by Antonio R. Sarabia II

Marked RECOVERY

The calculation of statutory damages for trademark infringement could be simplified by using the "class system" to determine goods and services

EIGHT YEARS AGO Congress decided that the existing means for awarding damages for trademark infringement were not deterring this illegal practice and decided to supplement these measures with statutory damages—a specific range that a court could award even in the absence of proof of a plaintiff's losses or the defendant's profits. Despite the fact that almost a decade has passed since Congress passed this statute, most courts that award trademark infringement damages continue to cite as their authority copyright law on statutory damages. While it is true that there is a much longer common law history for copyright statutory damages, the assumption of most courts, practitioners, and even trademark treatises, that there is little jurisprudence on trademark statutory damages is not correct. In fact, a solid body of trademark cases awarding statutory damages exists. At least 25 reported cases in which statutory damages were awarded for counterfeiting can be found.[1]

Before statutory damages provided an alternative, courts awarded damages based on a plaintiff's actual damages or a defendant's profits from the sales of counterfeit goods. Because the records of defendants were often poor or nonexistent, plaintiffs were forced to reveal important information about their businesses in order to recover damages. This put pressure on plaintiffs—particularly privately held companies—either to reveal confidential information about their sales practices and profits or forgo damages. Moreover, this information was to be revealed to the very persons who already had a track record of taking the plaintiff's intellectual property. To plaintiffs, it seemed like they were being asked to give the key to the safe to the person who had just broken into their house. The choice between disclosing trade secrets or forgoing damages added insult to injury to a company that had already suffered a serious trademark infringement. Congress enacted statutory damages to provide an alternative:

> The creation of this alternative to the more traditional remedies of recovery of the plaintiff's damages or the defendant's profits reflected a harsh reality—counterfeiters often do not keep or secrete records of their unlawful activities, thus making proof of the extent of the plaintiff's injury or the counterfeiter's profits impossible as a practical matter.[2]

Antonio R. Sarabia II is an attorney with IP Business Law Group, Inc., specializing in trademarks, copyrights, licensing, the apparel industry, business transactions, and victim restitution.

There are three prerequisites to an award of statutory damages in trademark cases. First, there must be a trademark registration.[3] Second, the infringing mark must be nearly identical to the authentic mark.[4] The third requirement is that the infringing product or service is listed in the federal trademark registration.[5]

Courts have a wide range of discretion in setting statutory damages. A court may award $500 to $100,000 per counterfeit mark per type of goods or services. If the infringement is willful the range increases to $1 million.[6] In practice, courts have employed the full range of statutory damages. In one case, a court awarded only $500 per mark,[7] and several courts have made awards of the full $1 million per mark.[8]

In most counterfeiting cases liability can be quickly established without trial. A plaintiff proves that it owns the trademark by offering its federal registration. A plaintiff offers samples of the products or services that the defendant offered that bore the mark and proves that this use was without authorization. Because counterfeiting cases involve only infringing uses in which the mark the infringer used is virtually identical to the registration, there is less room for litigation over issues such as similarity. Relatively simple counterfeiting cases thus lend themselves to resolution before trial.

In fact, in the vast majority of trademark statutory damage cases there were insufficient contested facts for a trial on the merits. Almost half involved default judgments.[9] Another third of the statutory damage awards were made during or after a motion for summary judgment.[10] To a defendant the message is that you may be at greatest risk for a statutory damage award in a case that can be quickly resolved. To a plaintiff, these quick cases look like the ideal setting in which to seek statutory damages.

Consistent with the summary stage in which most statutory damages are awarded—and with a defendant having insufficient contested issues to get to trial—the average award per mark is substantial: $219,739. This figure must be considered in view of not only the relatively uncontested state of most of the cases but also in view of the factors that the various courts considered, such as defendant's profits or sales.

The amount of damages a plaintiff recovered on other claims, such as state punitive damages, may also be important.[11] It seems that the greater the recovery on other counts, the less likely a court was to award large statutory damages. None of the courts said this explicitly, but because discretion is so wide, it is probably considered.

Determining Statutory Damages

In almost all the decisions, the court considered the statutory factors of willfulness and the number of marks counterfeited. Because the statute requires a determination of damages "per mark," many courts (more than 40 percent) reported that they first determined a damage amount and then multiplied it by the number of marks counterfeited.[12] Although these decisions explicitly stated that the court followed the statute by first determining the damage amount and then multiplying by the number of trademarks counterfeited, one wonders if the real process was somewhat different. Did the courts tend to determine what a just total award was and work backwards by dividing it by the number of marks counterfeited? Or did courts determine the amount without regard to the number of marks?

