

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

-----X	:	
KEYSTONE GLOBAL LLC,	:	
	:	
Plaintiff,	:	12 Civ. 9077 (DLC) (GWG)
	:	
-against-	:	<u>REPORT AND</u>
	:	<u>RECOMMENDATION</u>
	:	
AUTO ESSENTIALS INC, DECOR	:	
ESSENTIALS LTD D/B/A BUMPER	:	
ADVERTISEMENT, BUMPER BUSTER INC.	:	
D/B/A BUMPER BUSTERS, CHARIOT INT’L	:	
INC. D/B/A BUMPER BADGER, KESEM LLC	:	
D/B/A BUMPERSECURITY, R.R. LALENA	:	
CORP., AND WHEELS TO LEASE,	:	
	:	
Defendants.	:	
-----X	:	

GABRIEL W. GORENSTEIN, United States Magistrate Judge:

Keystone Global LLC (“Keystone Global”) brought this action alleging patent infringement under 35 U.S.C. § 271 against defendants Decor Essentials Ltd. d/b/a Bumper Advertisement (“Decor Essentials”), Auto Essentials Inc (“Auto Essentials”), Bumper Buster Inc., d/b/a Bumper Buster, Chariot Int’l Inc., d/b/a Bumper Badger, Kesem LLC, d/b/a Bumpersecurity, R.R. Lalena Corp., and Wheels to Lease (collectively the “defendants”). Decor Essentials has defaulted and all that remains are the calculation of damages.

I. BACKGROUND

Keystone Global filed its complaint against defendants on December 13, 2012. See Complaint, filed Dec. 13, 2012 (Docket #1) (“Compl.”). Decor Essentials was served on December 24, 2012. See Affidavit of Service, filed Jan. 22, 2013 (Docket #9). The complaint alleged infringement of two of Keystone Global’s patents. See Compl. ¶ 11. Decor Essentials

failed to respond to the complaint, and the Clerk has issued a certificate of default. See Clerk's Certificate of Default, filed Feb. 14, 2013 (Docket #20).

On March 13, 2013, Judge Cote issued an order to Decor Essentials requiring it to show cause why a default judgment should not be entered against it. See Order to Show Cause For Default Judgment Against Defendant Decor Essentials LTD., filed Mar. 13, 2013 (Docket #27). On April 19, 2013, Judge Cote ordered that a default be entered against Decor Essentials in an amount to be determined after inquest, and that Decor Essentials be permanently enjoined from further infringement of the patents alleged in the complaint. See Default As To Defendant Decor Essentials LTD, filed April 19, 2013 (Docket # 38). Judge Cote also referred the matter to the undersigned for an inquest as to damages. See Order Referring Case to Magistrate Judge, filed Mar. 6, 2014 (Docket # 93).

On April 22, 2014, this Court issued an order directing Keystone Global to file proposed findings of fact and conclusions of law with supporting documentation in support of its request for monetary relief. See Order, filed April 22, 2014 (Docket #104), ¶¶ 1-2 ("April 22 Order"). Keystone Global made its submission on June 19, 2014, seeking \$126,580 in damages and attorney's fees. See Proposed Findings of Fact and Conclusions of Law, dated June 19, 2014 (Docket #113) ("Proposed Findings") ¶ 36; Declaration of Eric Malina, filed June 19, 2014 (Docket # 114) ("Malina Decl."); Declaration of Jeffrey Sonnabend, filed June 19, 2014 (Docket # 115) ("Sonnabend Decl."). The Court gave Decor Essentials until July 21, 2014 to oppose Keystone Global's request, see Memo Endorsement, filed June 4, 2014 (Docket # 112), but it never filed a response.

Because the default order entered in this case establishes Decor Essentials' liability, see Bambu Sales, Inc. v. Ozak Trading Inc., 58 F.3d 849, 854 (2d Cir. 1995) (citation omitted), the

only remaining issue is whether Keystone Global has supplied adequate support for the relief it seeks. See Kuruwa v. Meyers, 823 F. Supp. 2d 253, 256 (S.D.N.Y. 2011), aff'd, 512 F. App'x 45 (2d Cir. 2013); accord GAKM Res. LLC v. Jaylyn Sales Inc., 2009 WL 2150891, at *2 (S.D.N.Y. July 20, 2009). The Second Circuit has held that a damages inquest may be held on the basis of documentary evidence alone “as long as [the court has] ensured that there was a basis for the damages specified in [the] default judgment.” Fustok v. ContiCommodity Servs., Inc., 873 F.2d 38, 40 (2d Cir. 1989); accord Action S.A. v. Marc Rich & Co., Inc., 951 F.2d 504, 508 (2d Cir. 1991). The April 22 Order notified the parties that the Court would conduct the inquest based upon the written submissions of the parties unless a party sought an evidentiary hearing. See April 22 Order ¶ 3. Keystone Global did not request an evidentiary hearing. Moreover, because Keystone Global’s submissions provide a basis for an award of damages, no hearing is required.

