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Report Q203

in the name of the United States Group
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Damages for infringement, counterfeiting and piracy of Trademarks

Questions

I) The state of the substantive law in the countries

1) *The Groups are invited to indicate, in summary form, if their national law distinguishes between different kinds of infringement, counterfeiting and piracy of trademarks and what the conditions are for liability for those different kinds of infringement, counterfeiting and piracy.*

The Groups are also invited to indicate if these various forms of the violation of trademark rights have an impact on the monetary compensation to be provided to the trademark owner.

a) U.S. Trademark Law Generally

i) Basic Issues

In the United States, trademark law is predominantly governed by a federal statute, 15 U.S.C. § 1051 *et. seq.*, also known as the Lanham Act. Each of the fifty States comprising the United States also has its own independent law of unfair competition. In most respects, state trademark and unfair competition law parallels federal trademark law. In some cases, punitive damages – which are not permitted under the Lanham Act – can be awarded under state law. An analysis of punitive damages is beyond the scope of this Report.

The Lanham Act distinguishes among four types of trademark violations: (1) trademark infringement (Sections 32 and 43(a)); (2) trademark dilution (Section 43(c)); (3) cybersquatting (Section 43(d)); and (4) civil counterfeiting (Section 34(d)). The different monetary damages available for these various Lanham Act claims are specified in Section 35 (a) through (e). The Lanham Act is a civil statute, and no criminal charges can be brought under it. Actions for criminal counterfeiting are provided for by 18 U.S.C. § 2320.

All claims under the Lanham Act require, at a minimum, that the plaintiff own valid rights in a trademark that are senior to the defendant's rights, that the trademark is in continuous use in interstate commerce in connection with the goods or services provided under the trademark, that the trademark is not abandoned, that the trademark is inherently distinctive or has acquired distinctiveness as a source identifier, and that the trademark is not or has not become a generic term. Infringement and counterfeiting claims require proof of likelihood of consumer confusion, while dilution and cybersquatting claims do not.

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To bring a claim for infringement, dilution, or cybersquatting, it is not necessary for the plaintiff to have a federal trademark registration. Plaintiff's use of a mark in interstate commerce is sufficient for these claims. Counterfeiting claims, however, do require plaintiff to have a federal trademark registration.

ii) Additional Considerations

A) Trademark Piracy

A formal legal claim for piracy is not recognized under U.S. law. Trademark piracy would be treated under U.S. law as trademark counterfeiting.

B) No Monetary Relief in TTAB Proceedings

Parties frequently engage in adversarial administrative proceedings before the Trademark Trial and Appeal Board (the TTAB, a division of the U.S. Patent and Trademark Office), specifically opposition and cancellation proceedings. The TTAB's jurisdiction is narrow and limited to determining the right to register, not the right to use, a mark. The TTAB does not have jurisdiction to enter monetary awards (including damages awards) or injunctions pertaining to the use of a mark.

C) Trade Dress

Under the Lanham Act, the term "trademark" encompasses trade dress. Trade dress, in turn, includes both product packaging and product configuration. Thus, trade dress law is merely a subcategory of trademark law, rather than an independent body of law. While some special rules apply to trade dress (e.g., product configuration can never be inherently distinctive and is protectable only upon a showing of secondary meaning), a categorical distinction between trademark claims and trade dress claims does not exist for purposes of determining damages.

b) Summary of Specific Claims and Available Monetary Compensation

i) Infringement

To make out a claim for trademark infringement, the plaintiff must show that the defendant's use of the plaintiff's mark or of a similar term causes a likelihood of consumer confusion. The Lanham Act does not set forth criteria for determining likelihood of confusion. A series of non-exclusive criteria for determining infringement has been created over time by the courts. While each federal Circuit applies its own multi-factor test for determining likelihood of confusion, these tests are overall quite similar to each other. They share a common focus on the similarity of the marks, goods or services, and trade channels; the strength, recognition, and fame of the senior mark; geographic overlap among use of the marks; evidence of actual confusion; customer sophistication; and defendant's intent to infringe.

Remedies for infringement include injunctive relief and a wide spectrum of possible monetary damages. Such damages may include (1) plaintiff's lost profits; (2) actual damages other than plaintiff's lost profits; (3) defendant's profits; (4) corrective advertising costs; (5) reasonable royalty; (6) enhanced damages up to three times the amount of actual damages; and, in exceptional cases, (7) attorneys' fees (the default rule in U.S. law – unlike the rule in many other jurisdictions – is that each party pays its own legal fees, regardless of the outcome of the case). Enhanced damages must not be punitive, *i.e.* they must constitute compensation rather than a penalty on the defendant.

ii) Dilution

Trademark dilution differs from trademark infringement in that there is no need to show likelihood of confusion. To make out a claim for trademark dilution, the plaintiff must show, however, that its mark is famous among U.S. consumers. This requirement prevents all but the most widely known marks from supporting a federal dilution claim. The owner of the famous mark must show that the defendant's use of that mark or a similar term causes a likelihood of dilution by either blurring or tarnishment. Blurring is an association of the plaintiff's and the defendant's marks that impairs the distinctiveness of plaintiff's mark. Tarnishment is an association of the plaintiff's and the defendant's marks that harms the reputation of plaintiff's mark.