Since the courts are under a statutory mandate to multiply the damages by the number of marks counterfeited, it is surprising that a number of courts admitted that they did the opposite, that they determined a reasonable total statutory damage award and then divided it by the number of marks to reach the award per mark.[13] In other words if the "right" award were $5,000 and there was one mark, the damages were set at $5,000 per mark. If there were 10 marks, the award would be pegged at $500 per mark. One way to view this is that it converts the statutory mandate to multiply times the number of marks into a meaningless exercise. Another way to view it is as the determination of courts to award what they view as fair. This highlights a critical point about statutory awards: Because they are discretionary, the computation a court uses may not be the cause of the award as much as a reflection of what the court deems correct.

While the number of trademarks infringed—despite the statutory mandate—may not be important, there are a number of factors that did play an important role when courts have determined statutory damages. When a defendant's profits could be determined, most courts considered that factor in awarding statutory damages. Some cases used a multiplier of defendant's profits.[14] In other cases the statutory award bore some relation to the defendant's profits.[15] Although lack of information about a defendant's profits was a main reason that Congress authorized statutory damages, when courts could obtain this information they used it in determining statutory damages. This makes sense because it is the best indicator of the extent to which an infringer has profited from the infringement, and therefore makes a good basis upon which to calculate an award.

A factor that three courts considered in calculating statutory damages was whether infringing sales were made over the Internet.[16] The rationale was that sales over the Internet increased the amount of an award because use of the Internet made the infringement widely available. These cases did not provide proof that the plaintiff's Web site sales of legitimate product were actually reduced. The logic of this approach is not strong. Without information about an infringer's sales volume (or the reduction in the plaintiff's Internet sales) the fact that the infringer marketed in a particular way does not make the infringement more or less harmful.

The Second Circuit provided the most rigorous analysis of statutory damages by analogizing to copyright law. Although many cases referred to precedent in copyright statutory damage cases, Judge Motley in New York most thoughtfully applied this analysis.[17] Citing Second Circuit copyright cases, Judge Motley identified the factors a court should consider in determining an award of statutory damages. Her analysis was later refined into seven factors: 1) the profits made by the defendant, 2) the revenues lost by the plaintiff, 3) the value of the mark, 4) the deterrent effect on others, 5) whether the conduct was innocent or willful, 6) whether the defendant has cooperated in providing records, and 7) the deterrent effect on the defendant.[18] These factors were used in three other cases in the Southern District of New York.[19]

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The value of Motley's reasoning is that it identifies the factors a court should consider in making the discretionary award. It increases the likelihood that a range of factors are considered and reduces the likelihood that a court reacts merely on the basis of a feeling about the case. This approach also encourages placing the case in a larger perspective—its deterrence effect on others.

If the same approach were used in the Ninth Circuit—closely following copyright precedent—the guiding case would probably be *Los Angeles News Service* v. *Reuters TV International*,[20] which lists these factors:

> The district court has wide discretion in determining the amount of statutory damages to be awarded, constrained only by the specified maxima and minima. The court is guided by what is just in the particular case, considering the nature of the copyright, the circumstances of the infringement and the like. Because awards of statutory damages serve both compensatory and punitive purposes, a plaintiff may recover statutory damages whether or not there is adequate evidence of the actual damages suffered by plaintiff or of the profits reaped by defendant in order to sanction and vindicate the statutory policy of discouraging infringement.[21]

This description may be distilled into six criteria to be used when determining statutory damages: 1) what is just, 2) the nature of the trademark, 3) the circumstances of the infringement, 4) compensation to the plaintiff, 5) deterrence of the defendant, and 6) deterrence of other infringers. None of the three district court cases within the Ninth Circuit identified or used these factors.[22]

These factors are similar, but not identical, to those used in the Second Circuit. Both include the factors of deterrence of the defendant and deterrence of other infringers. The Ninth Circuit's "nature of the trademark" and "compensation to plaintiff" are similar to the Second Circuit's "the value of the mark" and "revenues lost by plaintiff." The Ninth Circuit's "circumstances of the infringement" encompasses profit made by the defendants. The Second Circuit's "whether the conduct was innocent or willful" is already mandated by the statute. The Ninth Circuit's "what is just" includes the Second Circuit's "whether a defendant has cooperated in providing records." However, it is a broader term that has the benefit of allowing a court to consider many other factors.

