Gold Enterprise. However, I find that, more likely than not, the original telefax was transmitted after March 23, 2004, when Sardell received the summons and complaint. My reasons are as follows.

22. I found Eli Sardar and Yakouv Sardar to be personally charming, but I did not find them to be credible witnesses.

After Cartier's August 2003 cease-and-desist letter, it appears that Sardell ceased importing watches from Gold Enterprise. The question is whether Sardell continued to sell its existing inventory of infringing watches. Sardell says it possessed 61 such watches as of early October 2003; I believe that, as of that date, the actual number was somewhat higher and that it was reduced down to 61 by sales made from October 2003 to March 2004.

23. Sardell's letter of October 1, 2003 ("we don't have any of those watches ... if any company offer[s] to sell us this item, we will not carry it in our stock") drew a response from Cartier that suggested that Cartier's information was quite sketchy, and that Cartier was perhaps unready to take any imminent action. Cartier's attorneys merely wrote:

> Contrary to the claims [in your letter], your company has been identified as a supplier of such watches. Therefore, we renew our requests for all information regarding the sale of the watches identified in our previous letters, as well as for copies of any brochures, catalogs or other promotional materials ....

(PX-5, dated 10/2/03.) There was no further correspondence for more than five months, until Cartier served Sardell with a summons and complaint on March 23, 2004. At that point, Sardell realized that Cartier took this matter very seriously. Sardell and Gold Enterprise may have feared that Cartier would move for a temporary restraining order addressed to any watches that had the same trade dress as the Tank Francaise or Tank Americaine watches. If such an order had issued, then Sardell and Gold Enterprise would have faced a loss of some valuable watches (having an importer's cost of some $700 each and a retail value of some $1,000 each). Such a loss would have involved "approximately five dozen Tank watches," judging from Ms. Tavares's report written one month earlier on February 13, 2004. (Her report was marked on 3/17/05 as Deposition Exh. A; a copy was later annexed as Exh. A to her Declaration; this 2/13/04 report was discussed at length in Mr. Hauser's cross-examination of Ms. Tavares starting at Tr. 12.)

24. I think that Gold Enterprise's saleswoman did come to Sardell's office and did take back all infringing watches that were in Sardell's possession, but I find it most likely that this transfer occurred after the service of the summons and complaint on March 23, 2004. Gold Enterprise may well have feared that Cartier would take action against it and/or its saleswoman. Both Gold Enterprise and Sardell had self-interested motives for

creating a backdated document, making it seem that the merchandise transfer had occurred prior to the lawsuit, and hence not to evade a possible court order. The date of January 3, 2004 may have been chosen for some bookkeeping reason, or it may have been chosen after Cartier revealed that it had made undercover visits on February 13, 2004. In any event, I do not view DX-A as evidence that undermines the testimony of Ms. Tavares that, on February 13, 2004, she visited Sardell and saw "approximately five dozen Tank watches in several styles, some with diamonds and others without."

25. The transfer of the 61 watches harmed Cartier whether it occurred in October 2003 (as Sardell alleges) or at a later date. Sardell received Cartier's August 26, 2003 letter asking that all watches using the Tank Francaise or Tank Americaine trade dress "be held in inventory pending resolution of [Cartier]'s claim." By its own admission, Sardell then went to its inventory and picked out 61 watches that seemed to fit the letter's detailed description of Cartier's trade dress. (Tr. 77:8-11.) Instead of holding those 61 watches and risking their destruction, Sardell returned them to their overseas manufacturer, thus enabling that manufacturer to put them back into the stream of commerce.

26. As to those 61 watches, Cartier justifiably requests the remedy imposed in *Polo Fashions, Inc. v. Dick Bruhn, Inc.*, 793 F.2d 1132 (9th Cir. 1986). In that case, Bruhn, a dealer in shirts, realized that certain shirts in its possession were counterfeits of "Polo" shirts. Instead of holding them for action by Polo, Bruhn transferred the shirts to other retailers for $8,820, the same price Bruhn had paid for them. The Ninth Circuit acknowledged that it would be semantically inaccurate to say that Bruhn had received "profits." Neverthless, it ruled:

> ... [T]he purpose of section 1117 is to "take all the economic incentive out of trademark infringment. ...
>
> ... [T]he district court's remedy left Bruhn $8,820 richer than it would have been had it acted lawfully. ... [W]e hold that the recovery based on profits is inadequate. Bruhn must pay Polo the receipts from the sales of those shirts, $8,820; any lesser remedy would not remove the incentive for Bruhn to ship the shirts after discovering that they were counterfeit.

793 F.2d at 1134-35. Accordingly, as one element of Cartier's damages, I recommend that it recover from Sardell and Sardar the amount of $43,721, equal to the "full credit" that Sardell received from Gold Enterprise for the transfer of the 61 watches.