The primary remedy for dilution is injunctive relief. Monetary damages are available only if the defendant's dilution of the plaintiff's mark is proven to be willful. If willfulness is shown, the available damages are the same as for infringement claims. As a practical matter, monetary damages for federal dilution claims will be awarded only in rare and unusual cases.

iii) Cybersquatting

Cybersquatting, like dilution, does not require a specific showing of likelihood of confusion. To make out a claim for cybersquatting, the plaintiff must show that the defendant, with a bad faith intent to profit, has registered, traffics in, or uses the plaintiff's mark or a confusingly similar term as a domain name. No evidence of likely confusion has to be introduced beyond the similarity of the terms.

Remedies for cybersquatting claims consist of injunctive relief (cancelling or forfeiting defendant's domain name, or transferring it to plaintiff) and monetary damages consisting of actual damages to the plaintiff or defendant's profits from the domain name. These damages parallel those available for trademark infringement. Alternatively, plaintiff may elect to recover statutory damages in an amount of no less than $1,000 and no more than $100,000 per domain name. Attorneys' fees may also be recoverable in exceptional cases.

iv) Counterfeiting

A counterfeit is defined in Section 45 of the Lanham Act as a "spurious mark that is identical with, or substantially indistinguishable from, a mark registered on the principal register." To bring a counterfeiting claim, the plaintiff must have a trademark that is registered on the principal register. Also, the defendant must use that mark on those goods for which the plaintiff's mark is registered.

Counterfeiting remedies include *ex parte* seizure of the counterfeit goods, injunctive relief, and monetary damages. The monetary damages include actual damages (including plaintiff's damages and defendant's profits), a required trebling of actual damages unless extenuating circumstances are shown, and prejudgment interest. Plaintiff may also elect statutory damages, which consist of no less than $500 or more than $100,000 per counterfeit marks per type of goods or services offered by defendant. Where plaintiff proves that the counterfeiting was willful, statutory damages can be increased to a maximum of $1,000,000 per counterfeit marks per type of goods or services offered by defendant.

2) *The Groups are asked to present in a summarised form the legal theories in their respective jurisdictions for the assessment of damages for the violation of trademark rights.*

Is this assessment based on the ground of civil liability or on the ground of violation of property ownership or some other ground(s)?

Under U.S. law, trademark rights are not thought of as purely or even predominantly property rights. Rather, they have long been viewed as based on use in commerce and consumer perception. "There is no such thing as property in a trade-mark except as a right appurtenant to an established business or trade in connection with which the mark is employed." *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (U.S. Supreme Court, 1918).

This traditional view has evolved into the economic theory of trademark law, which today is broadly accepted among commentators and courts, including the U.S. Supreme Court. According to this view, trademark law is based primarily on notions of incentives and search costs – creating incentives for the trademark owner to produce quality products, creating disincentives for cheaters, and lowering the search costs for consumers looking for their preferred products or services. As the Supreme Court explained in 1995, "in principle, trademark law, by preventing others from copying a source-identifying mark, reduces the customer's costs of shopping and making purchasing decisions, for it quickly and easily assures a potential customer that this item–the item with this mark–is made by the same producer as other similarly marked items that he or she liked (or disliked) in the past. At the same time, the law helps assure a producer that it (and not an imitating competitor) will reap the financial, reputation-related rewards associated with a desirable product. The law thereby encourages the production of quality products, and simultaneously discourages those who hope to sell inferior products by capitalizing on a consumer's inability quickly to evaluate the quality of an item offered for sale." *Qualitex Co. v. Jacobson Products Co., Inc.*, 514 U.S. 159, 164 (U.S. Supreme Court, 1995) (citations and quotation marks omitted).

Given this policy, monetary damages for trademark violations center on economic considerations rather than notions of punishment. They are based on two main policies: (a) rectifying the harmful economic consequences of the defendant's conduct, which must be assessed with the aid of empirical evidence; and (b) creating economic disincentives for trademark violations.

The goal of deterrence predominates the assessment of cybersquatting and counterfeiting damages, especially in situations where the plaintiff elects statutory damages. Deterrence is least prominent in the dilution context, where monetary damages are not even available without a showing of willful conduct by defendant.

Apart from the broad and general statutory provisions on damages set forth above, there are no hard and fast rules on determining damages in trademark cases. Instead, the damages inquiry is fact-intensive. Plaintiff's entitlement to damages must be shown by a preponderance of the available evidence. As a general rule in trademark cases, an enhancement of actual damages must be tied to deterrence and must not be punitive in nature.

