

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

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JOHNSON AND JOHNSON and LIFESCAN, INC.,	:	
	:	
Plaintiffs,	:	
	:	
-against-	:	<u>REPORT &</u>
	:	<u>RECOMMENDATION</u>
	:	07-CV-1295 (LDH) (SMG)
GUILIN CHUNG FAI BIOTECH CO., LTD.,	:	
A/K/A GUILIN ZHONGHUI TECHNOLOGY CO.,	:	
LTD., A/K/A/ GUILIN CHONGHUI BIOTECH CO.,	:	
LTD., GUILIN CHUNG FAI FINE CHEMICALS	:	
INDUSTRIAL CO., LTD., GUILIN CHUNG FAI	:	
INDUSTRY CO., LTD., GUILIN ZHONG HUI	:	
MEDICAL PRODUCT CO., LTD., LI CANHUI, A/K/A	:	
LEE CHUN-FAI, LI ZHONG, YAO CONGDE, A/K/A/	:	
TAO CHONGDE, A/K/KA YAO CONG DE, LI	:	
YAOQING, LI LI-HUA, A/K/A/ LUCIA LEE, CHEN	:	
JIE, A/K/A JERY CHEN, LI XUEJUN, JIN PEIYU,	:	
A/K/A/ JIN PEI YU, HALSON PHARMACEUTICAL	:	
INTERNATIONAL CORP., SOUTHEAST MEDICAL	:	
APPARATUS CO., LTD., SHANGHAI BAO LUO	:	
TONG IMPORT & EXPORT CO., LTD., SU ZHI	:	
YONG, A/K/A/ HENRY FU, A/K/A/ GEORGE SU, LIN	:	
LU MING, and JOHN DOES 1-50	:	
	:	
Defendants.	:	
	:	

GOLD, STEVEN M., U.S.M.J.:

INTRODUCTION

Plaintiffs Johnson & Johnson and LifeScan, Inc. (“J&J” or “Plaintiffs”) allege in this action that defendants sold and distributed counterfeit blood glucose test strips bearing plaintiffs’ trademarks. Plaintiffs assert claims pursuant to Sections 32 and 43 of the Lanham act for trademark infringement and false designation of origin in commerce, 15 U.S.C. §§ 1114, 1125; New York state law for injury to business reputation or trademark dilution and deceptive business practices, N.Y. Gen. Bus. Law §§ 349, 360-*l*; and under common law for unfair competition and unjust enrichment. Complaint (“Compl.”) ¶ 2, Docket Entry 1.

Upon plaintiffs' application and in light of the failure of certain defendants to answer or move with respect to the complaint, the Clerk of Court entered the default of the following defendants pursuant to Rule 55(a) of the Federal Rules of Civil Procedure: Li Zhong, Yao Congde, a/k/a/ Tao Chongde, a/k/a/ Yao Chong De ("Yao Congde"), Li Yaoqing, Li Li-Hua, a/k/a Lucia Lee ("Li Li-Hua"), Chen Jie, a/k/a Jerry Chen ("Chen Jie"), Docket Entry 15 and Docket Entry dated April 30, 2009; Guilin Zhong Hui Medical Product Co., Ltd., Docket Entry dated June 1, 2009; and Guilin Chung Fai Biotech Co., Ltd., a/k/a Guilin Zhonghui Biotech Co., Ltd., a/k/a/ Guilin Zhonghui Technology Co., Ltd. ("Chung Fai"), Docket Entry dated June 29, 2009. Plaintiffs now seek entry of a default judgment against defendants Chung Fai, Li Li-Hua, and Chen Jie (collectively the "Chung Fai defendants" or "defendants"). Docket Entry 42.¹ United States District Judge LaShann DeArcy Hall has referred plaintiffs' motion to me to report and recommend on what relief, if any, should be awarded. Docket Entry 46. Plaintiffs seek injunctive relief and an award, to be imposed on defendants jointly and severally, of \$5 million in statutory damages and \$45 million in punitive damages under New York Law. Plaintiffs' Memorandum of Law in Support ("Pls.' Mem.") at 3, Docket Entry 45.

FACTUAL & PROCEDURAL BACKGROUND

1. Introduction

¹ Two of the original named defendants in plaintiffs' complaint have died during the pendency of this law suit: Li Zhong and Yao Congde. Pls.' Mem. at 1 n.1. Additionally, with respect to the following defendants, plaintiffs either could not locate or serve them, or could not obtain sufficient evidence of their involvement to support entry of judgment against them: Guilin Chung Fai Fine Chemicals Industrial Co., Ltd., Guilin Chung Fai Industry Co., Ltd., Guilin Zhong Hui Medical Product Co., Ltd., Li Yaoqing, Li Xuejun, Jin Peiyu, a/k/a Jin Pei Yu, and Shanghai Bad Luo Tong Import & Export Co., Ltd. *Id.* Plaintiffs request that their claims against these defendants be dismissed without prejudice. *Id.* Plaintiffs also request that the complaint against Halson Pharmaceutical International Corp., Southeast Medical Apparatus Co., Ltd., Shanghai Bao Luo Tong Import & Export Co., Ltd., Su Zhi Yong, a/k/a/ Henry Fu, a/k/a/ George Su, and Lin Lu Ming be dismissed without prejudice. *Id.* at 8 n.6; *see* Compl. at 1-2 (listing and categorizing defendants). Finally, during the October 31, 2017 hearing, plaintiffs requested that the remaining defendants, John Does 1-50 and Li Canhui a/k/a/ Lee Chun Fai be dismissed without prejudice. Transcript of October 31, 2017 Hearing ("Tr.") at 22:9-25, Docket Entry 50.

Johnson & Johnson (“J&J”), a New Jersey corporation, is the sole owner of the following registered trademarks: LIFESCAN (Reg. No. 1,384,863), ONETOUCH (Reg. No. 2,863,393), ONE TOUCH ULTRA (Reg. No. 2,538,658), INDUO (Reg. No. 2,652,567), and ULTRASMART (Reg. No. 2,730,626) (together, the “OneTouch marks”). Compl. ¶ 26; Pls.’ Mem. at 4; Declaration of Roy Albiani in Support of Plaintiffs’ Motion for Default Judgment (“2017 Albiani Decl.”) ¶ 5, Docket Entry 44. LifeScan, a California corporation, is a wholly owned subsidiary of J&J. Compl. ¶¶ 6-7; Pls.’ Mem. at 4. LifeScan manufactures, markets, and distributes the OneTouch brand of blood glucose monitoring systems, which include OneTouch Ultra and OneTouch Basic meters and test strips (the “OneTouch products”). Compl. ¶ 27; Pls.’ Mem. at 4. LifeScan has spent millions of dollars on advertising to promote OneTouch products. As a result of LifeScan’s extensive efforts, sales of the OneTouch products totaled over one billion dollars in the five years preceding this action. Compl. ¶ 27; Pls.’ Mem. at 4.