27. The next question is to determine how many infringing watches were sold by Sardell. This number will have to be an approximation, since the records produced by Sardell are very uninformative. "[W]here ... the defendant controls the most satisfactory evidence of sales the plaintiff needs only establish a basis for a reasoned conclusion as to the extent of injury ..." *Louis Vuitton S.A. v. Spencer Handbags Corp.*, 765 F.2d 966, 973 (2d Cir. 1985), *quoting Deering, Milliken & Co. v. Gilbert*, 269 F.2d 191, 193 (2d Cir. 1959).

28. Plaintiffs subpoenaed Sardell's customs broker for importation files. The vast majority of Sardell's business relates to jewelry, but PX-20 to PX-44 relate to Sardell's importation of watches.

29. PX-36 to PX-44 show purchases of 526 watches during 2002-04 by Sardell from suppliers other than Gold Enterprise. Plaintiffs are willing to assume that those 526 watches were non-infringing.

30. PX-20 to PX-35 show purchases of 598 watches by Sardell from Gold Enterprise from June 2002 through July 2003. Plaintiffs are willing to assume that "598 is the upper limit of the number of infringing watches with which [Sardell] had commercial dealings." (4/11/06 Pls' Proposed Finding 45.) I then subtract the 61 that were returned to Gold Enterprise, leaving 537 watches that were sold by Sardell. The next question is: of those 537 watches, how many infringed Cartier's trade dress?

31. Eli Sardar testified that, during the 13 or 14 months from June 2002 through July 2003, he purchased watches from Gold Enterprise having 38 different style numbers; on average, he would place an order for about four watches in a given style number, and then re-order later if that style sold well. (Tr. 116:9-118:10.) However, he testified that he does not know what "look" is represented by any given style number (Tr. 139:19-141:2), and hence he cannot say which style numbers were similar to Cartier's trade dress.

32. In the post-hearing submissions (4/25/06 Defs' Proposed Findings 38-39) Sardell argues that I should divide the 537 watches by the amount of different style numbers (38), which

would yield 14.1 watches. Therefore, the defendants argue, 14 is the maximum number of infringing watches sold by them. This flawed method (a) assumes that only one of Gold Enterprise's style numbers was infringing, and (b) ignores the fact that there are several styles that use the Tank Francaise trade dress and several styles that use the Tank Americaine trade dress. If I had divided the full amount of Gold Enterprise watches (598) by 38, defendants' method would have yielded 15.7 watches, which is clearly too low a number: by Sardar's own testimony, in October 2003 (after 16 months of selling Gold Enterprise watches, of which the last 3 months involved no importation of new supplies from Gold Enterprise) Sardell's inventory contained 61 Gold Enterprise watches that appeared to be similar to the trade dress described in Cartier's cease-and-desist letter. Moreover, those 61 watches constituted "most but not all" of the Gold Enterprise watches that were in Sardell's store as of October 2003. (Tr. 82:24-83:2.)

33. I conclude that a reasonable estimate should be based on Sardar's testimony that, on average, he would place an order for about four watches in a given style number. (Tr. 116:9-118:10.) Next, I divide the 61 unsold watches by 4, and hence I estimate that Sardell's inventory contained about 15 styles of watches that appeared to be similar to the trade dress described in Cartier's cease-and-desist letter. Accordingly, I estimate that 15 of the 38 style numbers obtained by Sardell from Gold Enterprise were infringing. This yields 39.47%; 39.47% of the 537 watches yields approximately 212 Gold Enterprise watches sold by Sardell that were similar to Cartier's trade dress.

34. The next question is: What were Sardell's profits from those estimated 212 watches?

35. Plaintiffs' discovery requests asked Sardell and Sardar to produce all documents concerning their sales of the accused watches, and all documents concerning their costs in connection with the acquisition or sale or distribution of such watches. (PX-18A at ¶¶4, 6.) Sardell and Sardar responded, "No documents exist." (PX-18B at ¶¶4, 6.)

36. The only sale price known for certain is the sale of the watch to Ms. Tavares for $1,000. One other invoice shows a sale of an unidentified watch for $999. (PX-45.) Using the best information available, I will estimate the average sales price of the infringing watches as $1,000.

37. As for Sardell's costs, the most significant cost is the price charged to Sardell by Gold Enterprise. Sardell

purchased 598 watches from Gold Enterprise at an average price of $720 per watch. (PX 20-PX 35; Tr. 138:16-22.) Sardell returned 61 of those watches to Gold Enterprise for "full credit" in the amount of $43,721, *i.e.*, an average of $717 per watch. (DX-A; Tr. 137:21-138:10.) Gold Enterprise's price included the value of the gold (allegedly 14 karat) as well as the "labor," *i.e.*, the manufacturing costs of the watch components.

38. Sardell also claims that it paid an additional 7% for shipping and import duty. (Tr. 173:14-19.) Cartier concedes that "the import documents indicate that at the time the duty rate was 6.25%." (4/11/06 Pls' Proposed Conclusion 38, citing PX-20 through PX-36.) I will add that 6.25%. However, I have seen no documents supporting the shipping costs, and therefore I will add nothing for those costs (in any event, they appear to be minor).