II. FINDINGS OF FACT AND CONCLUSIONS OF LAW

In light of Decor Essentials’ default, Keystone Global’s properly-pleaded allegations, except those related to damages, are accepted as true. See, e.g., City of N.Y. v. Mickalis Pawn Shop, LLC, 645 F.3d 114, 137 (2d Cir. 2011) (“It is an ‘ancient common law axiom’ that a defendant who defaults thereby admits all ‘well-pleaded’ factual allegations contained in the complaint.”) (citing Vt. Teddy Bear Co., Inc. v. 1-800 Beargram Co., 373 F.3d 241, 246 (2d Cir. 2004)); Finkel v. Romanowicz, 577 F.3d 79, 84 (2d Cir. 2009) (“In light of [defendant’s] default, a court is required to accept all . . . factual allegations as true and draw all reasonable inferences in [plaintiff’s] favor.”) (citation omitted). Thus, the Court’s findings of fact are based on the allegations in Keystone Global’s complaint regarding liability and the admissible evidence regarding damages contained in its submissions.

A. Facts Relating to Liability

Keystone Global is a New York limited liability company with a place of business Congers, New York. Compl. ¶ 1. Decor Essentials is a New York corporation with a current or former place of business in New York, New York, and/or Brooklyn, New York. Compl. ¶ 3. Auto Essentials is an alter ego of Decor Essentials, “both of which have done or do business under the fictitious business name BumperAdvertisement.” Compl. ¶ 4.

Keystone Global is the owner of U.S. Patent Nos. 7,866,715 and 8,047,601 (the “Patents-In-Suit”). Compl. ¶ 15. The Patents-In-Suit “generally claim protective devices for vehicles, the devices comprising in part stabilizer blocks disposed on and/or formed integrally with the base of the device.” Compl. ¶ 16. Keystone Global “sells commercial embodiments of the Patents-In-Suit,” which are “marked in accordance with 35 U.S.C. § 287.” Compl. ¶ 17. Decor Essentials, operating under the business name BumperAdvertisement, “import[s], offer[s] for sale, sell[s] and otherwise distribute[s] a protective device for automobiles, branded as the ‘Bumper Shield.’” Compl. ¶ 18. It does so “via a website owned and/or operated by [Decor Essentials and/or Auto Essentials] located at <bumperadvertisement.com>.” Compl. ¶ 19. The “‘Bumper Shield’ . . . falls within the scope of at least one claim of each of the Patents-In-Suit.” Compl. ¶ 20.

On October 25, 2012, and again on November 7, 2012, Keystone Global sent letters informing Decor Essentials and Auto Essentials that their “‘Bumper Shield’ branded product infringes the Patents-In-Suit,” and demanding that these entities “cease and desist infringing activities.” Compl. ¶ 21. Nonetheless, Decor Essentials and Auto Essentials continued to “import, offer for sale, sell and otherwise distribute the ‘Bumper Shield’ branded product.” Compl. ¶ 22.

B. Claimed Damages

Keystone Global requests damages for patent infringement in the amount of \$41,360, which it seeks to treble pursuant to 35 U.S.C. § 284. See Proposed Findings ¶¶ 25-27. In addition, Keystone Global seeks attorney's fees in the amount of \$2,500. Proposed Findings ¶¶ 35-36.

1. Patent Infringement Damages

35 U.S.C. § 284 of the Patent Act provides that damages for patent infringement shall be “adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.” The burden of proving the amount of damages is on the patent owner. Oiness v. Walgreen Co., 88 F.3d 1025, 1029 (Fed. Cir. 1996); BIC Leisure Prods., Inc. v. Windsurfing Int'l, Inc., 1 F.3d 1214, 1217 (Fed. Cir. 1993); SEB, S.A. v. Montgomery Ward & Co., Inc., 412 F. Supp. 2d 336, 345 (S.D.N.Y. 2006). “When damages cannot be ascertained with precision because the evidence available from the infringer is inadequate, any doubts must be resolved against the infringer.” Rates Tech. Inc. v. Redfish Telemetry, Inc., 2001 WL 1825854, at *3 (E.D.N.Y. Dec. 20, 2001) (citing Sensonics, Inc. v. Aerosonic Corp., 81 F.3d 1566, 1572 (Fed. Cir. 1996)); Lam, Inc. v. Johns-Manville Corp., 718 F.2d 1056, 1065 (Fed. Cir. 1983).

