

**Report Q186**

in the name of the United States Group  
by Michael KIRK, Chad J. DOELLINGER and James CROWNE

**Punitive damages as a contentious issue of  
Intellectual Property Rights**

**Questions**

- 1) a) *Does your country have a concept of punitive damages?*

**In General**

The United States has a concept of punitive damages in civil cases generally and, as noted below, specifically provides in its patent, trademark, and copyright laws for "enhanced" damages. The basis for awarding such enhanced damages generally is knowing and willful infringement, but litigation misconduct can also lead to the award of enhanced damages.

In the non-IP context, many consider the sizable punitive damages awards in recent cases to have become a problem. Perhaps sharing such concerns, the U.S. Supreme Court has suggested in a line of cases beginning in the early 1990's that there are constitutional due process limits on punitive damage awards. *Pacific Mut. Life Ins. Co. v. Haslip*, 499 U.S. 1 (1991); *Honda Motor Co. v. Oberg*, 512 U.S. 415 (1994); *BMW of North America, Inc. v. Gore*, 517 U.S. 559 (1996); *Cooper Industries v. Leatherman Tool Group*, 532 U.S. 424 (2001); and *State Farm Mut. Auto. Ins. Co. v. Campbell*, 123 S. Ct. 1513 (2003). Most of the punitive damage awards in these non-IP cases, however, exceeded the compensatory damage awards by many multiples (in *Campbell*, for example, by 145 to 1). The comparatively modest, statutorily sanctioned enhanced damage awards in patent, trademark, and copyright cases would thus not appear to run afoul of the due process limits enunciated by the Court.

**Patents**

Turning now to punitive damages in IP cases, for patents, the simple answer is "yes." Section 284 of the patent statute (35 U.S.C. § 284) authorizes a court to increase damages up to three times the amount found. *Rosemount Inc. v. Beckman Instruments, Inc.*, 727 F.2d 1540 (Fed. Cir. 1984); *SRI Int'l., Inc. v. Advanced Tech. Lab., Inc.*, 127 F.3d 1462 (Fed. Cir. 1997).

**Trademarks**

With respect to punitive damages in the trademark field, the answer depends on whether one is pursuing remedies under state or federal law. Under state law, in jurisdictions where punitive damages are permitted in tort cases, they are also permitted in trademark infringement cases. See, e.g., *Altadis U.S.A., Inc. v. Monte Cristi de Tabacos*, Civil No. 96 Civ. 4209 (BSJ)(JCF), 2001 U.S. Dist. LEXIS 6892 (S.D.N.Y. May 17, 2001) (entering an award of punitive damages in a case involving both federal and state unfair competition claims). See generally *JCW Investments, Inc. v. Novelty, Inc.*, Civil No. 02 C 4950, 2003 WL 742184 (N.D. Ill. March 4, 2003) (holding that punitive damages are

permissible for common law unfair competition claims in addition to the remedies available under the federal trademark statute, "the Lanham Act").

Under federal law, awards of enhanced damages can be made for violation of a common law or federally registered trademark, but such awards are required by statute to "constitute compensation and not a penalty." Specifically, a court can award up to three times plaintiff's actual damages or can increase an award based on defendant's profits to an amount "the court shall find to be just." Courts are split, however, on exactly what the implications of this language are insofar as whether an increase of damages up to treble damages is "compensatory" or "punitive." The Lanham Act provides stiffer penalties in cases of intentional counterfeiting. There, the "court shall, unless the court finds extenuating circumstances, enter judgment for three times such profits or damages, whichever is greater, together with a reasonable attorney's fee." Moreover, a plaintiff can elect to recover statutory damages in counterfeiting cases, if the use of the mark was willful, for as much as \$1,000,000 per counterfeit mark per type of goods or services sold.