39. Sardell attempted to prove additional costs for overhead by submitting, without cross-examination, the affidavit of its outside accountant Charles R. Harary dated February 13, 2006. At Tr. 184, I received it as DX-M for what it was worth; see also Tr. 174:10-179:9. Having now reviewed it, I find that it is insufficient to support any additional costs.

40. Accordingly, I find that the average profit per infringing watch was $1,000 minus $761.81 ($717 plus 6.25% for import duty), and hence $238 per watch. Multiplied by the estimated 212 watches, I arrive at an estimated profit of $50,496.28.

41. Cartier's post-hearing submission suggests a much lower estimate, because it looks only at the approximately 30 watches that Ms. Tavares saw on February 13, 2004 that seemed to her to be substantially identical to the watch she purchased. On the other hand, Cartier requests that there should be a trebling of both the estimated profit and the $43,721 award based on the *Polo Fashions* case because of Sardell's act of returning an additional 61 watches to the stream of commerce. I disagree with Cartier on both aspects. I find its estimate of 30 infringing watches to be unreasonably low, considering the evidence that Sardell sold 537 Gold Enterprise watches during a period of more than a year. I also find that Cartier's estimate involves an element of double counting, because it is based on Ms. Tavares's observation of approximately five dozen watches at Sardell on February 13, 2004, and I believe it is most likely that those five dozen watches were essentially the 61 watches that Sardell returned to Gold Enterprise; I realize that Sardell claims the return was made prior to February 13, 2004, but I find that it was most likely

made after that date, and probably after March 23, 2004 (the date when Sardell was served with the summons and complaint). On the other hand, I would deny Cartier's request for treble damages and attorneys' fees.

42. 15 U.S.C. §1117(b) provides that treble damages and attorneys' fees shall generally be awarded in cases involving a knowing use of a counterfeit mark. However, the watches in the case at bar were sold with a "Geneve" mark; the evidence is that Sardell did not sell them as watches manufactured by Cartier, but rather as watches that were "just like a Cartier." (Tr. 61:20.) Accordingly, Cartier relies on §1117(a), which provides: "If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. ... The court in exceptional cases may award reasonable attorney fees to the prevailing party."

43. I find that an award of $94,217.28 ($50,496.28 plus $43,721) is neither inadequate nor excessive. I also find that the case at bar is not an "exceptional" case.

44. In a case directly on point, the late Judge Constance Baker Motley held an 8-day bench trial in May 2004 and issued a lengthy opinion on December 10, 2004. *Cartier, Inc. v. Four Star Jewelry Creations, Inc.*, 348 F.Supp.2d 217 (S.D.N.Y. 2004). Four Star (unlike Sardell) produced invoices showing that, during a 2-year period ending in February 2001, Four Star sold 22 "Geneve" gold watches manufactured in Italy that infringed three of Cartier's trade dresses (including Tank Francaise and Tank Americaine). 348 F.Supp.2d at 238. Four Star received a cease-and-desist letter in December 2001 and yet continued to sell infringing watches and even began to infringe a fourth trade dress of Cartier. *Id.* at 238-39. Nevertheless, Judge Motley refused to award treble damages or punitive damages or attorneys' fees, and found that an award of $32,500 against Four Star was adequate. *Id.* at 254.

CONCLUSION AND RECOMMENDATION

I recommend that Judge Berman award Plaintiffs judgment against Sardell Jewelry, Inc. and Eli Sardar, jointly and severally, in the amount of $94,217.28. I also recommend that Judge Berman enter a Permanent Injunction; see 4/11/06 Pls' Proposed Findings, which annex, at pp. 30-32, a Proposed Permanent Injunction.

Pursuant to 28 U.S.C. § 636(b)(1) and Rule 72(b) of the Federal Rules of Civil Procedure, any party may object to this recommendation within 10 business days after being served with a copy (i.e. by **October 19, 2006**) by filing written objections with the Clerk of the U.S. District Court and mailing copies (a) to the opposing party, (b) to the Hon. Richard M. Berman, U.S.D.J. at Room 650, 500 Pearl Street, New York, NY 10007 and (c) to me at Room 1360, 500 Pearl Street. Failure to file objections within 10 business days will preclude appellate review. *Thomas v. Arn*, 474 U.S. 140 (1985); *Small v. Secretary of Health and Human Services*, 892 F.2d 15, 16 (2d Cir. 1989) (per curiam); 28 U.S.C. § 636(b)(1); Fed.R.Civ.P. 72, 6(a), and 6(e). Any request for an extension of time must be addressed to Judge Berman.

Douglas F. Eaton

DOUGLAS F. EATON
United States Magistrate Judge

Dated: New York, New York
October 4, 2006

Copies of this Report and Recommendation (and of Defendants' Exhibit A) will be sent by fax and by electronic filing to:

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Hon. Richard M. Berman