This case is one of several plaintiffs have brought as part of a substantial effort to address worldwide trafficking of repackaged and counterfeit glucose test strips. Plaintiffs have brought three other cases in this Court alone: *Johnson & Johnson et al v. South Pointe Wholesale, Inc. et al.*, No: 08-CV-1297 (SLT); *Johnson & Johnson v. Azam Int’l Trading*, No. 07-CV-4302 (SLT); and *Johnson & Johnson, et al. v. Champion Sales, Inc., et al.*, No: 06-CV-5451 (SLT). The gravamen of *South Pointe* is that defendants were engaged in the sale of repackaged, but genuine, test strips in counterfeit boxes. The gravamen of *Champion Sales* and *Azam* is that defendants were engaged in either the sale or distribution of counterfeit test strips.

Plaintiffs contend that the conduct of the defendants in this case is different, and even more serious, than the conduct of the defendants in the cases listed above. Here, plaintiffs allege that defendants were the original manufacturers of the counterfeit test strips recovered in *Azam*

and *Champion Sales*. Compl. ¶¶ 35, 44; *Johnson & Johnson v. Azam Int'l Trading*, 2013 WL 4048295, at *4 (E.D.N.Y. Aug. 9, 2013). Plaintiffs further allege that defendants have produced hundreds of thousands of counterfeit test strips. Pls.' Mem. at 11.

2. Prior Litigation

To ensure consistent quality of its products and to protect the goodwill associated with its OneTouch marks, LifeScan, via third-party agents, covertly purchased samples of OneTouch products on the open market. LifeScan made one such purchase from a company named Champion Sales, Inc. ("Champion") on September 18, 2006. LifeScan discovered that the products purchased from Champion were counterfeit. Lifescan then continued its investigation and uncovered several other distributors selling counterfeit LifeScan products. Compl. ¶ 30. LifeScan subsequently brought an action against Champion and the other distributors it identified (the "Champion Sales action"). In the course of litigating the Champion Sales action, LifeScan determined that the defendants in that case had purchased the counterfeit OneTouch products from a single upstream source, Royal Global Wholesale ("RGW"). Compl. ¶ 34; Pls.' Mem. at 5; Declaration of Geoffrey Potter in Support of Plaintiffs' Motion for Default Judgment ("2017 Potter Decl."), Exhibit B at 4, ¶ 6, Docket Entry 43-2.² Documents obtained as a result of a seizure order issued in the Champion Sales action revealed that RGW was purchasing counterfeit test strips from a Chinese entity called Halson Pharmaceuticals International Corp. ("Halson"). Compl. ¶ 35; 2017 Potter Decl., Ex. B at 4, ¶ 7.

To confirm that Halson was indeed selling counterfeit test strips in the United States, LifeScan, via third-party agents, surreptitiously purchased test strips from Halson in China. LifeScan examined the test strips and verified that they were not only counterfeit but also shared

² Because Exhibit B is not separately paginated and contains multiple documents, references in the text are to the page numbers assigned by the Court's electronic filing system.

characteristics with the counterfeit test strips it had recovered in the United States, as described above. Compl. ¶ 35; Pls.' Mem. at 6.

LifeScan subsequently learned that Halson had purchased the test strips from the Chung Fai defendants. An investigator working covertly for LifeScan's counsel visited the Chung Fai factory in China and met with Defendant Chen Jie, who runs Chung Fai's Import and Export Department. Compl. ¶ 17; Pls.' Mem. at 11. Chen Jie provided the investigator with samples of the test strips that Chung Fai manufactured and a sales brochure detailing the test strip's compatibility with LifeScan meters, and stated that the test strips could only be used in LifeScan meters. Chen Jie also stated that Chung Fai had the capacity to manufacture approximately 50,000 test strips each day and that the company exported these test strips internationally. 2017 Potter Decl. Ex. D ¶¶ 8-9, 11, Docket Entry 43-4.

Patricia Maguire, LifeScan's Manager of Product Assessment, analyzed the test strips its investigator acquired from the Chung Fai defendants and found that they shared distinct characteristics with the counterfeit test strips recovered in the United States and from Halson. 2017 Potter Decl. Ex. C ¶¶ 6-15, Docket Entry 43-3. Maguire observed that the test strips purchased from the Chung Fai defendants are similar in size and shape to the genuine test strips, that they have the words "One Touch" printed on them, and that they bear an image of a hand on them that is similar to the image of a hand on genuine test strips. Compl. ¶ 47; 2017 Potter Decl. Ex. C ¶¶ 3, 7-8, 12-13; Pls.' Mem. at 8. Additionally, the Chung Fai test strips were packaged in vials that are similar to, but not the same as, genuine OneTouch product vials. Compl. ¶ 47; 2017 Potter Decl. Ex. C ¶¶ 9-10; 14-15. Maguire's examination revealed, though, that the Chung Fai OneTouch test strips are different from Johnson and Johnson strips in several respects, proving that they are counterfeit. Potter Decl. Ex. C ¶¶ 7, 9, 12, 14. Perhaps most

crucially, Maguire determined that Chung Fai's counterfeit OneTouch Ultra test strips do not draw blood in the same way as genuine test strips, leading to error messages and inaccurate glucose-level results. *Id.* ¶ 7. As a result of her examination, Maguire concluded that the test strips were counterfeits. *Id.* ¶ 5. Moreover, the fact that counterfeit test strips from the United States, Halson, and Chung Fai shared distinct characteristics indicates that Chung Fai was the original source of the counterfeit strips recovered from Halson, RGW, and Champion. Compl. ¶ 44; Pls.' Mem. at 6-7.

On March 30, 2007, a LifeScan investigator learned that a printing company called Guangzhou Juchang Printing Co., Ltd. ("Juchang Printing") had printed boxes with the OneTouch name for Chung Fai. A Juchang Printing employee provided the investigator with a sample OneTouch box and informed the investigator that Juchang Printing had, according to the employee's recollection, printed approximately 100,000 boxes for Chung Fai between 2005 and 2006. Pls.' Mem. at 8; 2017 Potter Decl. Ex. E ¶¶ 4-5, Docket Entry 43-5.

Plaintiffs allege that the Chung Fai defendants conspired with Halson and its principals, Su Zhi and Lin Lu Ming, to market counterfeit test strips to importers such as RGW, enabling its counterfeit products to be distributed internationally. Compl. ¶¶ 36, 39, 47; Pls.' Mem. at 8. Halson's sales to RGW were made in U.S. dollars wired to Halson's account through a branch of the Bank of New York located in New York. Compl. ¶ 36; 2017 Potter Decl. Ex. B at 76-77; 82-84. The counterfeit test strips sold by Halson to RGW were delivered to JFK International Airport in Queens, New York, where a Queens-based freight forwarding company retrieved them and forwarded them to pharmacies and distributors throughout the United States. Compl. ¶ 36; Pls.' Mem at 9. Plaintiffs also allege that Halson paid defendant Chung Fai in U.S. dollars and that these payments cleared through a New York branch of the Bank of China. Compl. ¶ 46;

Pls.’ Mem. at 16-17.³

3. Chinese Criminal Action⁴

In the time since this action was brought, Chinese authorities indicted and prosecuted many of the original named defendants. In September 2009, Chung Fai and Yao Congde, Chung Fai’s general manager, were indicted and convicted in China for counterfeiting J&J’s registered trademarks. In the indictment, the authorities alleged that, from January 2005 to December 2007, Chung Fai sold 678,262 “units” of counterfeit test strips to entities around the world.⁵ 2017 Potter Decl., Ex. H, at 1-2, Docket Entry 43-8.⁶ Eventually, in 2014, a Chinese court entered a judgment against Chung Fai, finding that the company sold more than 220,000 test strips between January 2005 and December 2007 and imposing a fine of 1.5 million RMB.⁷ Pls.’ Mem. at 10-11; 2017 Potter Decl., Ex. I, at 11, 16, Docket Entry 43-9.

