



## GENERAL COUNSEL CORNER

By Peter H. Gunst, Esquire

### COUNSEL GENERAL'S WARNING: "Cigarettes May Be Harmful To Your (Financial) Health"

If you think dealing with one 800 pound gorilla (your supplier/ franchisor) is difficult, consider facing a second gorilla as well -- the national tobacco company whose products you sell at your station. A recent case handled by our firm illustrates just how difficult dealing with that gorilla can be.

After filing a 15-page Complaint in federal court asserting claims for triple damages, statutory damages, punitive damages, attorney's fees and extensive injunctive relief, as well as filing a motion for an *ex parte* seizure order and temporary restraining order backed up by a 34 page brief, which accused a service station dealer of being an accomplice to "tax stamp counterfeiting, cigarette smuggling and illegal importation, and perhaps fund[ing] organized crime and terrorist activities," agents of the Lorillard Tobacco Company swooped down on a dealer's service station; seized its business records and merchandise, and required it to file answering papers in court within five days and to appear at a show cause hearing one day after that.

Representing the dealer, we helped it show that Lorillard's incendiary charges really only concerned three or four cartons of Newport cigarettes that the dealer had acquired innocently in trade from a neighboring service station location.

Indeed, the cigarettes appeared so genuine that even Lorillard could only

contend that they were counterfeit after submitting them to extensive scientific testing.

But Lorillard insisted on seeking a preliminary injunction against the dealer, and attempted to dismiss the dealer's defense that it was innocent of any intentional wrongdoing by asserting that "good faith is no defense." Lorillard also refused to pay the dealer the \$1.00 per pack that it had been promised for purchasing a significant amount of its products under the terms of Lorillard's merchandising program.

Not surprisingly, the federal court concluded that Lorillard was not entitled to an injunction under the facts of the case.

But even that did not end the matter. Lorillard insisted on conducting expensive follow-up document and deposition discovery, and only agreed to an amicable settlement over a year later. All of this over three or four innocently borrowed cartons of cigarettes!

Cases like the one brought against our client have to be taken seriously because the penalties imposed by law are so severe. As an alternative to actual damages, which may be tripled at the court's discretion, suppliers like Lorillard will demand that retailers pay statutory damages of as much as \$100,000 for each infringed trademark, as well as an additional \$1,000,000 per counterfeit

mark in punitive damages. On top of that, the supplier will demand that the retailer be required to pay its extensive attorney's fees and court costs.

The result of such litigation can be devastating. In a recent decision issued by an Illinois federal court, *Lorillard Tobacco Co. v. S & M Central Service Corp.*, a service station dealer who had been found to have resold 83 cartons of counterfeit cigarettes was assessed \$250,000 in damages and ordered to pay Lorillard's attorney's fees and court costs, which Lorillard contended amounted to over \$140,000.

And there may be other consequences as well. If not only the cigarettes but also the tax stamps are counterfeit, the local taxing authority is likely to impose significant penalties.

For example, when a routine inspection by the Division of Taxation of a Brooklyn, New York service station revealed 168.9 cartons of counterfeit cigarettes, the dealer was assessed a tax penalty of \$15,800.

Further, although it is less likely to be applied, federal criminal law provides that a person who knowingly uses a counterfeit mark may be fined as much as \$2,000,000, and be sent to prison for as long as ten years.

The lessons are clear. Be very careful to acquire cigarettes only from legitimate sources. Do not trade for product or merely assume that product you acquire was in turn obtained from a lawful source. And if a problem arises, secure competent counsel and resolve it as promptly as possible.

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