3) *The Groups are asked to indicate what factors are taken into account in the assessment of damages and how the value of the trademark is used in this assessment.*

a) *Do the Courts take into consideration how strong the trademark is, both in terms of its inherent distinctiveness and popularity acquired through use and publicity?*

The inherent or acquired strength of the plaintiff's mark may be influential, but is not by itself determinative of the amount of damages. The courts' dual analysis of economics and deterrence means that the factual situation of each particular case will be decisive for assessing damages, rather than any *per se* rule (apart from those cases where statutory damages apply). Thus, in one case a plaintiff with a weak and little-known senior mark may be able to obtain substantial damages if real economic injury can be shown, while in another case a plaintiff with a strong and famous senior mark may get no monetary award at all because the facts show that defendant's conduct had no economic consequences.

b) *Do the Courts take into consideration the investment made by the trademark owner in order to make the trade mark known?*

The owner's investment in marketing and advertising the trademark may play a role in the determination of damages. This would be the case where the defendant's conduct demonstrably injured the plaintiff's investment. However, the damages award depends on whether injury is in fact proved. If the defendant's conduct did not injure the plaintiff's investment in its mark, that investment is irrelevant to the calculation of damages. Please see Section 4 for a detailed discussion.

c) *Do the Courts consider what direct effect the infringing activity has had on the trademark proprietors profitability? If so, how?*

This factor, which the Lanham Act refers to as "actual damages," is crucially important in determining the amount of damages. The factual inquiry into these damages is wide open and takes into account all pertinent facts on record. In complex cases, the parties often retain damages experts with training in economics and accounting to assess the damage that plaintiff claims it suffered. Please see Section 4 for a detailed discussion.

d) *Do the Courts take into account price erosion? If so, how?*

Whether proof of price erosion is relevant depends on whether plaintiff can prove by a preponderance of the evidence that the erosion was caused by defendant's conduct. If so, it is recoverable.

e) *Do the Courts distinguish between actual lost sales (i.e; the sales which would otherwisehave been made by the trademark owner) and all sales made by the infringer? If so, which sales matter?*

In principle, either type of sales matters in determining damages. In cases where both are present, the inquiry into the appropriate damages amount can become very fact-intensive, and the resulting court opinions may offer little guidance for future litigants. Please see Section 4 for a detailed discussion.

f) *Do the Courts treat parallel imports differently ? If so, what is the legal basis for this differentiation?*

To be actionable, the defendant's parallel imports must be materially different from the plaintiff's goods. If that requirement is met, then the damages inquiry proceeds along the same lines of empirical evidence as for any other damages claims in trademark cases.

4) *In case the compensation is evaluated on the basis of lost profits of the trademark owner or an account of the profits arising from infringement:*

a) *What are the key principles?*

b) *How are the profits defined and how are they calculated?*

c) *What shares of the profits are attributed to the trademark owner and any licensees?*

d) *Does the strength of the trademark come into play in apportioning the profits?*

Plaintiff's Lost Profits and Defendant's Profits[2]

a) The Pertinent Statutory Provision

Under Section 35(a) of the Lanham Act, the plaintiff in a trademark case is generally entitled to obtain monetary relief as follows:

"(1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three

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2 Section 4 is adapted from David C. Hilliard, Joseph N. Welch II, and Uli Widmaier, Trademarks and Unfair Competition, Seventh Ed. (LexisNexis, forthcoming 2008), Chapter 10 (Jurisdiction and Remedies), with the permission of Matthew Bender & Company, Inc., a member of the LexisNexis Group.

times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party."

b) Plaintiff's Actual Damages

In order to recover actual damages, the plaintiff must show that it suffered an actual injury that was proximately caused by the defendant's infringing, deceiving, or diluting conduct. Actual damages may consist of a broad array of injuries, including but not limited to plaintiff's lost profits from diverted sales, lost profits from having to reduce prices in response to defendant's conduct, the expense of corrective advertising, and quantifiable harm to goodwill. *Alpo PetFoods, Inc. v. Ralston Purina Co.*, 997 F.2d 949 (D.C.Cir. 1993). Proof of damages is required; where a jury awards damages on an insufficient evidentiary basis of such injury and causation, the damages award may be reduced or eliminated. See *Harper House, Inc. v. Thomas Nelson, Inc.*, 889 F.2d 197, 210 (9th Cir. 1989) (reversing $1.8 million jury award; "[i]n a suit for damages under section 43(a), actual evidence of some injury resulting from the deception is an essential element").

Plaintiff must set forth evidence of actual consumer confusion in order to recover actual damages. See *Brunswick Corp. v. Spinit Reel Co.*, 832 F.2d 513, 525 (10th Cir. 1987) ("plaintiff must prove it has been damaged by actual consumer confusion or deception resulting from the violation"). However, this requirement may be satisfied by inference from circumstantial evidence. *PPX Enterprises, Inc. v. Audiofidelity Enterprises*, 818 F.2d 266, 271-272 (2d Cir. 1987) (where defendant's misrepresentations are "patently fraudulent," direct evidence of actual deception unnecessary); *Getty Petroleum Corp. v. Island Transport Corp.*, 878 F.2d 650, 656 (2d Cir. 1989) (proof of actual confusion is "normally required," but jury could use common sense to find defendant's sale of non GETTY gasoline under plaintiff's GETTY mark caused actual deception). Survey results may serve as proof of actual confusion for actual damages purposes. *Schutt Mfg. Co. v. Riddell, Inc.*, 673 F.2d 202, 207 (7th Cir. 1982) (customer reliance may be shown by surveys); Restatement (Third) of Unfair Competition Sec. 36, comment h ("Direct proof of actual confusion or deception is often unavailable, however, and the proof may instead consist of circumstantial evidence such as consumer surveys, market analysis, or the nature of defendant's misconduct").