4. Procedural History

Plaintiffs filed the instant action in March of 2007. At the same time, plaintiffs moved for a Temporary Restraining Order and Preliminary Injunction. Docket Entry 3. The Court granted plaintiffs’ motion for a Temporary Restraining Order and issued an Order to Show Cause why a Preliminary Injunction should not issue on April 5, 2007. Docket Entry 7.

In compliance with Fed. R. Civ. P. 4(f)(1) and under the Hague Convention on the

³ Documents that appear to confirm that payments from Halson to Chung Fai cleared or passed through New York bank branches are included as part of Potter Decl. Ex. B at 124, 125, and 127.

⁴ Plaintiffs have submitted numerous documents that purport to be official Chinese documents from the criminal case against some of the defendants in China. Although I refer to some of these documents to provide context, I do not rely upon them in making my recommendations. Nor have I considered the admissibility of these documents or whether the results of the proceedings in China might result in claim or issue preclusion in this case.

⁵ The indictment does not define “units.” Rather it simply says that “units” held between 20 and 25 “pieces.” I infer that the term “pieces” refers to test strips. Regardless of how “units” is defined, the indictment clearly charges that Chung Fai was engaged in a substantial counterfeiting operation.

⁶ Although the documents from the Chinese authorities cited in the text refer to “Guilin Zhong Hui Biotech,” plaintiffs allege that this is in fact a reference to defendant Guilin Chung Fai Biotech. Pls.’ Mem at 11 n.11.

⁷ At current exchange rates, 1.5 million RMB converts to approximately \$218,000. See *RMB to USD Converter*, nCalculators (Jan. 8. 2018), <https://ncalculators.com/currency-converter/RMB-USD-conversion.htm>.

Service Abroad of Judicial and Extra-Judicial Documents in Civil and Commercial Matters, plaintiffs served the Summons, Complaint, and the TRO upon defendants. Pls.' Mem. at 11-12; 2008 Declaration of Geoffrey Potter in Support of Clerk's Entry of Default ("2008 Potter Decl.") ¶¶ 4, 11, Docket Entry 11-3; *see also* Process Service Invoice, Docket Entry 11-10. Upon being served, defendant Li Zhong, the Vice Chairman of Chung Fai, responded with a letter, denying the allegations and requesting an adjournment. 2008 Potter Decl. ¶ 5; Letter from Li Zhong at 1-2, Docket Entry 11-6. The Court granted the adjournment to allow defendants time to obtain counsel and scheduled a status conference for December 21, 2007; the Court's order also provided that, if defendants failed to appear through counsel within 45 days, plaintiffs could move for entry of a default judgment. 2008 Potter Decl. ¶ 7; Nov. 19, 2007 Order, Docket Entry 11-8. Plaintiffs served this order on defendants, but they did not appear again in the case and did not attend the December 21, 2007 status conference. 2008 Potter Decl. ¶ 8-10.

On April 3, 2009, pursuant to Fed. R. Civ. P. 55(a), plaintiffs moved to have the Clerk of the Court enter the defaults of defendants Chung Fai, Guilin Zhong Hui Medical Product Co., Ltd., Li Zhong, Yao Congde, Li Yaoqing, Li Li-Hua, and Chen Jie. Docket Entry 15. The Clerk of the Court noted the defaults of these defendants on April 30, 2009, June 1, 2009, and June 22, 2009.

In October 2009, Chung Fai and Yao Congde were, as discussed above, indicted in China. March 10, 2016 Letter from Geoffrey Potter, Docket Entry 38. Because of the then-pending criminal case, plaintiffs asked the Court for several extensions of time to file their motion for default judgment. *See* Docket Entries 20-39. Plaintiffs eventually filed the pending motion for default judgment in June 2017. Docket Entry 42. United States District Judge DeArcy Hall subsequently referred the motion to me to make a report and recommendation.

Order dated June 20, 2017.

5. October 31, 2017 Hearing

On October 31, 2017, at plaintiffs' request, the Court held a hearing on plaintiffs' motion. At that hearing, plaintiffs stressed that this case, unlike the previous ones it brought, involved a manufacturer, and not merely a distributor, of counterfeit test strips. Tr. 5:19-7:16. Defendants placed the counterfeit test strips into high-quality counterfeit packaging, making it very difficult for the ordinary user, and even for an expert, to recognize that the test strips were counterfeit. *Id.* at 3:23-4:02; *see also* 2017 Potter Decl. Ex. C (Declaration of Patricia Maguire, Lifescan's Manager of Product Assessment and the expert who determined that the test strips at issue here are counterfeit).

Despite defendants' success at manufacturing counterfeit strips that appeared to be genuine, the strips did not produce accurate results. Tr. 7:7-16. Plaintiffs assert that inaccurate readings can have devastating consequences; a diabetic who takes an inappropriate amount of insulin or fails to take any at all when a dose is needed could suffer serious injury or even death. *Id.* at 3:15-22.

Plaintiffs' products come in two varieties. The OneTouch Basic test strips are larger, and therefore easier for elderly users to hold and to use, whereas children use the smaller, faster OneTouch Ultra test strips. *Id.* at 4:12-19. Plaintiffs allege that defendants counterfeited both types of test strips, thus exposing people of all ages to potentially dangerous false readings. *Id.* at 4:20-23. Plaintiffs argue that diabetics experience "real terror" as a result of the presence of counterfeit test strips on the market. *Id.* at 3:9-10.

Based on the criminal proceedings in China, plaintiffs assert that defendants manufactured roughly 625,000 counterfeit vials, each containing 25 counterfeit test strips, for a

total of more than 15.5 million counterfeit test strips, an amount that potentially affected tens of thousands of people. *Id.* at 8:20-9:8; 12:7.

DISCUSSION

1. Personal Jurisdiction

Although whether a court *must* do so is an open question, it is well-settled that “[b]efore a court grants a motion for default judgment, it may first assure itself that it has personal jurisdiction over the defendant.” *City of New York v. Mickalis Pawn Shop, LLC*, 645 F.3d 114, 133 (2d Cir. 2011) (internal quotation marks and citation omitted). Moreover, “[a] non-appearing defendant does not, by defaulting, forfeit its right to challenge any ensuing default judgment for lack of personal jurisdiction;” rather, a defendant may ignore judicial proceedings and challenge any ensuing default judgment in a collateral proceeding. *Id.* at 139. In light of the facts of this case, in which the defendants in default are not residents of the Eastern District of New York and had only limited contacts here via their alleged co-conspirators, I elect to consider the question of personal jurisdiction.