“Lost profits are the preferred method of assessing damages for patent infringement under 35 U.S.C. § 284.” Rates Tech., 2001 WL 1825854, at *3 (citing Del Mar Avonics, Inc. v. Quinton Instrument Co., 836 F.2d 1320, 1326 (Fed. Cir. 1987)). However, where the patent holder is unable to show lost profits, “the minimum statutory recovery is the amount of reasonable royalty due to the patent holder by the infringer.” Id. (citing 35 U.S.C. § 284). “The royalty may be based upon an established royalty, if there is one, or if not, upon the supposed

result of hypothetical negotiations between the plaintiff and defendant.” Rite-Hite Corp. v. Kelley Co., Inc., 56 F.3d 1538, 1554 (Fed. Cir. 1995) (en banc) (citation and footnote omitted); see also Wordtech Sys., Inc v. Integrated Networks Solutions, Inc., 609 F.3d 1308, 1319 (Fed. Cir. 2010) (“A reasonable royalty can be calculated from an established royalty, the infringer's profit projections for infringing sales, or a hypothetical negotiation between the patentee and infringer . . .”). “Such an analysis ‘necessarily involves some approximation of the market as it would have hypothetically developed absent infringement,’ which in turn ‘requires sound economic and factual predicates.’” Merch. Media, LLC v. H.S.M. Int’l, 2006 WL 3479022, at *9 (S.D.N.Y. Nov. 30, 2006) (quoting Riles v. Shell Exploration & Prod. Co., 298 F.3d 1302, 1311 (Fed. Cir. 2002)); see Wordtech, 609 F.3d at 1319.

To support its claim for damages, Keystone Global has submitted an affidavit from a managing principal, Eric Malina, whose responsibilities include “monitoring competitors of Keystone Global and their products.” See Malina Decl. ¶¶ 1-2. Based on his observations, Malina has concluded that Decor Essentials has a 15% market share. Id. ¶ 3. At a 15% market share, Malina calculates that Decor Essentials has sold 5,400 infringing units from 2011, when Decor Essentials began selling its “Bumper Shield” branded product, until the present. Id. ¶¶ 3-4. In addition to the sales made directly to consumers, Malina states that based on his “wholesaler dealings,” Decor Essentials sold 4,000 units directly to Strauss Auto. Id. ¶ 5. Accordingly, the total number of infringing units is 9,400. Id. ¶ 6.

Malina estimates that Decor Essentials’ cost of goods is \$8 per unit and that the average sale price was approximately \$40 per unit. Id. ¶¶ 8-9. Based on this gross margin of \$32, Malina calculates a reasonable royalty of \$4.40 per unit. Id. ¶ 10-11. Malina “believe[s] this royalty is reasonable in part because it leaves Decor Essentials with a financially reasonable net

margin (i.e., after paying the royalty, Decor Essentials would still have a net margin that would make the payment of the royalty a reasonable business decision).” Id. ¶ 11.

While Keystone Global’s “method of calculating damages is hardly precise . . . the evidence necessary to assess damages with greater precision is lacking because of [Decor Essentials’] default and failure to participate in discovery.” IPVX Patent Holdings, Inc. v. Taridium, LLC, 2014 WL 4437294, at *4 (E.D.N.Y. Aug. 6, 2014), adopted, 2014 WL 4437307 (E.D.N.Y. Sept. 9, 2014); see also U.S.A. Famous Original Ray’s Licensing Corp. v. Famous Ray’s Pizza Buffet Inc., 2013 WL 5363777, at *5 (S.D.N.Y. Sept. 26, 2013), adopted, 2013 WL 5664058 (S.D.N.Y. Oct. 17, 2013). “Thus, any doubts about plaintiff’s damages calculation should be resolved against [Decor Essentials].” IPVX, 2014 WL 4437294, at *4 (citing Rates Tech, 2001 WL 1825854, at *3). Moreover, Decor Essentials had an opportunity to object to the specific royalty rate proposed by Keystone Global but elected not to do so.

