

DECISION OF INTEREST

INTERNATIONAL STAR CLASS YACHT RACING ASSOCIATION v. TOMMY HILFIGER U.S.A., INC. QDS:02760575 — Upon second remand from the Second Circuit, and acting as a finder of fact, this Court finds that plaintiff has not shown that defendant acted in bad faith when it determined to use the plaintiff's unregistered mark "Star Class" as a decoration on certain of its garments.¹ The Court reaches this finding of fact excluding from its consideration the evidence of ordinary practice in trademark search matters derived from *Corsearch, Inc. v. Thomson & Thomson*, 792 F. Supp. 305 (S.D.N.Y. 1992).

According to the un rebutted evidence at trial, the sales of defendant's garments were driven by the prominent use of defendant's name, initials and crests, which identified the garments as defendant's products, and not the words "Star Class." In view of the manner of display and labeling, and the prominent use of the Hilfiger marks, there would be little, if any, motivation for bad faith appropriation of plaintiff's mark by defendant. The evidence does not demonstrate that Hilfiger willfully intended to cause confusion or deception or to profit from plaintiff's reputation. Cf. *Lang v. Retirement Living Publ'g Co.*, 949 F.2d 576, 583 (2d Cir. 1991) (determination of infringer's bad faith "looks to whether the defendant adopted its mark with the intention of capitalizing on plaintiff's reputation and goodwill and any confusion between his and the senior user's product"). Tommy Hilfiger U.S.A., Inc. ("Hilfiger") may have had knowledge that it was drawing "authentic details from the sport of competitive sailing," see 146 F.3d at 70 n.2, but it had ordered a trademark search of the mark by its attorneys which did "not reveal any identical federal trademark registrations or applications in class 25 [a clothing classification] which would bar your proposed use of this mark." (Pl. Ex. 74, quoted in *International Star Class Yacht Racing Ass'n v. Tommy Hilfiger U.S.A., Inc.*, 959 F. Supp. 623, 626 (S.D.N.Y. 1997), *aff'd in part*, vacated in part, 146 F.3d 66 [2d Cir. 1998].²) There is no showing that Hilfiger had knowledge of the existence of the International Star Class Yacht Racing Association (the "ISCYRA") or of the mark's association with any entity at all, let alone any commercial use of the designation Star Class.³ Even knowledge of another's mark does not automatically give rise to an inference of bad faith. See *W.W.W. Pharm. Co. v. Gillette Co.*, 984 F.2d 567, 575 (2d Cir. 1993); *Lang*, 949 F.2d at

583-84; *Sweats Fashions, Inc. v. Pannill Knitting Co.*, 833 F.2d 1560, 1565 (Fed. Cir. 1987); *Karmikel Corp. v. May Dep't Stores Co.*, 658 F. Supp. 1361, 1375-76 (S.D.N.Y. 1987); *Edison Bros. Stores, Inc. v. Cosmair, Inc.*, 651 F. Supp. 1547, 1560 (S.D.N.Y. 1987). As in *George Basch Co. v. Blue Coral, Inc.*, 968 F.2d 1532, 1540-41 (2d Cir.), cert. denied, 506 U.S. 991 (1992), in which the defendant's intention to imitate the plaintiff's trade dress was found insufficient, in itself, to support of bad faith, Hilfiger's knowledge that it was copying details from the sport of sailing does not show that it engaged in willful deception.

Furthermore, it is not dispositive that Hilfiger failed to conduct a more extensive search than a Federal Registration and Application screening within class 25. The Court finds that Hilfiger did not have an obligation, at the relevant time in 1994, to do a more extensive search in view of the holdings in *Sands, Taylor & Wood Co. v. Quaker Oats Co.*, 978 F.2d 947 (7th Cir. 1992), cert. denied, 507 U.S. 1042 (1993), *Zazu Designs v. L'Oreal S.A.*, 979 F.2d 499 (7th Cir. 1992), and *Hasbro, Inc. v. Lanard Toys, Ltd.*, 858 F.2d 70 (2d Cir. 1988); see also *Sunenblick v. Harrell*, 895 F. Supp. 616, 633 (S.D.N.Y. 1995) (failure to conduct a trademark search does not, in itself, support finding of bad faith), *afld*, 101 F.3d 684 (2d Cir.), cert. denied, 117 S. Ct. 386 (1996); *Oxford Indus., Inc. v. JBJ Fabric Inc.*, 6 U.S.P.Q.2d 1756, 1762 (S.D.N.Y. 1988) (same). This Court finds that defendant's intent to use the Star Class mark as a decoration, not as a trademark, was consistent with the advice of Mr. Burstein, its attorney, who stated, "At this point, we would not necessarily rule out your use and registration of this mark subject to our usual disclaimers regarding the need to first obtain and review a full trademark search." (Pl. Ex. 74, quoted in *ISCYRA v. Hilfiger*, No. 94 Civ 2663 (RPP), 1997 WL 297031, at *2 n. 1 (S.D.N.Y. June 4, 1997), *afld in part*, vacated in part, 146 F.3d 66 [2d Cir. 1998].) "Use and registration" are the requirements for obtaining a federal registration for a stand alone mark.. see *id.*, and use of the Star Class mark as a decoration without a full search — as opposed to "use and registration" — was not in disregard of the advice of defendant's attorneys.⁴ Defendant's attorneys indicated only that if defendant was seeking to protect this mark as its own, it should have a full trademark search. (Trial Tr. at 336-37.) Defendant had no intention of using the mark in this fashion. In any case, Ms. Luparello, a non-