Personal jurisdiction over a non-resident defendant may be exercised through the state’s long-arm statute, New York CPLR § 302; it must also be consistent with principles of due process that require a defendant to have minimum contacts with the forum such that “it should reasonably anticipate being haled into court [here].” *PDK Labs, Inc. v. Proactive Labs, Inc.*, 325 F. Supp. 2d 176, 181 (E.D.N.Y. 2004) (quoting *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 474 (1985)); *see also* Fed. R. Civ. P. 4(k); 16 *Moore’s Federal Practice* § 108.60[2] (3d ed. 2017).

Plaintiffs assert personal jurisdiction over defaulting defendants pursuant to CPLR § 302 on grounds that they transacted business in New York, as provided in subsection (a)(1), and

committed a tort within New York, as provided in subsection (a)(2). These subsections provide as follows:

(a) Acts which are the basis of jurisdiction. As to a cause of action arising from any of the acts enumerated in this section, a court may exercise personal jurisdiction over any non-domiciliary, or his executor or administrator, who in person or through an agent:

1. transacts any business within the state or contracts anywhere to supply goods or services in the state; or
2. commits a tortious act within the state, . . .

A. Chung Fai Transacted Business in New York and is Subject to Personal Jurisdiction under CPLR § 302 (a)(1)

A non-domiciliary defendant “transacts business under CPLR § 302(a)(1) when it purposefully avails [itself] of the privilege of conducting activities within [New York], thus invoking the benefits and protections of its laws.” *CutCo Indus., Inc. v. Naughton*, 806 F.2d 361, 365 (2d Cir. 1986) (internal quotation marks and citation omitted). A defendant need not have ever been physically present in New York to be subject to personal jurisdiction here pursuant to Section 302. *See Chloe v. Queen Bee of Beverley Hills, LLC.*, 616 F.3d 158, 169 (2d Cir. 2010); *Azam*, 2013 WL 4048295, at *5. Nor must a defendant have engaged in a series of transactions; rather, “section 302 is a ‘single act statute’ and proof of one transaction in New York is sufficient to invoke jurisdiction, even though the defendant never enters New York, so long as the defendant’s acts were purposeful and there is a substantial relationship between the transaction and the claim asserted.” *Chloe*, 616 F.3d at 170 (internal quotation marks and citation omitted).

The facts of *Azam*, a related case brought by plaintiffs, are similar to those presented here. In *Azam*, plaintiffs sought default judgments against several absent foreign defendants: Azam, a corporate distributor of counterfeit test strips, two of its employees, and individual and entity co-conspirators who accepted payment for and conducted business on behalf of Azam. *Azam*, 2013 WL 4048295, at *3-4. Azam and its co-conspirators engaged in an international

conspiracy to market and sell counterfeit test strips. Azam sold some of its test strips to an entity that shipped them to New York, and some of the counterfeit merchandise found its way to Brooklyn. Plaintiffs corroborated the allegations in their complaint with numerous exhibits, including Azam invoices reflecting New York-bound shipments and emails in which Azam employees arranged for shipments to New York. *Id.* at *6. In light of these contacts with New York, this Court found that it could statutorily and constitutionally exercise personal jurisdiction over Azam and one of its employees. *Id.*

The jurisdictional facts alleged by plaintiffs in this case are similar to those they asserted and the Court found sufficient to support jurisdiction in *Azam*. Plaintiffs allege that Chung Fai is subject to this Court's personal jurisdiction because, together with its co-conspirator, Halson, it engaged in the production, marketing, and distribution of counterfeit test strips throughout the world. Compl. ¶ 47. Some of Halson's sales were made to New York; the complaint alleges that counterfeit test strips were delivered by Halson to John F. Kennedy International Airport, retrieved by a freight forwarder based in Queens, and then forwarded to pharmacies and distributors throughout the United States. Compl. ¶ 36. Halson directed that payment for the counterfeit test strips be made through the Bank of New York, located in New York. Compl. ¶ 37. Moreover, like the defendants' in *Azam* who were paid in U.S. dollars and who wired their funds through New York banks, Chung Fai accepted payments from Halson in U.S. dollars and wired those funds through the New York branch of the Bank of China. Compl. ¶ 46.

These allegations in the complaint are deemed admitted due to defendants' default. Plaintiffs have, moreover, corroborated these allegations with evidence that supports the exercise of personal jurisdiction over Chung Fai. For example, an investigator employed by plaintiffs and posing as a customer met with defendant Chen Jie at Chung Fai's factory, and was told by Chen

that Chung Fai exports its test strips internationally. Potter Decl. Ex. D ¶ 11. Plaintiffs have also submitted evidence indicating that test strips were imported by Halson through Kennedy Airport and that payment for them was made through a New York branch of the Bank of New York. 2017 Potter Decl. Ex. B at 76-77. Finally, plaintiffs have submitted documents corroborating that the imported test strips were received by a freight forwarder based in Queens, New York. 2017 Potter Decl. Ex. B at 78-89.

For all these reasons, I conclude that the facts alleged and evidence submitted by plaintiffs are sufficient to support the exercise of personal jurisdiction over Chung Fai pursuant to CPLR § 302(a)(1).

B. Chung Fai Conspired with Halson to Commit a Tortious Act within New York and is Subject to Personal Jurisdiction under CPLR § 302 (a)(2)

Plaintiffs also contend that this Court may exercise personal jurisdiction over Chung Fai pursuant to CPLR § 302(a)(2), which provides for jurisdiction over a party who, “in person or through an agent . . . commits a tortious act within the state.” For purposes of Section 302, an ‘agent’ is defined “broadly to include not only a defendant’s formal agents, but also, under certain circumstances, a defendant’s co-conspirators,” and “acts committed in New York by the co-conspirator of an out-of-state defendant pursuant to a conspiracy may subject the out-of-state defendant to jurisdiction under CPLR 302(a)(2).” *Chrysler Capital Corp. v. Century Power Corp.*, 778 F. Supp. 1260, 1266 (S.D.N.Y. 1991).

To establish jurisdiction under CPLR § 302(a)(2) based upon an allegation of conspiracy, plaintiffs must “(1) make a prima facie factual showing of a conspiracy, and (2) allege specific facts warranting the inference that [defendants] were members of the conspiracy.” *In re Sumitomo Copper Litig.*, 120 F. Supp. 2d 314, 338-39 (S.D.N.Y. 2000). A court may draw such an inference based on circumstantial evidence if it is “fair and reasonable” to do so. *Best*

Cellars, Inc. v. Grape Finds at Dupont, Inc., 90 F. Supp. 2d 431, 446 (S.D.N.Y. 2000) (internal citation omitted). A prima facie factual showing of conspiracy must allege, in addition to the primary tort, four elements: “(a) a corrupt agreement between two or more persons, (b) an overt act in furtherance of the agreement, (c) the parties’ intentional participation in the furtherance of a plan or purpose, and (d) the resulting damage or injury.” *In re Sumitomo*, 120 F. Supp. 2d at 339 (citing *Chrysler*, 778 F. Supp. at 1267); *see also Azam*, 2013 WL 4048295, at *6-8.