Accordingly, we conclude that Malina’s methodology is reasonable, and in light of Decor Essentials’ default and refusal to address Keystone Global’s contentions as to a reasonable royalty rate, we find that \$4.40 is a reasonable royalty per unit. Keystone Global is thus entitled to \$41,360 in damages.

2. Treble Damages

Keystone Global next seeks to treble these damages pursuant to 35 U.S.C. § 284. As the Federal Circuit has explained,

35 U.S.C. § 284 of the Patent Act authorizes the court to “increase the damages up to three times the amount found or assessed.” The statute prescribes no standards for such increase, but precedent establishes that a person having knowledge of an adverse patent has an affirmative duty to exercise due care to avoid infringement of a presumptively valid and enforceable patent.

SRI Int'l, Inc. v. Advanced Tech. Labs., Inc., 127 F.3d 1462, 1464 (Fed. Cir. 1997). “Where . . . a patent infringement is willful, intentional, and deliberate,” an award of enhanced damages is proper. Am. Safety Table Co. v. Schreiber, 415 F.2d 373, 378 (2d Cir. 1969); see also Acticon Techs. v. Heisei Elecs. Co., 2008 WL 356872, at *3 (S.D.N.Y. Feb. 5, 2008) (awarding treble damages upon a finding of willful conduct, when it was “evident that the Defendants were on notice of [plaintiff’s] patent rights and of the infringement of those rights by their products.”).

“Before increasing damages, the court must first determine if the defendants willfully infringed, and second, the court must decide if the damages should be increased based on the totality of the circumstances.” Bic Corp. v. First Prominence Co., 2001 WL 1597983, at *4 (S.D.N.Y. Dec. 10, 2001) (citing Mentor H/S, Inc. v. Med. Device Alliance, Inc., 244 F.3d 1365, 1380 (Fed. Cir. 2001)).

In determining whether to award enhanced damages for willful infringement, the court will consider the “totality of the circumstances,” including: (1) whether the infringer deliberately copied the ideas or design of another; (2) whether the infringer, when it knew of the other's patent protection, investigated its scope and formed a good faith belief that it was invalid or not infringed; and (3) the infringer’s behavior as a party to the litigation. Transmatic, Inc. v. Gulton Indus., Inc., 53 F.3d 1270, 1279 (Fed. Cir. 1995). In addition, courts have also considered a number of other factors including whether the infringer had actual knowledge of an existing patent, Power Lift, Inc. v. Lang Tools, 774 F.2d 478 (Fed. Cir. 1985), and, whether the infringer made a good faith effort to design around the patent, Amstar Corp. v. Envirotech Corp., 823 F.2d 1538 (Fed. Cir. 1987).

Variable-Parameter Fixture Dev. Corp. v. Morpheus Lights, Inc., 1997 WL 177886, at *3 (S.D.N.Y. Apr. 14, 1997).

Courts applying the treble damages provision for trademark infringement under 15 U.S.C. § 1117(b) of the Lanham Act have found that “[w]illfulness may be established by a party’s default because an innocent party would presumably have made an effort to defend itself.” Chloe v. Zarafshan, 2009 WL 2956827, at *7 (S.D.N.Y. Sept. 15, 2009); accord

Burberry Ltd. v. Euro Moda, Inc., 2009 WL 4432678, at *3 (S.D.N.Y. Dec. 4, 2009) (“By virtue of their de facto default, they are deemed to be willful infringers.”); Tiffany (NJ) Inc. v. Luban, 282 F. Supp. 2d 123, 124 (S.D.N.Y. 2003) (same); Fallaci v. New Gazette Literary Corp., 568 F. Supp. 1172, 1173 (S.D.N.Y. 1983) (“[W]e draw a further inference of willfulness from the defendant’s failure to appear and defend this action.”). Moreover, the complaint alleges that Decor Essentials acted wilfully, see Compl. ¶ 49, which further supports a wilfulness finding, see generally Rates Tech., 2001 WL 1825854, at *6 (awarding treble damages for patent infringement pursuant to 35 U.S.C. § 284 in part because plaintiff’s failure to answer “allegations of fraud and deceit set forth in the Amended Complaint certainly lends itself to a showing of bad faith”). Additionally, Decor Essentials was notified of its infringing conduct on October 25, 2012, and again on November 7, 2012, Compl. ¶ 21, but still continued to distribute the infringing product, Compl. ¶ 22.

For these reasons, we find that Decor Essentials’ infringement of the Patents-In-Suit was willful. Accordingly the base damages award should be tripled under 35 U.S.C. § 284 to \$124,080.