Proof of defendant's intent to confuse or deceive is not required for actual damages. *General Electric Co. v. Speicher*, 877 F.2d 531, 536 (7th Cir. 1988) ("even the victim of an innocent infringer is entitled to simple damages, as distinct from the infringer's profits".) However, proof of bad intent may create a presumption of actual confusion, which in turn can support an award of actual damages. *Balance Dynamics Corp. v. Schmitt Industries, Inc.*, 204 F.3d 683, 694 (6th Cir. 2000) (literal falsity of claims combined with evidence of deliberate intent or bad faith can raise presumption of monetary damages even if no actual confusion is shown; in this case, however, evidence showed plaintiff suffered no marketplace injury).

i) Plaintiff's Lost Profits

To recover its lost profits, the plaintiff must prove that it would have realized those profits but for the defendant's illegal conduct. The amount of lost profits must be determinable with reasonable certainty. *BASF Corp. v. Old World Trading Co.*, 41 F.3d 1081 (7th Cir. 1994) (affirming award of $4.2 million in lost profits, prejudgment interest and attorneys' fees); *Intel Corp. v. Terabyte Int'l, Inc.*, 6 F.3d 614, 620-21 (9th Cir. 1993) (calculating a $380,000 lost profits award by taking 95% of Intel's profit margin as applied to defendant's sales). Compare Thompson v. Haynes, 305 F.3d 1369 (Fed. Cir. 2002), (court affirmed award of willful infringer's profits, but vacated award of trademark owner's lost profits because there was no evidence of even a single lost product sale and the district court's speculation as to one hundred lost sales per month was "too thin a reed on which to support an award of almost two million dollars").

Precision in proving the amount of lost profits is not required. The estimate of lost profits can be approximate, but it must not be not speculative. *Lindy Pen Co. v. Bic Pen Corp.*, 982 F.2d 1400, 1405 (9th Cir.), *cert. denied*, 510 U.S. 815 (1993) (affirming refusal to award lost profits as too speculative where plaintiff failed to segregate data on the sales of goods in which confusion was likely from other sales in which confusion was unlikely); *McClaran v. Plastic Indus. Inc.*, 97 F.3d 347 (9th Cir. 1996) (jury award of more than $800,000 in lost profits too speculative where plaintiff had not even entered the market for the infringing goods).

Porous Media Corp. v. Pall Corp., 173 F.3d 1109, 1122 (8th Cir. 1999), shows the extent to which a rough approximation of lost profits may suffice to support a damages award. In that case, the court rejected claims that the damage award was too speculative. The court held that a $1.6 million jury verdict was adequately supported by testimony showing the importance of reputation in plaintiff's industry; that defendant damaged that reputation in specific ways; and that plaintiff lost "between $5 million and $10 million" in going concern value.

ii) Corrective Advertising Awards

A corrective advertising award is money that defendant must pay to plaintiff for future corrective advertising to remedy confusion or repair damaged goodwill. The amount of corrective advertising awards is often based on a percentage of the defendant's own advertising expenditures. For example, in *Zelinski v. Columbia 300 Inc.*, 335 F.3d 633 (7th Cir. 2003), the court affirmed a $70,000 corrective advertising award relating to plaintiff's PINBREAKER mark for bowling balls. "[I]t wasn't unreasonable for [plaintiff] to recommend a corrective advertising campaign when [defendant] sold slightly over 3,000 balls [under an identical mark] in Korea and Taiwan". The jury "is entitled to use its common sense" to decide that customers were deceived when purchasing defendant's products, especially "when no amount of inspection would have revealed that [defendant] – not [plaintiff] – manufactured the balls." Corrective advertising expenditures previously incurred by the plaintiff also may be reimbursed. *Alpo Petfoods v. Ralston Purina Co.*, 997 F.2d 949 (D.C.Cir. 1993), (upholding enhanced award for plaintiff's "responsive" advertising, but remanding for reduction of the $3.6 million amount for such things as amount attributable to plaintiff's own false advertising statements); *U Haul International, Inc. v. Jartran, Inc.*, 793 F.2d 1034, 1041 (9th Cir. 1986) (awarding plaintiff $13.6 million for its corrective advertising expenditures, more than twice what defendant spent on its false advertising).

Corrective advertising awards must be supported by a showing of real economic necessity. Otherwise, they constitute a windfall for plaintiff. See, e.g., *Zazu Designs v. L'Oreal S.A.*, 979 F.2d 499, 506 (7th Cir. 1992) (reversing corrective advertising award; plaintiff must show "that 'repair' of the old trademark, rather than adoption of a new one, is the least expensive way to proceed"); *Thompson v. Haynes*, 305 F.3d 1369 (Fed. Cir. 2002) (vacating corrective advertising award where infringer's ads "were not a source of marketplace confusion or damage," and explaining that "Tenth Circuit precedent does not contemplate the award of damages to counteract an advertising campaign that itself caused no confusion.").

iii) Other Actual Damages

Damages have been awarded under a variety of other legal theories, such as thwarted market expansion, *Taco Cabana International, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1125-1127 (5th Cir. 1991), aff'd., 505 U.S. 763 (1992) ("head start theory": jury award of more than $930,000 for lost profits and licensing fees caused by defendant's bad faith entry under infringing trade dress into geographic areas of natural expansion for plaintiff) or compensation for anticipated mistaken product liability claims, *Broan Mfg. Co. v. Associated Distributors, Inc.*, 923 F.2d 1232, 1239-41 (6th Cir. 1991) (accepting damage theory based on anticipated mistaken product liability claims against plaintiff caused by defendant's dangerous infringing electrical fans, but remanding for retrial on damages because of errors by trial court).