### **Copyrights**

While the copyright statute does not allow for the award of treble damages for copyright infringement, *Hays v. Sony Corp. of Am.*, 847 F.2d 412 (7<sup>th</sup> Cir. 1988), it does permit enhanced damages in certain circumstances. Where a copyright owner elects to recover "statutory" damages instead of actual damages under section 504(c)(1) (17U.S.C. § 504), the court may, in its discretion, increase the award between statutory maxima and minima where it finds willful infringement under section 504(c)(2). The award of statutory damages for willful infringement can be as much as \$150,000. However, the US Supreme Court has ruled that, while there is no statutory right to a jury trial, the Seventh Amendment of the U.S. Constitution provides a right to a jury trial, including the right to have the jury determine the amount of statutory damages, *Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340 (1998).

### **Attorneys' Fees**

Insofar as attorneys' fees are concerned, however, the general approach in the United States is that prevailing and losing parties generally bear their own attorneys' fees, absent a contractual agreement or specific statute that provides otherwise. Under certain circumstances in IP cases, statutory provisions allow the prevailing party to recover its attorneys' fees: for patents, a "court in exceptional cases may award reasonable attorney fees to the prevailing party," 35 U.S.C. § 285; for trademarks, a "court in exceptional cases may award reasonable attorney fees to the prevailing party," 15 U.S.C. § 1117; for copyrights, a "court may also award a reasonable attorney's fee to the prevailing party as part of the costs" without any requirement that the case be exceptional, 17 U.S.C. § 505. However, the United States has not, as a general rule, viewed recovery of attorneys' fees as something that should be routinely available unless justified by circumstances such as deliberate, bad faith infringement or litigation misconduct.

b) *If so, does it apply to patents, trade marks and other IPR?*

### **Patents**

As noted above, the answer is "yes"; however, the relevant statutes do not identify the "punishment" of an infringer as a purpose of increased awards. Section 284 of the patent statute (35 U.S.C. § 284), gives a court the power to award "damages adequate to compensate for the infringement," and the power to increase damages up to three times the amount found. It does not indicate the circumstances that warrant an increase or the amount of the increase, but case law makes it clear that an enhancement of damages must be premised on willful infringement or bad faith. "[E]nhanced damages may be awarded only as a penalty for an infringer's increased culpability, namely willful infringement or bad faith. Damages cannot be enhanced to award the patentee additional compensation to rectify what the district court views as an inadequacy in the actual dam-

ages awarded," *Beatrice Foods Co. v. New England Printing*, 923 F.2d 1576, 1578 (Fed. Cir. 1991). As noted above, Section 285 of the patent statute permits the court to award attorneys' fees in "exceptional cases," which, according to case law, includes cases of willful infringement, *Modine Mfg. Co. v. Allen Group, Inc.*, 917 F.2d 538, 543, (Fed. Cir. 1990); *Knorr-Bremse Systeme v. Dana Corp.*, 2004 U.S. App. LEXIS 19185 (Fed. Cir. Sept. 13, 2004) (en banc).

### **Trademarks**

Section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a), states that a court may, according to the circumstances of the case, award any sum above actual damages not to exceed three times that amount. The court may also award the defendant's profits to the plaintiff, and if that amount is either inadequate or excessive the court may award an amount found to be "just" under the circumstances of the case. As noted above, Section 35(a) states that these awards "shall constitute compensation and not a penalty." On the other hand, the case law again makes clear that knowing and willful infringement is the usual reason for increasing trademark damages, and that the "not a penalty" language is a constraint only as a requirement that the award to some extent be remedial, *Getty Petroleum Corp. v. Bartco Petroleum Corp.*, 858 F.2d 103 (2d Cir. 1988). As noted above, it also authorizes a court in exceptional cases to award reasonable attorneys' fees, *Door Sys., Inc. v. Pro-Line Door Sys., Inc.* 126 F.3d 1028, 1031 (7th Cir. 1997); *TE-TA-MA Truth Foundation-Family of Uri, Inc. v. World Church of the Creator* U.S. App. LEXIS 25610 (7th Cir. Ill. Dec. 13, 2004). Section 35(b) of the Lanham Act (15 U.S.C. § 1117(b)), states that a "court shall, unless the court finds extenuating circumstances, enter judgment for three times such profits or damages, whichever is greater, together with a reasonable attorney's fee" for intentionally using a counterfeit mark knowing it to be a counterfeit. In addition, Section 35(c) of the Lanham Act, 15 U.S.C. § 1117(c), provides for an award of statutory damages up to the amount of \$1,000,000 for each counterfeit mark used.