3. Attorney’s Fees

Keystone Global asks the court to award attorney’s fees in the amount of \$2,500. Proposed Findings ¶ 35. A court has the authority to award attorney’s fees to the prevailing party in a patent suit “in exceptional cases.” 35 U.S.C. § 285. “An express finding of willful infringement is a sufficient basis for classifying a case as ‘exceptional,’ and indeed, when a trial court denies attorney fees in spite of a finding of willful infringement, the court must explain why the case is not ‘exceptional’ within the meaning of the statute.” Bic Corp., 2001 WL 1597983, at *4 (quoting Modine Mfg. Co. v. Allen Group, Inc., 917 F.2d 538, 543 (Fed. Cir.

1990)) (emphasis in original); accord Whitserve, LLC v. Computer Packages, Inc., 694 F.3d 10, 37 (Fed. Cir. 2012) (“Although an attorney fee award is not mandatory when willful infringement has been found, precedent establishes that the court should explain its decision not to award attorney fees.”), cert. denied, 133 S. Ct. 1291 (2013).

In light of the finding that Decor Essentials willfully infringed the Patents-In-Suit, Keystone Global is entitled to reasonable attorney’s fees. As the Second Circuit noted in Arbor Hill Concerned Citizens Neighborhood Ass’n v. County of Albany, 522 F.3d 182 (2d Cir. 2008), “[t]he most useful starting point for determining the amount of a reasonable fee is the number of hours reasonably expended on the litigation multiplied by a reasonable hourly rate.” Id. at 186 (quoting Hensley v. Eckerhart, 461 U.S. 424, 433 (1983)). As for the number of hours expended, it is well-established that “any attorney . . . who applies for court-ordered compensation in this Circuit . . . must document the application with contemporaneous time records . . . specify[ing], for each attorney, the date, the hours expended, and the nature of the work done.” N.Y. State Ass’n for Retarded Children, Inc. v. Carey, 711 F.2d 1136, 1148 (2d Cir. 1983).

Counsel seeks fees based on five hours of work. Sonnabend Decl. ¶ 8. While the number of hours sought appears reasonable, no attorney’s fees should be awarded here because counsel has neither supplied contemporaneous time records nor supplied any evidence that the hours sought are based on such records. See Cruz v. Local Union No. 3 of Int’l Broth. of Elec. Workers, 34 F.3d 1148, 1160 (2d Cir. 1994) (permitting fee application based on “typed listing of their hours from their computer records” that were based on “contemporaneous entries” made “as the work was completed”). Moreover, counsel has not explained “the nature of the work done” for each portion of time for which compensation was sought. N.Y. State Ass’n for

Retarded Children, Inc., 711 F.2d at 1148. Notably, plaintiff was specifically notified of these requirements in the April 22 Order. See April 22 Order at 2 n.1 (“Any request for attorney’s fees must be supported by contemporaneous time records showing, for each attorney, the date of service, the hours expended, and the nature of the work performed.”).

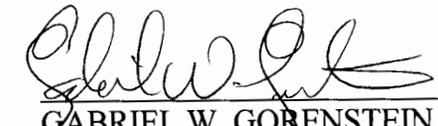
III. CONCLUSION

For the foregoing reasons, Keystone Global LLC should be awarded a judgment against defendant Decor Essentials Ltd. in the amount of \$124,080.

**PROCEDURE FOR FILING OBJECTIONS TO THIS
REPORT AND RECOMMENDATION**

Pursuant to 28 U.S.C. § 636(b)(1) and Rule 72(b) of the Federal Rules of Civil Procedure, the parties have fourteen (14) days including weekends and holidays from service of this Report and Recommendation to serve and file any objections. See also Fed. R. Civ. P. 6(a), (b), (d). Such objections (and any responses to objections) shall be filed with the Clerk of the Court, with copies sent to the Hon. Denise L. Cote at 500 Pearl Street, New York, New York 10007. Any request for an extension of time to file objections must be directed to Judge Cote. If a party fails to file timely objections, that party will not be permitted to raise any objections to this Report and Recommendation on appeal. See Thomas v. Arn, 474 U.S. 140 (1985); Wagner & Wagner, LLP v. Atkinson, Haskins, Nellis, Brittingham, Gladd & Carwile, P.C., 596 F.3d 84, 92 (2d Cir. 2010).

Dated: October 1, 2014
New York, New York


GABRIEL W. GORENSTEIN
United States Magistrate Judge

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