c) Defendant's Profits

A plaintiff normally need not prove actual damages to obtain an accounting of defendant's profits. Willfulness and bad faith often for a sufficient basis for awarding defendant's profits, but other factors may also be relevant. In *Seatrax, Inc. v. Sonbeck Intern., Inc.*, 200 F.3d 358, 369 (5th Cir. 2000), the court identified the following non exhaustive list of factors relevant to whether an accounting of profits should be awarded: (1) whether the defendant intended to confuse or deceive; (2) whether sales have been diverted; (3) the adequacy of other remedies; (4) any unreasonable delay in asserting rights; (5) the public interest in making the conduct unprofitable; and (6) whether it is a case of palming off. In that case, an award of defendant's profits was denied based on the factors listed. Noting that the jury did not find the infringement was willful, that evidence of actual damages was lacking and that it was not a case of palming off, the court affirmed that injunctive relief satisfied the equities of the case.

There is some disagreement among the U.S. courts as to whether actual confusion is required for an award of defendant's profits. Some courts have required such a showing. *Perfect Fit Industries, Inc. v. Acme Quilting Co.*, 618 F.2d 950, 955 (2d Cir. 1980), *cert. denied*, 459 U.S. 832 (1982); ("In the absence of proof of an actual confusion of consumers, plaintiff] is not entitled to damages or an accounting"); *D.C. Comics, Inc. v. Filmation Associates*, 486 F. Supp. 1273, 1284 (S.D.N.Y. 1980). Others have not. See *International Star Class Yacht Racing Ass'n v. Tommy Hilfiger U.S.A.*, 146 F.3d 66 (2d Cir. 1998) (even if actual injury or actual consumer confusion is not shown, an accounting of profits still may be awarded to deter a willful infringer from infringing again); *Web Printing Controls Co. v. Oxy Dry Corp.*, 906 F.2d 1202, 1205 (7th Cir. 1990) (no need to show actual confusion for an accounting of profits).

Section 35 of the Lanham Act provides that plaintiff only has the burden of proving defendant's gross sales. Once such proof has been introduced, the burden shifts to defendant to prove any offsetting deductions. This duty of defendant is strictly applied. *Australian Gold, Inc. v. Hatfield*, 436 F.3d 1228 (10th Cir. 2006) (defendants could not rely on their poor record-keeping to claim that damages were too speculative to be awarded); *Wynn Oil Co. v. American Way Service Corp.*, 943 F.2d 595, 607 (6th Cir. 1991) (defendants had burden to prove deductions from gross receipts, with uncertainties resolved in plaintiff's favor); *Sony Corp. v. Elm State Electronics, Inc.*, 800 F.2d 317, 321 (2d Cir. 1986) (failure to consider defendant's offsetting expenses was abuse of discretion). In some cases, courts have awarded only that portion of defendant's profits which is directly attributable to use of the infringing mark. *Holiday Inns. v. Airport Holiday Corp.*, 493 F. Supp. 1025, 1028 (N.D. Tex. 1980), *aff'd.*, 683 F.2d 931 (5th Cir. 1982) (30% of defendant's profits awarded).

d) Enhanced Damages and Prejudgment Interest

Section 35 gives courts the discretion to enhance or decrease the amount of the damage award. Enhancement can provide proper redress to an otherwise undercompensated plaintiff where imprecise damage results fail to do justice, particularly where the imprecision results from defendant's conduct. *Taco Cabana International, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1127 (5th Cir. 1991), aff'd., 505 U.S. 763 (1992). See also *Gorenstein Enterprises, Inc. v. Quality Care-USA, Inc.*, 874 F.2d 431, 435 (7th Cir. 1989) (where ex franchisee had deliberately infringed, "it might have been an abuse of discretion not to have awarded [the plaintiff] treble damages, attorneys' fees, and prejudgment interest"); *U Haul International, Inc. v. Jartran, Inc.*, 601 F. Supp. 1140, 1150 (D. Az. 1984), *aff'd. in part, rev'd in part, modified in part*, 793 F.2d 1034, 1041-42 (9th Cir. 1986) (doubling the $20 million in false advertising damages due to defendant's willful and malicious conduct).

However, increased damages cannot be awarded unless the basic fact of damage is first proven. As the court in *Caesars World, Inc. v. Venus Lounge, Inc.*, 520 F.2d 269, 273 (3d Cir. 1975), put it, "[t]hree times zero is zero."

e) Attorneys' Fees

Section 35 authorizes courts to award attorneys' fees in exceptional cases. These typically are cases in which defendant has acted in bad faith. *Stephen W. Boney, Inc. v. Boney Serv.*, 127 F.3d 821, 826 (9th Cir. 1997) (exceptional cases under §35 occur when infringement is "malicious, fraudulent, deliberate or willful"); *Reader's Digest Assoc. v. Conservative Digest, Inc.*, 821 F.2d 800, 808 (D.C. Cir. 1987) ("Under the Lanham Act, a court must find willful or bad faith infringement by the defendant in order to award attorneys' fees to the plaintiff").