Determining Goods and Services

A feature of the trademark statute that differs from its copyright counterpart is the inclusion of the language "per type of goods or services sold" after "per counterfeit mark."[23] This language suggested to two courts that the award should be multiplied by both the number of marks and the number of types of goods or services sold.[24] Under the "per type" analysis damages are computed differently. This analysis was first used in *Nike, Inc.* v. *Variety Wholesalers*.[25] The courts using this approach read the statute to mean that there are two multipliers: the number of trademark registrations and the number of different goods counterfeited. For example, if bracelets, earrings, and rings (all in the description of goods in the registration) are counterfeited using two different trademarks, the statutory damage amount is multiplied by three because there are three different types of goods, then by two because there are two trademarks. This analysis turns "type of goods or services" into key terms, which might be the subject of expert testimony (to determine whether particular goods are of one or more types) and must be considered by the court in its computation.

None of the courts that used the *Nike* analysis referred to the class of the trademark registrations. There is no indication in the statute or its legislative history that the phrase "type of goods or services" is meant to refer to the different classes on a registration. But there are a number of important advantages to using the class system as a multiplier on damage awards under the phrase "type of goods or services"—especially when compared to using "type of goods" as a multiplier without reference to class.

First, as the *Nike* analysis shows, this creates the separate issue of determining what are the "type of goods or service." This results in another issue upon which courts must hear testimony, a process at odds with one feature of statutory damages: allowing courts to more readily award damages without extensive proof on a party's income or losses. Thus, while the concept of statutory damages allows simplification of the awards process, determining the type of goods adds a complication. However, if the class system were used, courts would not have to make an independent finding; the answer would lie in the registration. This would better serve the purpose of a simplified damage calculation process.

Second, the *Nike* analysis hinges on the exact description chosen by the registrant. For example, if a registration specifies "boys' underwear" and "girls' underwear," that registrant is in a much better position to argue that it has two types of goods (assuming the infringer sold boys' and girls' underwear) than a registrant with a description of "children's underwear." Under the analysis of *Nike*, a registrant of boys' underwear and girls' underwear would receive double the damages of a registrant of children's underwear. It makes little sense to reward such an arbitrary difference.

Third, the class system is established and allocated by the agency with expertise—the U.S. Patent and Trademark Office. It is arguably better to rely on its determination, which is likely to be more consistent, than to rely on determinations by individual courts and witnesses.

Fourth, using a class system (awarding damages per mark per class) is better than using the system most courts have followed—awarding damages per registration. For example, if a registration covers clothes in class 25 and fragrance in class 3, and a counterfeiter sold both, it would stand to reason that there should be a greater measure of damages. But since most courts use only the number of registrations, there would only be one unit of damages. However, if the same mark were covered by two registrations—one in class 3 and one in class 25—most courts would award two measures of damages. There seems no reason why a trademark owner of one multiclass registration should be treated differently than the owner of two registrations, each in a different class.

To reward multiple, single-class registrations encourages inefficient trademark applications—numerous applications in individual classes, instead of a single multiple class application. Allowing a multiplier based on class would make better public policy by encouraging efficient registrations.

One issue not addressed by any of the courts awarding statutory damages is how to deal with the lazy plaintiff. For example, consider a plaintiff that seeks ex parte relief. In its application for ex parte relief it argues that it needs to seize the defendant's records so that it will have information about the extent of counterfeiting. The application is granted and defendant's records of its sales and profits are seized.

In litigation the plaintiff claims that it is not seeking its lost profits, so that it does not have to respond to the defendant's discovery requests about its financial information. In another economizing move, the plaintiff decides not to hire a damage expert. At trial, the plaintiff simply asks the court to award statutory damages.

While this is within the scope of the statute, it was enacted for those situations in which accurate information about the defendant's conduct is not available. In this case, however, the plaintiff has that information in the records it seized but does not want to be bothered to analyze it and present it to the court. The plaintiff is depriving the court of information that would be useful in determining damages and is depriving the court of this information after representing in its ex-parte motion that it needed the information. If a Ninth Circuit district court were faced with this situation and it chose to use the criteria of *Los Angeles News*, it could consider the plaintiff's conduct under the "what is just" prong of the analysis. However, in the Second Circuit, the plaintiff's conduct is not one of the factors considered.

Statutory damage trademark cases have already covered a fair amount of ground. The Second Circuit decisions reflect the most thorough analysis. Ninth Circuit cases have not been as carefully reasoned. None of the cases has read the statute in light of the existing trademark classification system. This is particularly unfortunate because using the classification system in computing damages would more evenly reward plaintiffs and would encourage efficient use of the trademark application system. ■

[1] There are actually two types of trademark statutory damages, one type for counterfeiting, 15 U.S.C. §1117(c), and one for cybersquatting, 15 U.S.C. §1117(d). Only statutory damages for counterfeiting are discussed in this article.