In their complaint, plaintiffs allege that Chung Fai conspired with Halson to commit a tortious act in New York. More specifically, plaintiffs assert that Chung Fai entered into an agreement with Halson pursuant to which Halson would market and distribute the counterfeit goods manufactured by Chung Fai throughout the world, including in New York. Compl. ¶¶ 36, 46-47. *See Citigroup Inc. v. City Holding Co.*, 97 F. Supp. 2d 549, 567 (S.D.N.Y. 2000) (“Trademark infringement occurs where the attempted passing off of an infringing mark occurs. . . . The attempt to pass off these marks, which is allegedly tortious conduct, occurred within New York because that is where the marks were received and viewed. . . .”). Plaintiffs further allege that Chung Fai and Halson, aware of the nefarious nature of their behavior, deliberately attempted to conceal their connection to and involvement with each other and with counterfeit test strips in general. For example, plaintiffs allege that Chung Fai temporarily halted production in response to customer complaints about test strip accuracy and that it eliminated all references to test strips from its website once the press began reporting on LifeScan’s discovery of counterfeits. Compl. ¶¶ 48-49; Pls.’ Mem. 19.

Plaintiffs allege additional facts from which an inference of conspiratorial coordination may be drawn. Plaintiffs allege that Chung Fai operates under a variety of aliases and has at least ten different corporate names. Compl. ¶ 45. Plaintiffs allege that Halson similarly uses a

variety of business names and fictitious addresses, and that, in an attempt “apparently designed to hide its role in the scheme,” Halson changed its corporate name shortly after plaintiffs commenced a lawsuit related to this one. *Id.* ¶¶ 39-41, 50. Finally, plaintiffs allege that Halson provided one of its customers with false documents that appeared to confirm that the counterfeit test strips it was marketing were in fact genuine. *Id.* ¶ 42; Pls.’ Mem at 19; 2017 Potter Decl. Ex. B at 116.

Plaintiffs’ allegations demonstrate the existence of an illicit conspiracy between Chung Fai and Halson. Accordingly, Halson’s contacts with New York, namely its shipment to JFK International Airport, its use of a Queens-based freight forwarder, and its numerous transactions through a Bank of New York branch located in New York, are attributable to Chung Fai as its co-conspirator. These contacts are sufficient to subject Chung Fai to the personal jurisdiction of this Court under CPLR § 302(a)(2).

C. Li Li-Hua and Chen Jie are Subject to Personal Jurisdiction under CPLR § 302(a)(2)

Plaintiffs similarly allege that this Court may exercise personal jurisdiction over the two individual Chung Fai defendants, Li Li-Hua and Chen Jie, pursuant to the agency clause of CPLR § 302(a)(2). Plaintiffs allege that both Chen Jie and Li Li-Hua were agents and co-conspirators of Chung Fai, and were “moving, active and conscious force[s] behind” Chung Fai. Compl. ¶¶ 16-17; Pls.’ Mem. at 20-22. Specifically, plaintiffs allege that Li Li-Hua, a Sales Manager of Chung Fai, oversaw sales of Chung Fai products, and that Chen Jie ran the company’s Import and Export Department. Compl. ¶¶ 16-17. Chung Fai confirmed the employment of both individual defendants in its letter to Judge Townes dated October 8, 2007. Letter from Li Zhong at 1-2. Plaintiffs’ investigator spoke with Chen Jie, who showed the investigator the Chung Fai factory, described its capacity to produce test strips, and gave the

investigator sample test strips and a brochure. 2017 Potter Decl. Ex. D ¶¶ 8-9. The allegations in plaintiffs' complaint, supported by the evidence described above, are sufficient to support a finding that Li Li-Hua and Chen Jie participated in the conspiracy to distribute counterfeit test strips and to support the exercise of personal jurisdiction over them in this case.

2. Liability

“A default constitutes admission as to liability; therefore, the effect of a defendant's default is that it is deemed to have admitted all of the well-pleaded allegations raised in the complaint pertaining to liability.” *Montcalm Publ'g Corp. v. Ryan*, 807 F. Supp. 975, 977 (S.D.N.Y. 1992); *see also City of New York v. Mickalis Pawn Shop, LLC*, 645 F.3d 114, 137 (2d Cir. 2011); *Greyhound Exhibitgroup, Inc., v. E.L.U.L. Realty Corp.*, 973 F.2d 155, 158 (2d Cir. 1992), *cert. denied*, 506 U.S. 1080 (1993). A court, however, retains the discretion to determine whether entry of a final default judgment is appropriate. *See Enron Oil Corp. v. Diakuhara*, 10 F.3d 90, 95 (2d Cir. 1993). Thus, despite a defendant's default, a “plaintiff must nevertheless establish that on the law it is entitled to the relief it seeks, given the facts as established by the default.” *United States v. Ponte*, 246 F. Supp. 2d 74, 76 (D. Me. 2003). In other words, even after a default, “it remains for the court to consider whether the unchallenged facts constitute a legitimate cause of action, since a party in default does not admit conclusions of law,” *Labarbera v. ASTC Labs., Inc.*, 752 F. Supp. 2d 263, 270 (E.D.N.Y. 2010) (internal quotation marks omitted); *see also Au Bon Pain Corp. v. Arctect, Inc.*, 653 F.2d 61, 65 (2d Cir. 1981) (recognizing the court's authority, even after default, to determine whether plaintiff has stated a valid cause of action); *Microsoft Corp. v. Computer Care Ctr., Inc.*, 2008 WL 4179653, at *6 (E.D.N.Y. Sept. 10, 2008). Moreover, while the factual allegations of the complaint need not be set forth in detail, they must be adequate to permit a “reasonable inference that the defendant is

liable for the misconduct alleged;” a complaint containing only “[t]hreadbare recitals of the elements of a cause of action, supported by mere conclusory statements, do[es] not suffice.” *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009) (citing *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555 (2007)).

A. Federal Claims

Plaintiffs bring claims for trademark infringement and false designation of origin in commerce under the Lanham Act, 15 U.S.C. §§ 1114, 1125. Compl. ¶¶ 2, 53-58. Although plaintiffs also assert additional federal claims, *id.* ¶¶ 59-64, these claims are not discussed below because plaintiffs do not seek damages or other relief with respect to them, or otherwise discuss them, in their submissions in support of the pending motion. Pls.’ Mem. at 23-24.

i. Trademark Infringement

The Lanham Act prohibits, when done without consent of the trademark registrant and in a manner that is “likely to cause confusion, or to cause mistake, or to deceive,” both: 1) the “use in commerce” of “any reproduction, counterfeit, copy, or colorable imitation of a registered mark,” and 2) the actual reproduction or counterfeiting of the registered mark. 15 U.S.C. § 1114(1).