To qualify a case as exceptional under the statute, the plaintiff has to meet a high burden of proof. Even a jury finding of intentional infringement may not be sufficient. In *Watec Co., Ltd. v. Liu*, 403 F.3d 645 (9th Cir. 2005) the court vacated and remanded a jury award of attorneys' fees, noting that "the jury's finding that Watec America 'intentionally infringed' does not necessarily equate to the malicious, fraudulent, deliberate or willful conduct that [is] usually require[d] before deeming a case exceptional" so as to warrant an award of attorneys' fees.

Circumstances other than bad faith, a party's conduct during the trademark litigation, also may render a case exceptional. See *Patsy's Brand, Inc. v. I.O.B. Realty, Inc.*, 317 F.3d 209 (2d Cir. 2003) (defendant had submitted false evidence; "fraudulent conduct in the course of conducting trademark litigation permits a finding that a case is 'exceptional' for purposes of an attorneys' fee award under the Lanham Act"); *Securacomm Consulting, Inc. v. Securacom Inc.*, 224 F.3d 273, 282 (3d Cir. 2000) (although the infringement was not willful, defendant's vexatious litigation conduct – "it tried to prevail by crushing plaintiff" – warranted an award of attorneys' fees). In a particularly egregious example, attorneys' fees were awarded to plaintiff because the defendant, among other things, threatened the plaintiff and its attorneys, and defendant's founder solicited the murder of the presiding judge. *Te-Ta-Ma Truth Foundation-Family of URI v. World Church of The Creator*, 392 F.3d 248 (7th Cir. 2004).

5) *In case the monetary compensation is assessed on basis of a royalty,*

   a) *How is the royalty rate fixed?*

   b) *Do the Courts consider whether the mark in question is one which is or was available for licence? If so, how does this affect their analysis?*

In some cases, the plaintiff's damages award was based on an estimated royalty rate for defendant's illicit use of plaintiff's mark. However, as the Court of Appeals for the Seventh Circuit put it, because a royalty award "seeks to mirror the bargain at which the parties would have arrived had negotiations taken place, it becomes for the malefactor simply the cost of doing business. There is no incentive to engage in protracted, expensive, and perhaps unsuccessful licensing negotiations when the consequence of getting caught for trade piracy is simply to pay what should have been paid earlier. *Nunc pro tunc* payment of the royalty fee becomes simply the 'judicial expense' of doing business." *Sands, Taylor & Wood v. Quaker Oats Co.*, 34 F.3d 1340, 1350-51 (7th Cir. 1994). The court in *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1158 (6th Cir. 1978) expressed a similar concern: "[T]he infringer would have nothing to lose and everything to gain if he could count on paying only the normal, routine royalty non-infringers might have paid."

Thus, if royalties are ordered as a measure of damages, the courts strive to find a balance between a number of factors: properly deterring and disincentivizing trademark infringement; avoiding damages in an amount that is punitive; and making sure that the victim is not undercompensated. "Enhancement of the damages attributable to a lost royalty in order to ensure that the malefactor, and not the victim, bears the burden of any uncertainty in its calculation is a permissible way of achieving that goal." *Sands, Taylor & Wood v. Quaker Oats Co.*, 34 F.3d 1340, 1351 (7th Cir. 1994).

6) *The Groups are asked to summarise what information in relation to the unlawful activities causing the violation of the trademark can be obtained by the trademark owner in administrative or judicial proceedings in order to assess the level of monetary compensation.*

During the discovery process, the plaintiff can request information from the defendant that may be relevant to claim at issue, including the question of monetary recovery. Specifically with respect to monetary recovery, this would include information on defendant's sales, marketing, and advertising activities and expenditures relating to the mark in question. It also includes information on defendant's intent, the care exercised in adopting and clearing the mark, and any evidence of actual confusion. Most importantly, defendant must, upon plaintiff's request, set forth in detail all revenue and profit figures that relate or may relate to defendant's use of the mark in question. The plaintiff can also obtain such information from third parties via subpoena. Such third parties often include defendant's advertising and marketing agencies, and that producers and distributors of defendant's goods or services. Other third parties, whether or not they have any relationship to the defendant, may also be requested to produce relevant information to the plaintiff.

All non-privileged documentary evidence in defendant's possession (including all non-privileged internal and third-party communications), whether in hard copy or any form of electronic storage, is potentially subject to production to the plaintiff if it contains relevant information. The discovery process thus enables plaintiff to get a full picture of defendant's activities in regards to the mark in question.

The discovery process is reciprocal, and defendant can obtain any potentially relevant information from plaintiff. Failure by either party to comply with proper discovery requests may lead to entry of sanctions by the court, including monetary sanctions, evidentiary presumptions, and default judgment against the noncomplying party. Failure by third parties to comply with proper discovery requests may lead to sanctions for contempt of court, which may include fines or, in extreme cases, confinement.

7) *One of the forms of the prejudice suffered by the trademark owner through the infringement is the damage to the trademark in a reputational sense (diluting exclusivity). The Groups are invited to report if this form of prejudice is considered by the Courts and what are the factors that are used in their evaluation?*

a) Dilution Law

Damage to a famous trademark's reputation, as well as dilution of the exclusivity of a famous trademark, is specifically addressed by the Trademark Dilution Revision Act of 2006 (the TDRA), codified as Section 43(c) of the Lanham Act. Marks that are not famous, i.e. that are not household names among the general American public, cannot give rise to claims under the TDRA.