[2] Guess?, Inc. v. Gold Center Jewelry, 997 F. Supp. 409, 411 (S.D. N.Y. 1998) (citing Senate report).

[3] 15 U.S.C. §1116(d)(1)(B)(i); Momentum Luggage & Leisure Bags v. Jansport, Inc., 2001 U.S. Dist. LEXIS 1517 (S.D. N.Y. 2001) (no counterfeit goods without a registration).

[4] 15 U.S.C. §1116(d)(1)(B)(ii); Tommy Hilfiger Licensing, Inc. v. Goody's Family Clothing, Inc., 2003 U.S. Dist. LEXIS 8788 n.8 (N.D. Ga. 2003) (no statutory damages for trim package that does not include a nearly identical mark).

[5] Carroll Shelby Licensing, Inc. v. Superperformance Int'l, Inc., 251 F. Supp. 2d 983 (D. Mass. 2002) (summary judgment granted for defendants because the infringing goods were not listed in the registration and therefore were not counterfeit). *See also* 15 U.S.C. §1115(a) (registration establishes exclusive rights to goods listed in the registration); 15 U.S.C. §1057(b) (registration is evidence of exclusive right to use the listed goods).

[6] 15 U.S.C. §§1117(c)(1), (2).

[7] Polo Ralph Lauren, LP. v. 3M Trading Co., 1999 U.S. Dist. LEXIS 7913 (S.D. N.Y. 1999) (statutory damages of $500 per mark for some counterfeits where only basis was that allegations of complaint were true by virtue of default).

[8] Gucci America, Inc. v. Duty Free Apparel, 315 F. Supp. 2d 511 (S.D. N.Y. 2004), *amended by, injunction granted at* Gucci America, Inc. v. Duty Free Apparel, 328 F. Supp. 2d 439 (S.D. N.Y. 2004); Philip Morris USA, Inc. v. Castworld Prods., Inc., 219 F.R.D. 494 (C.D. Cal. 2003); Rolex Watch U.S.A., Inc. v. Brown, 2002 U.S. Dist. LEXIS 10054 (S.D. N.Y. 2002).

[9] Petmed Express, Inc. v. Medpets.com, Inc., 2004 U.S. Dist. LEXIS 19176 (S.D. Fla. 2004); Philip Morris v. Castworld, 219 F.R.D. 494; Rolex Watch v. Brown, 2002 U.S. Dist. LEXIS 10054; Louis Vuitton Malletier v. Veit, 211 F. Supp. 2d 567 (E.D. Pa. 2002); Microsoft Corp. v. Wen, 2001 U.S. Dist. LEXIS 18777 (N.D. Cal. 2001); Rolex Watch U.S.A., Inc. v. Voiers, 2000 U.S. Dist. LEXIS 22127 (S.D. N.Y. 2000), *adopted by, judgment entered by* Rolex Watch U.S.A., Inc. v. Voiers, 2000 U.S. Dist. LEXIS 22128 (S.D. N.Y. 2000); Polo Ralph Lauren, 1999 U.S. Dist. LEXIS 7913; Sara Lee Corp. v. Bags of New York, Inc., 36 F. Supp. 2d 161 (S.D. N.Y. 1999); Gucci America, Inc. v. Gold Center Jewelry, 997 F. Supp. 399 (S.D. N.Y. 1998); Guess?, Inc. v. Gold Center Jewelry, 997 F. Supp. 409 (S.D. N.Y. 1998); Playboy Enters., Inc. v. Asiafocus Int'l, Inc., 1998 U.S. Dist. Lexis 10359 (E.D. Va. 1998).

[10] Philip Morris USA, Inc. v. Felizardo, 2004 U.S. Dist. LEXIS 11154 (S.D. N.Y. 2004); Rolex Watch U.S.A., Inc. v. Zeotec Diamonds, 2003 U.S. Dist. LEXIS 5595 (C.D. Cal. 2003); Microsoft Corp. v. V3 Solutions, Inc., 2003 U.S. Dist. LEXIS 15008; Copyright L. Rep. (CCH) ¶28, 661 (N.D. Ill. 2003); Rolex Watch U.S.A., Inc. v. Jones, 2002 U.S. Dist. LEXIS 6657 (S.D. N.Y. 2002); Microsoft Corp. v. Logical Choice, Inc., 2001 U.S. Dist. LEXIS 479, Copyright L. Rep. (CCH) ¶28, 211 (E.D. Ill. 2001); Microsoft Corp. v. Software Wholesale Club, Inc., 129 F. Supp. 2d 995 (S.D. Tex. 2000); Microsoft Corp. v. Compusource Distribs., Inc., 115 F. Supp. 2d 800 (E.D. Mi. 2000); Altadis U.S.A., Inc. v. Monte Cristo de Tabacos, 2001 U.S. Dist. LEXIS 6892 (S.D. N.Y. 2001).