### **Copyrights**

Section 504 of the copyright statute (17 U.S.C. § 504) generally permits an award of actual damages and any additional profits of the infringer minus the infringer's deductible expenses, although some courts disallow deductions in cases of willful infringement. *Frank Music Corp. v. MGM, Inc.*, 772 F.2d 505, 515 (9th Cir. 1985). As an alternative, Section 504(c) permits the plaintiff to elect to recover statutory damages for all infringements of any one work. That provision allows an award of not less than \$750 or more than \$30,000, and Section 504(c)(2) permits an increase in the statutory damages award for each work infringed to not more than \$150,000 in a case of willful infringement. While it has been suggested that an appropriate purpose of increasing of statutory damages in the case willful infringement is to discourage wrongful conduct, *F. W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228 (1952), it has also been held that when statutory damages are increased for willful infringement, punitive damages are inappropriate, *Kamakazi Music Corp. v. Robbins Music Corp.*, 534 F. Supp. 69, (S.D.N.Y. 1982), and unavailable, *Budget Cinema, Inc. v. Watertown Associates*, 81 F.3d 729 (7th Cir. 1996).

- c) *Would the possibility of an award of punitive damages be of benefit in infringement cases?*

The award of punitive or enhanced damages should be possible in cases of deliberate, or reckless, disregard of the legal rights of a patent, trademark or copyright owner, whether styled as punitive or simply as enhanced damages. As one Court explained in an analogous context, an award of punitive damages "serves the additional purpose of limiting the defendant's ability to profit from its fraud by escaping detection and (private) prosecution." *Mathias v. Accor Economy Lodging, Inc.*, 347 F.3d 672, 677 (7th Cir. 2003) (affirming an award of punitive to compensatory damages ratio of 37.2 to 1). The

Mathias Court concluded that “[i]f a tortfeasor is ‘caught’ only half of the time he commits torts, he should be punished twice as heavily in order to make up for the times he gets away.” *Id.* Put another way, if a willful infringer or counterfeiter only has to return what he gained, there is no incentive for him to stop his behavior.

d) *Is your Group in favour of courts having power to award such damages in IP cases?*

Yes, in cases of knowing, willful infringement.

2) *If punitive damages are available:*

a) *In what types of situations can punitive damages be awarded?*

### **Patents**

Up to treble damages can be awarded in situations where an infringer had no reasonable basis to believe that a court would hold the patent in question invalid or not infringed, *Rosemount, Inc. v. Beckman Instruments, Inc.*, 727 F.2d 1540 (Fed. Cir. 1984), *SRI Int'l., Inc. v. Advanced Tech. Lab., Inc.*, 127 F.3d 1462 (Fed. Cir. 1997), or unenforceable. In determining whether an infringement is willful, the court will consider the totality of the circumstances, including whether the infringer deliberately copied the invention with knowledge it was patented and whether the infringer upon learning of the patent exercised due care to avoid infringement or to form a good faith belief that the patent was invalid or not infringed, *Bott v. Four Star Corp.* 807 F.2d 1567 (Fed. Cir. 1986), or unenforceable.

### **Trademarks**

Enhanced damages are generally available in cases of “knowing and willful” trademark infringement. Examples include trademark counterfeiting, *Polo Fashions, Inc. v. Gentlemen’s Corner Wholesale, Inc.*, 221 U.S.P.Q. 147 (D.S.C. 1983); “brazenly” copying plaintiff’s trade dress, *Taco Cabana International, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113 (5<sup>th</sup> Cir. 1991); and willful and malicious false advertising, *U-Haul International, Inc. v. Jartran, Inc.*, 601 F. Supp. 1140 (D. Ariz. 1984). For counterfeiting, such enhancements are required absent “extenuating circumstances.” Similarly, for willful counterfeiting, statutory damages increase by a factor of ten up to \$1,000,000 per counterfeit mark used.