The TDRA is a substantial change over the previous federal dilution law, the Federal Trademark Dilution Act (the FTDA). The FTDA, which was passed in early 1996, proved unworkable in practice, for three main reasons. (1) The FTDA contained a requirement that plaintiff prove actual dilution of its mark as a necessary condition for finding liability. By the very nature of the dilution injury (a gradual compromising of the exclusivity of plaintiff's mark), such proof was nearly impossible to come by. (2) The FTDA did not expressly provide for dilution by reputational injury, i.e. tarnishment of the plaintiff's mark. (3) The courts expressed grave doubts whether descriptive marks that are protectable only upon a showing of acquired distinctiveness were protectable under the FTDA, even if abundant fame was shown.

With the TDRA, Congress sought to eliminate the FTDA's shortcomings. Under the TDRA, only a likelihood of dilution must be proved. Dilution claims for both blurring (dilution of exclusivity) and tarnishment (harm to reputation) are actionable. Blurring is defined as an association of the plaintiff's and the defendant's marks that impairs the distinctiveness of plaintiff's mark. Tarnishment is defined as an association of the plaintiff's and the defendant's marks that harms the reputation of plaintiff's mark. Finally, the TDRA expressly states that descriptive marks with secondary meaning are protectable against dilution.

Dilution claims do not require a showing of likelihood of confusion, but can proceed upon a showing of (1) fame of plaintiff's mark and (2) likelihood of blurring or tarnishment. In the view of many practitioners and other interested parties who were called to testify before Congress on the proposed new law, dilution claims are potentially much broader and farther-reaching than ordinary infringement claims. It is in part for this reason that Congress drafted the TDRA in such a way as to disfavor monetary recovery for dilution claim by either blurring or tarnishment.

Under section 34 of the Lanhan Act, monetary recovery under the TDRA is available only if the plaintiff proves that defendant's dilution of plaintiff's mark was willful. Monetary relief under federal dilution law is rare at best. The authors are not aware of any court having found that a defendant engaged in a willful violation of the TDRA.

b) Reputational Injury through Criticism

Reputational damage to a trademark stemming from a parodic or other use of the mark that criticizes the mark's owner is generally not actionable under U.S. law. Under the freedom of speech clause of the First Amendment to the U.S. Constitution, any factual, philosophical, political, ideological or other criticism of a company's practices is fully protected, as long as some "factual basis" underlies the criticism. *Texas Beef Group v. Winfrey*, 201 F.3d 680, 688 (5th Cir. 2000). Thus, the First Amendment broadly protects speech critical of a company or its practices from claims based on reputational damage. See *Mattel, Inc., v. MCA Records, Inc.*, 296 F.3d 894 (9th Cir. 2002); *L.L.Bean, Inc., v. Drake Publishers, Inc.*, 811 F.2d 26 (1st Cir. 1987). A balanced or sparing way of presenting the criticism is not required. On the contrary, criticism may be expressed harshly, and even insultingly. See *Hustler Magazine v. Falwell*, 485 U.S. 46 (U.S. Supreme Court, 1988).

However, a defendant has no First Amendment right to make "misleading use of plaintiff's marks" in its criticism of plaintiff, even if that criticism is otherwise permissible. *Coca-Cola Co. v. Purdy*, 382 F.3d 774, 787 (8th Cir. 2004).

8) *The Groups are also asked to indicate if the moral/wilful element of the violation of a trademark right, and particularly the will to profit or gain from counterfeit activities (where the goods do not originate from the trademark proprietor or are not marked with his consent) is taken into consideration in the evaluation of the damages and/or the account of profits. If so, what are the consequences?*

The Groups are also asked to indicate if ignorance of the trademark and/or ignorance of the infringement is taken into consideration in the evaluation of damages or the account of the profits.

Finally, is the scale of the counterfeiting or piracy an additional element which influences the assessment of damages and/or account of the profits? If so, what are the consequences?

A showing that the defendant's counterfeiting of plaintiff's mark was willful increases the maximum available statutory (as opposed to actual) damages from $100,000 per counterfeit mark per type of goods or services sold, to $1,000,000.

A showing that the defendant's infringement or cybersquatting of plaintiff's mark was willful entitles the plaintiff to enhanced damages (up to three times the value of actual damages), and possibly also a recovery of its attorneys' fees. Note that in cybersquatting cases, plaintiff can also elect statutory damages, which are, however, not increased by a showing of willfulness.

A showing that the defendant's dilution of plaintiff's mark was willful entitles the plaintiff to recover the damages available for trademark infringements. Without a showing of willfulness, no damages claims can be awarded in federal dilution claims.