To prevail on a claim of trademark infringement, “plaintiffs need only show that they own a valid trademark and that the defendants’ use of the trademark is likely to cause confusion regarding the source of the product.” *Tanning Research Labs., Inc. v. Worldwide Imp. & Exp. Corp.*, 803 F. Supp. 606, 608-09 (E.D.N.Y. 1992). Plaintiff J&J owns the federally registered OneTouch marks, and has thus satisfied the first of these two elements. Compl. ¶ 26. Generally, to assess likelihood of consumer confusion,

the Court must consider the factors established in *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961): (1) strength of the plaintiffs’

mark; (2) degree of similarity between the two marks; (3) proximity of the products in the marketplace; (4) likelihood that the plaintiff will enter a market related to that in which the defendant sells its product; (5) evidence of actual confusion; (6) defendant's bad faith; (7) quality of the defendant's product; and (8) sophistication of the relevant consumer group.

Guishan, Inc. v. Scooby Scraps, Inc., 2008 WL 4276579, at *2 (E.D.N.Y. Sept. 16, 2008).

In a case of counterfeiting, however, a court need not undertake an exhaustive analysis of the *Polaroid* factors

because counterfeits, by their very nature, cause confusion. Indeed, confusing the customer is the whole purpose of creating counterfeit goods. Thus, the Court need only determine the more fundamental question of whether there are items to be confused in the first place – that is, whether the items at issue here are, in fact, counterfeit and whether Defendants sold those items.

Gucci Am., Inc. v. Duty Free Apparel, Ltd., 286 F. Supp. 2d 284, 287 (S.D.N.Y. 2003) (citation omitted). Plaintiffs' complaint clearly alleges that defendants manufactured counterfeit test strips bearing OneTouch trademarks. Compl. ¶¶ 1, 44, 47, 49, 51. Plaintiffs have also submitted affidavits explaining how the test strips manufactured by defendants, and the vials in which they were contained, were determined to be counterfeit and not the genuine LifeScan products they appeared to be. Pls.' Mem. at 5-7; 2017 Potter Decl. Ex. C ¶¶ 6-9, 12-15; Ex. D ¶¶ 9, 11. Plaintiffs have thus pleaded facts that amply demonstrate defendants' liability for trademark infringement.

ii. False Designation of Origin

A claim of false designation of origin under the Lanham Act may be brought against any person who "uses in commerce . . . any false designation of origin . . . which is likely to cause confusion . . . as to the origin . . . of his or her goods." 15 U.S.C. § 1125(a)(1)(A). A plaintiff asserting a claim under this provision "must establish that it has a valid mark entitled to protection and that the defendant's use of it is likely to cause confusion." *Microsoft Corp. v.*

AGA Solutions, Inc., 589 F. Supp. 2d 195, 202 (E.D.N.Y. 2008) (internal quotation marks and citations omitted). Generally, the same facts that support a claim of trademark infringement will suffice to state a valid claim for false designation of origin. *Id.*

The complaint in this case explicitly alleges that defendants, to facilitate their counterfeit test strip scheme, arranged for their co-conspirators to place the vials “in fake cartons that are copied from genuine OneTouch Packaging.” Compl. ¶ 47. Additionally, plaintiffs’ investigator learned that Chung Fai ordered counterfeit packaging—approximately 100,000 boxes in total—from a printer in China, bearing the “One Touch” mark and designed to mimic the appearance of genuine packaging. 2017 Potter Decl. Ex. E ¶¶ 2, 4-5. Read in the context of the remaining allegations of the complaint, plaintiffs’ assertions support the inference that defendants used packaging bearing plaintiffs’ marks to cause confusion about the genuine origin of the counterfeit test strips the packaging contained. False designation of origin in violation of § 1125(a)(3) is therefore adequately alleged.

B. State Law Claims

In addition to their federal claims, plaintiffs assert that defendants caused dilution of their trademark in violation of Section 360-*l* of the New York General Business Law and engaged in deceptive business practices in violation of Section 349. N.Y. Gen. Bus. Law §§ 360-*l*, 349; Compl. ¶¶ 65-69. Plaintiffs also assert common law claims for unfair competition and unjust enrichment. *Id.* ¶¶ 70-73.

Plaintiffs seek \$45 million in punitive damages under their state law claims. Pls.’ Mem. at 33-34. There is a split of authority as to whether punitive damages may be awarded in excess of \$1000 under Section 349 of the General Business Law. *See Bueno v. KR Credit 18, LLC*, ___ F. Supp. 3d ___, 2017 WL 3986577, at *2-5 (E.D.N.Y. Sept. 7, 2017) (discussing split and

collecting cases). Moreover, punitive damages are not available at all as a remedy under section 360-1 of the General Business Law or for common law unjust enrichment. *See, e.g., Halo Optical Products, Inc. v. Liberty Sport, Inc.*, 2017 WL 1082443, at *18 (N.D.N.Y. Mar. 22, 2017) (N.Y. Gen. Bus. Law § 360-1); *Legurnic v. Ciccone*, 63 F. Supp. 3d 241, 251 (E.D.N.Y. 2014) (common law unjust enrichment). Punitive damages are available, however, as a remedy for common law unfair competition. *See, e.g., Getty Petroleum Corp. v. Island Transpo. Corp.*, 878 F.2d 650, 657 (2d Cir. 1989) (noting availability of punitive damage awards for a common law claim of unfair competition); *Paz Sys. Inc. v. Dakota Group Corp.* 514 F. Supp. 2d 402, 410 (E.D.N.Y. 2007) (same).

Because punitive damages are at least arguably capped at \$1000 under section 349 and because the Court may not award punitive damages under either plaintiffs' section 360-1 claim or their common law claim for unjust enrichment, I address the elements of liability only with respect to plaintiffs' common law unfair competition claim.

“Under New York law, common law unfair competition claims closely resemble Lanham Act claims except insofar as the state law claim may require an additional element of bad faith or intent.” *Girl Scouts of U.S. of Am. v. Bantam Doubleday Dell Pub. Group, Inc.*, 808 F. Supp. 1112, 1131 (S.D.N.Y. 1992) (internal quotation marks and citation omitted), *aff'd*, 996 F.2d 1477 (2d Cir. 1993); *see also Genesee Brewing Co., Inc. v. Stroh Brewing Co.*, 124 F.3d 137, 149 (2d Cir. 1997) (“[Plaintiff’s] state law claim of unfair competition is not viable without a showing of bad faith.”). As explained by the Second Circuit, “[t]he essence of unfair competition under New York common law is the bad faith misappropriation of the labors and expenditures of another, likely to cause confusion or to deceive purchasers as to the origin of the goods.” *Jeffrey Milstein, Inc. v. Greger, Lawlor, Roth, Inc.*, 58 F.3d 27, 34-35 (2d. Cir. 1995)

(internal quotations and citations omitted). The complaint's allegations of deliberate counterfeiting of medical supplies and the repackaging of those supplies using plaintiffs' well-known marks clearly establishes defendants' bad faith and sufficiently supports plaintiffs' common law unfair competition claim.