[11] *E.g.*, Altadis U.S.A., Inc., 2001 U.S. Dist. LEXIS 6892.

[12] Gucci v. Duty Free Apparel, 315 F. Supp. 2d 511; Rolex v. Zeotec, 2003 U.S. Dist. LEXIS 5595; Microsoft v. V3, 2003 U.S. Dist. LEXIS 15008; Tommy Hilfiger Licensing, Inc. v. Goody's Family Clothing, Inc., 2003 U.S. Dist. LEXIS 8788 (N.D. Ga. 2003); Microsoft v. Logical Choice, 2001 U.S. Dist. LEXIS 479; Microsoft v. Tierra, 184 F. Supp. 2d 1329 (N.D. Ga. 2001); Microsoft v. Software Wholesale, 129 F. Supp. 2d 995; Microsoft v. Compusource, 115 F. Supp. 2d 800; Polo Ralph Lauren, 1999 U.S. Dist. LEXIS 7913; Gucci v. Gold Center, 997 F. Supp. 399.

[13] Tommy Hilfiger v. Goody's, 2003 U.S. Dist. LEXIS 8788; Louis Vuitton Malletier v. Veit, 211 F. Supp. 2d 567 (E.D. Pa. 2002).

[14] Philip Morris v. Felizardo, 2004 U.S. Dist. LEXIS 11154; Altadis, 2001 U.S. Dist. LEXIS 6892; Guess? v. Gold Center, 997 F. Supp. 409.

[15] Rolex Inc. v. Zeotec, 2003 U.S. Dist. LEXIS 5595; Microsoft v. Software Wholesale, 129 F. Supp. 2d 995.

[16] Petmed Express, Inc. v. Medpets.com, Inc., 2004 U.S. Dist. LEXIS 19176 (S.D. Fla. 2004); Louis Vuitton, 211 F. Supp. 2d 567; Rolex Watch U.S.A., Inc. v. Jones, 2002 U.S. Dist. LEXIS 6657 (S.D. N.Y. 2002).

[17] Sara Lee Corp. v. Bags of New York, Inc., 36 F. Supp. 2d 161 (S.D. N.Y. 1999).

[18] Polo Ralph Lauren, L.P. v. 3M Trading Co., 1999 U.S. Dist. LEXIS 7913 (S.D. N.Y. 1999).

[19] Gucci America, Inc. v. Duty Free Apparel, 315 F. Supp. 2d 511 (S.D. N.Y. 2004), *amended by, injunction granted at* Gucci America, Inc. v. Duty Free Apparel, 328 F. Supp. 2d 439 (S.D. N.Y. 2004); Polo Ralph Lauren, 1999 U.S. Dist. LEXIS 7913; Sara Lee, 36 F. Supp. 2d 161.

[20] Los Angeles News Serv. v. Reuters TV Int'l, 149 F. 3d 987 (9th Cir. 1998), *cert. denied*, 525 U.S. 1141 (1999).

[21] *Id.* at 996 (Citations and quotations omitted.).

[22] Philip Morris USA, Inc. v. Castworld Prods., Inc., 219 F.R.D. 494 (C.D. Cal. 2003); Rolex Watch U.S.A., Inc. v. Zeotec Diamonds, 2003 U.S. Dist. LEXIS 5595 (C.D. Cal. 2003); Microsoft Corp. v. Wen, 2001 U.S. Dist. LEXIS 18777 (N.D. Cal. 2001).

[23] *Cf.* 17 U.S.C. §504(c) (copyright damages statute).

[24] Nike, Inc. v. Variety Wholesalers, 274 F. Supp. 1352, 1374 (S.D. Ga. 2003); Playboy Enters., Inc. v. Asiafocus Int'l, Inc., 1998 U.S. Dist. Lexis 10359 (E.D. Va. 1998). A third case recognized this approach, but elected not to use it. *See* Gucci America, Inc. v. Duty Free Apparel, 315 F. Supp. 2d 511 (S.D. N.Y. 2004).

[25] Nike, 274 F. Supp. 1352, 1374.