9) *Is the evaluation of damages based on the same principles in cases where the infringement also constitutes a violation of a contractual obligation, for example, a violation of a licence?*

There is no difference in principle between a case that involves only trademark violations and a case that involves both trademark violations and breach of contract claims. In some situations, the presence of contract issues may give rise to a finding of willful trademark violation. This is particularly true in cases where ex-licensees continue to use the formerly licensed mark. Enhanced damages and attorneys' fees may well result from such conduct. See *Gorenstein Enterprises, Inc. v. Quality Care-USA, Inc.*, 874 F.2d 431, 435 (7th Cir. 1989) (where an ex licensee intentionally infringed the mark of its former licensor, "it might have been an abuse of discretion, not to have awarded [the plaintiff] treble damages, attorneys' fees, and prejudgment interest").

10) *The Groups are also invited to explain the problems and practical difficulties that the trademark owners face in the assessment of the damages and/or account of the profits for the violation of trademark rights?*

The main practical problem in assessing trademark damages results from the strongly fact-contingent nature of the damages, and from the court's discretion under Section 35 of the Lanham Act and under their inherent equitable powers. These factors tend to make predictions as to possible damages recovery uncertain and unreliable.

It is for these reasons, and because of the tremendous cost involved in bringing a case to trial in the U.S. legal system, that the vast majority of trademark cases settle before trial. The settlement terms (including any settlement payment) may be substantially influenced by evidence of actual damages, defendant's profits, intent, and willfulness that may have come to light through discovery.

11) *In some cases the national law may provide, as a remedy for the violation of the trademark right, for the confiscation of the products bearing the illicit sign.*

If this applies in their national law, the Groups are asked to indicate, if this confiscation influences the evaluation of the damages.

Courts have broad powers to shape injunctions in trademark cases so they provide effective relief to plaintiff, protect the public interest, and are equitable to the defendant under the circumstances. Confiscation and destruction of infringing, diluting or counterfeit goods can be ordered by the court as part of the injunctive relief granted in a trademark case.

Section 35 instructs the courts to take "principles of equities" (or fairness) into account in measuring damages. Thus, if the injunctive relief ordered by the court – including but not limited to an injunction providing for confiscation or destruction of defendant's goods – satisfies the equities of case and provides effective relief to the plaintiff, then damages may well be reduced or eliminated.

12) *The Groups are asked to indicate if the jurisprudence in their countries is a useful source of information and comparison on the assessment of monetary compensation for the violation of the trademark rights.*

In this context, the Groups are invited to indicate if they are satisfied with the degree of certainty in their laws on evaluation of the compensation.

Section 35 of the Lanham Act contains the basic rules on monetary damages that are applicable to the various trademark claims that can be asserted under the Lanham Act. However, Section 35 expressly leaves considerable discretion with the courts, such as the determination of what constitutes inadequate or excessive amounts of recovery, or the application of "principles of equity." Section 35 also does not provide definitions of key terms, such as "willful" violation. In short, like much of the Lanham Act, Section 35 is drafted in a way that deliberately invites an ongoing and active evolution of the law through court decisions.

Thus, court decisions are not only a useful, but an absolutely indispensable source of information on damages awards under U.S. law. Much of U.S. trademark law, including the law of trademark damages, consists largely of court decisions. By itself, the Lanham Act gives a substantially incomplete picture of U.S. trademark law, especially in the litigation context.

13) *The Groups are finally asked to explain any other issues related to the topic which would appear useful in the examination of the question.*

II) Proposals for the future harmonisation

1) *The Groups are requested to indicate if the evaluation of damages for violation of the trademark rights should be the subject of the international harmonisation and if this harmonisation should be undertaken through an international treaty.*

Damages evaluation in trademark cases should be the subject of international harmonization.

Harmonization should be sought through an international treaty, but the provisions of that treaty should be kept at the level of general norms, leaving the specific implementation to legislatures and courts.

2) *The Groups are requested to indicate what should be, based on their national experience, the harmonised system for the evaluation of damages for violation of the trademark rights.*

U.S. law on trademark damages is based on empirical, economic evidence, on economic realities in the marketplace, on economic incentives to trademark owners, infringers, and would-be infringers, and on due attention to the function of trademark law as the guarantor of the public interest in quickly and reliably identifying the sought goods and services. It is primarily governed not by technicalities, per se rules, or punitive or punishment notions, but by marketplace realities. Given trademark law's importance in overall commercial regulation, the economics-based approach of U.S. trademark law is practical, useful, and effective.

The U.S. Group therefore believes that the assessment of damages should be governed by two principles: (a) rectifying the damaging economic and other consequences of the defendant's conduct, which should be assessed and proved through empirical evidence; and (b) economically deterring future trademark violations by the defendant and by third parties.

3) *The Groups are invited to make any other suggestions about possible future developments of the present question.*

Summary

Under U.S. law, trademark rights flow from use in commerce and consumer perception. They are viewed from an economic perspective: trademark protection reduces customer search costs and encourages production of quality products. Accordingly, U.S. law on trademark damages is governed not by formal rules or punitive notions, but by economic calculations and marketplace realities; it aims to provide proper incentives to trademark owners, infringers, and potential infringers. The assessment of monetary damages is based on two main considerations: (a) rectifying the harmful consequences of the defendant's conduct, which must be assessed with the aid of empirical evidence; and (b) creating economic deterrents for trademark violations. Over time, this economics-based approach of U.S. trademark law has proved to be practical, useful, and effective.

The U.S. group believes that trademark damages should generally be assessed based on empirical economic evidence and should be aimed at rectifying the consequences of the defendant's conduct and deterring trademark violators.