C. Joint Liability.

Joint liability for violating the Lanham Act may be imposed on “[a]ll those who, in pursuance of a common plan to commit an act which is tortious, actively take part in it, or further it by cooperation or request, or lend aid or encouragement, or ratify and adopt the acts done,” for they “are as equally liable as the person who performs the tortious act itself.” 4 McCarthy on Trademarks and Unfair Competition § 25:23 (4th Ed.) (citing *David Berg & Co. v. Gatto International Trading Co.*, 884 F.2d 306 (7th Cir. 1989)); see also *Santana Products, Inc. v. Sylvester & Associates, Ltd.*, 2006 WL 7077215, at *10 (E.D.N.Y. Nov. 13, 2006) (quoting 4 McCarthy § 25:23), *aff'd*, 279 F. App'x 42 (2d Cir. 2008); *Piccoli A/S v. Calvin Klein Jeanswear Co.*, 19 F. Supp. 2d 157, 173-74 (S.D.N.Y. 1998) (same). The connection of each of the Chung Fai defendants to the infringement scheme charged in the complaint is discussed above in connection with the exercise of personal jurisdiction. The same allegations and supporting documentation described there suffice to impose liability on each of the defendants in default. By manufacturing the counterfeit goods, marketing them for sale, accepting payment for them, and serving as a point of contact on behalf of Chung Fai, the individual defendants lent aid to and took part in the test strip infringement scheme and are properly held liable.

3. Damages

Although the allegations of a complaint pertaining to liability are deemed admitted upon entry of a default judgment, allegations relating to damages are not. See *Greyhound*

Exhibitgroup, 973 F.2d at 158. Rather, claims for damages generally must be established in an evidentiary proceeding at which the defendant is afforded the opportunity to contest the amount claimed. *Id.* While “the court must ensure that there is a basis for the damages sought by a plaintiff before entering judgment in the amount demanded,” this determination may be made based upon evidence presented at a hearing or, alternatively, “the court may rely on detailed affidavits or documentary evidence” *Fustok v. ContiCommodity Servs., Inc.*, 873 F.2d 38, 40 (2d Cir. 1989) (quoting and affirming the district court); *see* Fed. R. Civ. P. 55(b)(2); *see also* *Action S.A. v. Marc Rich & Co., Inc.*, 951 F.2d 504, 508 (2d Cir. 1991).

Plaintiffs seek a judgment imposing joint and several liability for \$5 million in statutory damages under the Lanham Act and \$45 million in punitive damages for willful infringement under New York law. Pls.’ Mem. at 3, 28-34.

A. Statutory Damages Under the Lanham Act

Plaintiffs seek the maximum statutory award of \$1 million per mark per type of good sold for willful counterfeiting under the Lanham Act, as set forth in 15 U.S.C. § 1117. Pls.’ Mem. at 28-32. Section 1117(c) provides that, in a case involving the use of a counterfeit mark,

the plaintiff may elect, at any time before final judgment is rendered by the trial court, to recover, instead of actual damages and profits under subsection (a) of this section, an award of statutory damages for any such use in connection with the sale, offering for sale, or distribution of goods or services in the amount of—

(1) not less than \$500 or more than \$100,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed, as the court considers just; or

(2) if the court finds that the use of the counterfeit mark was willful, not more than \$1,000,000 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) (2002) (amended 2008, doubling the dollar amounts; *see* Prioritizing Resources and Organization for Intellectual Property Act of 2008, Pub. L. No. 110–403, § 104,

122 Stat. 4256 (2008)).

J&J asserts that its trademarks were used on two distinct products “that should be treated as separate types of goods for purposes of calculating damages.” Pls.’ Mem. at 28-30.

Specifically, the marks “ONETOUCH” and “LIFESCAN” were used on counterfeit OneTouch Basic test strips, and the marks “ONETOUCH,” “LIFESCAN,” and “ONE TOUCH ULTRA” were used on counterfeit OneTouch Ultra test strips. *Id.* at 28. Plaintiffs thus seek an award of statutory damages based upon five uses of counterfeit marks. *Id.* at 29-30.

“[T]he statute does not provide guidelines for courts to use in determining an appropriate award,” *Louis Vuitton Malletier & Oakley, Inc. v. Veit*, 211 F. Supp. 2d 567, 583 (E.D. Pa. 2002), but instead leaves it to each court’s discretion to award an amount it “considers just,” 15 U.S.C. § 1117(c)(1)-(2). In *Azam*, plaintiffs also sought damages of \$5 million for infringement of each of the same marks. *Azam*, 2013 WL 4048295, at *14. There, I found plaintiffs’ arguments that the OneTouch Basic and the OneTouch Ultra were two distinct products unpersuasive. *Id.* Rather, I found that there was “no indication that the two products [were] so distinct as to qualify as different ‘types’ of products, rather than merely different models or lines of what is essentially the same product type: test strips used in OneTouch blood glucose test meters.” *Id.* For the reasons I stated in *Azam*, I calculate statutory damages based upon three, not five, uses by defendants of counterfeit marks.

On the other hand, I also conclude, as I did in *Azam*, that each of the three uses warrants the maximum award allowed under the statute, at least as to Chung Fai and Chen Jie. *Id.* Defendants marketed counterfeit health care products that posed a genuine danger to consumers, as the F.D.A. warnings referenced above indicate. In addition, the scope of the infringement alleged in the complaint is quite broad, involving several countries, a complex web of co-

conspirators, the daily production of 2,000 bottles each containing 25 test strips, and the sale of hundreds of thousands of dollars' worth of counterfeit products. Compl. ¶¶ 30-36, 44, 51; 2017 Potter Decl. Ex. D ¶ 9.

As previously indicated, for the *willful* use of a counterfeit mark, § 1117(c)(2) authorizes up to \$1 million in statutory damages per counterfeit mark per type of good. As noted above, plaintiffs allege that defendants operated under several aliases and corporate names, and manufactured more than 50,000 counterfeit test strips per day. Furthermore, plaintiffs allege that defendants halted production upon hearing that LifeScan customers were complaining about malfunctioning test strips, and that defendants removed references to test strips from Chung Fai's website upon learning in the press that LifeScan had discovered counterfeit test strips on the market. Compl. ¶¶ 48-49. Defendants' high production capacity and blatant attempts to cover their tracks are convincing evidence that their conduct was willful. Moreover, defendants' default is itself evidence of willful infringement. *See, e.g., Rolls-Royce PLC v. Rolls-Royce USA, Inc.*, 688 F. Supp. 2d 150, 157 (E.D.N.Y. 2010) (noting that "many courts in this circuit have considered a default as evidence of willfulness for the purposes of determining statutory damages" and citing cases).

Although each of the defaulted defendants may therefore be held liable for willful infringement, the evidence presented by plaintiffs demonstrates that some were more centrally involved than others. Plaintiffs have presented evidence of defendant Chen Jie's active participation in the sale of counterfeit test strips on behalf of Chung Fai: he escorted plaintiffs' investigator around the Chung Fai factory, gave him sample test strips, informed him that Chung Fai exported its test strips, stated that the test strips had to be used in OneTouch meters, and boasted about Chung Fai's tremendous production capacity. 2017 Potter Decl. Ex. D ¶¶ 9-11. I

therefore recommend that plaintiffs be awarded \$3 million dollars (\$1 million for each of the three infringed marks) in statutory damages against defendants Chung Fai and Chen Jie.