lawyer who was an assistant to Hilfiger's CEO, and who had responsibilities for interfacing with Hilfiger's attorneys, was told that a search had been conducted and there was no bar to defendant's use of the mark. Mr. Burstein's later language was not shown to have had the significant effect on Ms. Luparello that plaintiff has argued for. (Luparello Dep. at 354-356.)

Furthermore, Mr. Burstein's letter had advised defendant: "STAR CLASS would be a rather weak trademark. This is because the words "STAR" and "CLASS" are non-distinctive terms used extensively in other fields by third parties." (Trial Tr. at 310; Pl. Ex. 74, quoted in *ISCYRA*, 1997 WL 297031, at *5.) This conclusion was not unreasonable. Indeed, as the Court noted in its decision after trial, it was a "close question" whether or not plaintiff had any trademark rights. *ISCYRA*, 959 F. Supp. at 629. While defendant's efforts to ascertain whether Star Class was, in fact, a trademark must be evaluated in conjunction with its awareness that it was copying details from the sport of sailing, see *ISCYRA v. Hilfiger*, 80 F.3d 749, 753 (2d Cir. 1996); *ISCYRA*, 146 F.3d at 70 n.2, they also must be considered in light of Mr. Burstein's advice that any entity's claim to the Star Class mark would be weak. Even had defendant conducted a full trademark search and acquired actual knowledge of prior use of the Star Class mark by plaintiff, a finding of bad faith would not be required if defendant had relied on the advice of counsel in choosing the mark and not intended to promote confusion or appropriate plaintiff's good will. See *W.W.W.*, 984 F.2d at 575. Further casting doubt on the proposition that defendant acted in bad faith is the minimal value the Star Class mark added to defendant's sales and the improbability that defendant would choose the mark in the hope of deceiving consumers or capitalizing on plaintiff's reputation. See *Lang*, 949 F.2d at 584. In sum, even considering defendant's knowledge that it was copying details from sailing, the facts suggest that it is unlikely defendant acted in bad faith.

Nor does the continued sale of goods bearing plaintiff's marks after this Court denied Hilfiger's motion for summary judgment indicate bad faith, in its denial of the

motion for summary judgment, the Court merely held that whether plaintiff had trademark rights in "Star Class" was an issue of fact. *ISCYRA v. Hillfiger*, 33 U.S.P.Q.2d 1610, 1615 (S.D.N.Y. 1994). It did not reject defendant's argument that plaintiff had no trademark rights in Star Class. Indeed, as aforementioned, the Court found it a "close question" whether or not plaintiff had any trademark rights at all. Although this Court found the plaintiff's unregistered mark should merit protection in its opinion and order of April 26, 1995, *ISCYRA v. Hillfiger*, No. 94 Civ. 2663, 1995 WL 241875 (S.D.N.Y. April 26, 1995), this Court does not find that defendant's conduct in light of Mr. Burstein's advice was so unjustified as to support a finding of bad faith. In many cases, courts have disagreed with counsel's opinion in trademark infringement matters, but not found defendants to have acted in bad faith. See *Estee Lauder, Inc. v. The Gap, Inc.*, 932 F. Supp. 595, 615 (S.D.N.Y. 1996), rev'd on other grounds, 108 F.3d 1503 (2d Cir. 1997); *Cuisnarts, Inc. v. Robot-Coupe Int'l Corp.*, 580 F. Supp. 634, 637 (S.D.N.Y. 1984); *Information Clearing House, Inc. v. Find Magazine*, 492 F. Supp. 147, 161-62 (S.D.N.Y. 1980) (Weinfeld, J.); *A&H Sportswear Co. v. Victoria's Secret Stores, Inc.*, 926 F. Supp. 1233, 1268 (E.D. Pa. 1996), aff'd, 49 U.S.P.Q.2d 1493 (3d Cir. 1999).

In view of the fact that (1) Hillfiger was only using the Star Class mark as an embellishment on its Nantucket line of clothing, which was exceedingly well trademarked with the Hillfiger name designating the source of the goods, (2) there is no showing that Hillfiger intended to copy a trademark, (3) Hillfiger's conduct was consistent with the advice of its attorneys concerning when a full search would be required, and (4) Hillfiger was reasonably advised by its attorneys that the Star Class mark was weak, the Court finds that the evidence is insufficient to support a finding of bad faith.

The Second Circuit's opinion remanding

The Second Circuit's opinion remanding the case also requested this Court to make determinations as to (1) whether defendant should account to plaintiff for all of its profits from sales of clothing using plaintiff's mark, or merely for profits from sales made after receipt of plaintiff's cease and desist letter; (2) the propriety of deducting defendant's costs of sales; and (3) whether some portion of the sales of nautical sportswear was attributable to the appeal of Hillfiger's well known mark and reputation.

Accordingly, since the Second Circuit may not agree with this Court's finding of insufficient evidence of bad faith or willful misconduct and may make findings of its own, the following findings are made:

1. Defendant's profits from sales of clothing bearing plaintiff's mark made prior to receipt of plaintiff's cease and desist letter need not be disgorged in order to deter future misconduct, particularly because there is no showing that defendant knew that plaintiff existed or that anyone owned the Star Class mark, or that defendant intended to copy a trademark.

2. According to Exhibit 9, defendant's sales following commencement of this action are \$818,419.85, and the cost of such sales is \$368,288.93, or 45 percent of sales. Thus, Hillfiger's profits on those sales amounts to \$450,130.92.

3. The evidence shows that the defendant's profits flowed overwhelmingly from the presence on the clothing of "TOMMY HILFIGER" in big letters, the initials "T.H.," and the Hillfiger flag design mark. (Trial Tr. at 255-259.) Zwerner, a buyer for Burdine's, a leading chain of department stores, testified, "The bigger, the more prominent the Tommy Hillfiger designation, crest or name on the garment the better it sells." (Id. at 259.) Zwerner testified that in contrast, the words "Star Class" on garments "didn't mean anything except 'He's high class.'" (Id.) To the extent it is pertinent, defendant's witness Leeds testified that license fees for use of a trademark license range from 2½ to 6 percent of gross sales. (Trial Tr. at 286.)

In this Court's judgment, the entry of an injunction against use of plaintiff's trademark was sufficient to deter any further infringement of plaintiff's unregistered mark. As shown by the Zwerner testimony, the use of the Star Class mark conferred little benefit on Hillfiger. Though this Court does not award damages, if it is necessary to make such an award, the Court finds that in light of the small benefit Hillfiger derived from use of the Star Class mark, those damages would be 2½ percent of \$818,419.85, the gross sales of the infringing product after the suit commenced, or \$20,460.50.

Conclusion

The Court finds that plaintiff has not car-

ried its burden of proving by a preponderance of the evidence that defendant acted in bad faith by selling infringing garments before or after the cease and desist order, but that if damages are to be assessed based on bad faith, plaintiff should receive \$20,460.50 from defendant.

It is so ordered.

(1) Contrary to the Court of Appeals' finding that "Hillfiger's name and logo also appeared on most of the garments," *International Star Class Yacht Racing Ass'n v. Tommy Hillfiger U.S.A., Inc.*, 146 F.3d 66, 68 (2d Cir. 1998), all of the garments had defendant's label. One garment, a sweater bearing in large print "Star Class," did not have in 3-4 inch high letters "Tommy Hillfiger" or "Tommy" on its outside, but did have defendant's label on the inside of the collar, as well as hang tags denoting its origin. The other garments used large letters to highlight the Hillfiger name, as well as labels and hang tags.

(2) This caption will hereinafter be referred to as *ISCYRA v. Hillfiger*.

(3) Hillfiger's designer admitted at trial to examining books and other materials on sailboat racing which referred to Star Class racing and Star Class boats. See 146 F.3d at 68 n. 1. This evidence may give rise to an inference that Hillfiger copied the Star Class mark, but it does not prove that the marks were known by Hillfiger or its agents to be trademarks of the *ISCYRA* or any other entity. See *ISCYRA*, 959 F. Supp. at 626; *ISCYRA v. Hillfiger*, No. 94 Civ. 2663, 1995 WL 241875, at *3, *11-12 (S.D.N.Y. April 26, 1995), aff'd in part, vacated in part, 80 F.3d 749 (2d Cir. 1996). The Star Class mark is a descriptive mark, see *Id.* at *7, and there is insufficient evidence to show that when Hillfiger imitated the mark it intended to copy a trademark. See *Id.* at *12.

(4) It should be noted that the full Thomson & Thomson search only described *ISCYRA*'s use of the term as designating "yacht club membership." (Pl. Ex. 79.)