Li Li-Hua, on the other hand, is hardly mentioned in plaintiffs' documents. In the complaint, plaintiffs describe Li Li-Hua, a sales manager, as a "moving, active and conscious force behind the Chung Fai Corporate Defendants, [who ran] the sales business of the office and factory." Compl. ¶ 16. Her status as an employee, but not her role in the company's activities, was confirmed by Chung Fai. Letter from Li Zhong at 1-2. Thus, while it is clear that she worked at Chung Fai, little is known about the extent of her participation in the manufacture or sale of counterfeit test strips. I therefore conclude that it would be just to enter an award against Li Li-Hua that is limited to the statutory damages available pursuant to § 1117(c)(1), or \$300,000 (\$100,000 for each of the three trademarks infringed).

B. Punitive Damages Under State Law

In New York, "the standard for imposing punitive damages is a strict one and punitive damages will be awarded only in the exceptional cases." *Wright v. Musanti*, 2017 WL 253486, at *12 (S.D.N.Y. Jan. 20, 2017) (quoting *Marinaccio v. Town of Clarence*, 986 N.E. 2d 903, 906 (N.Y. 2013)). "[P]unitive damages are appropriate in cases involving gross, wanton, or willful fraud or other morally culpable conduct." *Action S.A. v. March Rich & Co., Inc.*, 951 F.2d 504, 509 (2d Cir. 1991) (internal quotation and citation marks omitted). "The purpose of punitive damages is to punish the defendant for his willful or malicious conduct and to deter others from similar behavior." *Memphis Cmty. Sch. Dist. v. Stachura*, 477 U.S. 299, 306 n.9 (1986).

Plaintiffs seek \$45 million in punitive damages on their state law claims. As discussed above, plaintiffs may recover punitive damages in excess of \$1000 only on their common law claim of unfair competition. Plaintiffs' unfair competition claim is predicated on the same acts

of trademark infringement and false designation of origin that underlie plaintiffs' Lanham Act claims. Plaintiffs argue that a large punitive damage award is justified by defendants' egregious conduct and to deter others from counterfeiting test strips. Pls.' Mem. at 33-34; Tr. at 12:3, 12:23-13:3.

Plaintiffs also requested \$45 million in punitive damages under their state law claims in *Azam*. There, because I had recommended an award of \$3 million under the federal claims, I found that recovery under plaintiffs' state law claims would be duplicative. *Azam*, 2013 WL 4048295, at *15. However, defendants in *Azam* were distributors; if plaintiffs' allegations are correct, defendants in this case were responsible for manufacturing a large number of dangerous test strips. These test strips were sold throughout the world. Despite defendants' proficiency in manufacturing test strips that appeared genuine, the test strips they made failed to provide accurate results, and thus could have, and probably did, cause significant harm to those who used them. By their conduct, defendants put lives, including those of the elderly and young children, at risk. Defendants' conduct therefore warrants an award of punitive damages.

In determining an amount of punitive damages to recommend, though, I consider the large statutory damages award I have already recommended under the Lanham Act. I also take into account that Chung Fai has been prosecuted and fined in China. Finally, I am guided by those federal laws that provide for trebling damages as an appropriate punitive measure. *See* 18 U.S.C. § 1964(c) (providing for recovery of treble damages in civil suits brought under RICO); 15 U.S.C. § 15(a) (providing for treble damages in civil suits brought under antitrust laws). I therefore recommend that plaintiffs be awarded \$6 million in punitive damages against defendant Chung Fai. With respect to the individual defendants, Chen Jie and Li Li-Hua, I note that plaintiffs have not presented evidence indicating that either held an ownership interest in

Chung Fai or reaped substantial financial gains from its counterfeiting operations, or that either has otherwise amassed significant wealth. I therefore conclude that the statutory damages awards recommended above are adequate to serve the punitive and deterrent purposes of punitive damages with respect to the individual defendants.

4. Injunctive Relief

Plaintiffs seek entry of a permanent injunction prohibiting defendants from infringing or otherwise violating the registered OneTouch marks. Pls.' Mem. at 34. The Lanham Act provides for injunctive relief "according to the principles of equity and upon such terms as the court may deem reasonable, to prevent the violation of . . . [the Act.]" 15 U.S.C. § 1116(a). A plaintiff seeking a permanent injunction must demonstrate:

- (1) that it has suffered an irreparable injury;
- (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury;
- (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and
- (4) that the public interest would not be disserved by a permanent injunction.

eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388, 391 (2006).

In trademark infringement cases, irreparable injury may be established by demonstrating "a likelihood of confusion." *Prot. One Alarm Monitoring, Inc. v. Exec. Prot. One Sec. Serv., LLC.*, 553 F. Supp. 2d 201, 206 (E.D.N.Y. 2008) (internal quotation marks and citation omitted); *see also Guishan*, 2008 WL 4276579, at *2. Because of "[t]he unique nature of the trademark's . . . function in representing such an intangible asset 'as reputation and good will' . . . irreparable harm is almost always found [in infringement cases] where probability of confusion exists." *Essie Cosmetics, Ltd. v. Dae Do Int'l, Ltd.*, 808 F. Supp. 952, 957 (E.D.N.Y. 1992) (quoting *Playboy Enterprises, Inc. v. Chuckleberry Pub. Inc.*, 486 F. Supp. 414, 429 (S.D.N.Y. 1980), *aff'd*, 687 F.2d 563 (2d Cir. 1982)). As discussed above, counterfeits such as those involved

here “by their very nature[] cause confusion.” *Gucci Am., Inc.* 286 F. Supp. 2d at 287.

Accordingly, the facts alleged in the complaint are sufficient to demonstrate irreparable harm.

Moreover, the public has “an interest in not being deceived [and] being assured that the mark it associates with a product is not attached to goods of unknown origin and quality.” *New York City Triathlon, LLC v. NYC Triathlon Club, Inc.*, 704 F. Supp. 2d 305, 344 (S.D.N.Y. 2010). Common sense suggests that accurate identification of a product’s source takes on particular importance when the product at issue is a medical device. Plaintiffs have accordingly made the requisite showing for a permanent injunction barring defendants from infringing their marks, and I recommend that such an injunction be granted.

CONCLUSIONS

Plaintiffs have established defendants’ liability for trademark infringement and false designation of origin under the Lanham Act, 15 U.S.C. §§ 1114, 1125; injury to business reputation or trademark dilution under N.Y. Gen. Bus. Law § 360-*l*; deceptive business practice under N.Y. Gen. Bus. Law § 349; common law unfair competition, and common law unjust enrichment. For the reasons discussed above, I respectfully recommend:

- 1) that plaintiffs be granted a permanent injunction prohibiting all defendants from infringing, counterfeiting, or otherwise violating J&J’s federally registered OneTouch marks;
- 2) that judgment be entered against defendants Chung Fai and Chen Jie, jointly and severally, in the amount of \$3,000,000 in statutory damages pursuant to 15 U.S.C. § 1117(c)(2);
- 3) that judgment be entered against defendant Li Li-Hua in the amount of \$300,000 in statutory damages pursuant to 15 U.S.C. § 1117(c)(1);

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