### **Copyrights**

Enhanced statutory damages are available for willful copyright infringement. An infringer’s conduct is willful where a copyright owner can prove that the infringer knew or should have known that its conduct constituted infringement, *Branch v. Ogilvy & Mather, Inc.*, 772 F. Supp. 1358 (S.D.N.Y. 1991). Examples include a web site operator’s intentional infringement of a test developer’s copyrighted materials, *Graduate Management Admission Council v. Raju*, 267 F. Supp.2d 505 (E.D.Va. 2003); airing syndicated television shows after expiration of license agreement, *MCA Television Ltd. v. Feltner*, 89 F.3d 766 (11<sup>th</sup> Cir. 1996); and where an infringer acts in reckless disregard of the copyright owner’s rights, *Alentino, Ltd. v. Chenson Enterprises, Inc.*, 968 F.2d 250 (2<sup>nd</sup> Cir. 1992).

b) *How is the amount (quantum) of damages assessed?*

Actual patent damages must be adequate to compensate for the infringement, but may be no less than a reasonable royalty for the use made of the invention, together with interests and costs. Where the patentee’s actual damages, i.e., lost profits, exceed a reasonable royalty, courts will generally determine patent damages after considering the factors set out in *Panduit Corp. v. Stahl Brothers Fibre Works, Inc.*, 575 F.2d 1152 (6<sup>th</sup> Cir. 1978). To recover lost profits damages, the patentee must show a reasonable probability that, “but for” the infringement, it would have made the sales that were made by the infringer, *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1545 (Fed. Cir. 1995) (en banc).

As noted above, a court may increase the damages up to three times the amount of the actual damages as a penalty for willful infringement or bad faith by an infringer. In exceptional cases, the court may also award reasonable attorney's fees.

As noted above, the Lanham Act permits the recovery of the infringer's profits, the trademark owner's actual damages caused by the infringement, and the costs of the action. To recover the infringer's profits, a trademark owner need only show infringer's sales. The burden then shifts to the infringer to prove any deductions. If the court determines this award is inadequate, it can be increased to an amount the court deems just. The court may also award up to three times the amount of actual damages depending on the circumstances, with case law making it clear that knowing and willful infringement is the usual reason for increasing trademark damages. The court may also award reasonable attorneys' fees in exceptional cases. A trademark owner can also elect statutory damages in a counterfeiting case. A trademark owner can recover "not less than \$500 or more than \$100,000" per counterfeit mark used. This can be increased to \$1,000,000 per counterfeit mark used in cases of willful counterfeiting.

Again as noted above, the copyright statute permits recovery of the copyright owner's actual damages and the infringer's profits which are attributable to the infringement. Profits are determined from the copyright owner's proof of the defendant's gross revenues and the infringer's proof of its deductible expenses. As an alternative, a copyright owner may elect to recover statutory damages for all infringements of any one work of not less than \$750 or more than \$30,000 and the copyright statute permits an increase in the statutory damages award to not more than \$150,000 in a case of willful infringement.

- 3) *Is there an obligation on a party to take legal advice to ensure there is no infringement?*

#### **Patents**

Where a party is notified that it is engaging in specific acts of patent infringement, it has an affirmative duty to exercise due care to determine whether it is infringing. This duty will normally entail obtaining competent legal advice, but failure to do so will not lead to an adverse inference that such an opinion was or would have been unfavorable. Further, it is not appropriate for the court to draw an adverse inference with respect to willful infringement from invocation of the attorney-client and/or work product privilege, *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GMBH v. Dana Corp.* 2004 U.S. App. LEXIS 19185 (Fed. Cir. Sept. 13, 2004) (en banc). Moreover, while a party is not guaranteed against a finding of willfulness by seeking legal advice, it is a factor to be considered in the totality of the circumstances for the willfulness determination.

#### **Trademarks**

While there appears to be no obligation on a party to obtain legal advice to avoid trademark infringement, willful blindness is no defense to a charge of infringement in the case of trademark counterfeiting (selling poorly made counterfeit luggage purchased from a peddler at very low prices), *Louis Vuitton S.A. v. Lee*, 875 F.2d 1584 (7<sup>th</sup> Cir. 1989). Similarly, intent to deceive is often inferred in cases where defendant adopted a mark with full knowledge of plaintiff's mark. See, e.g., *Dreyfus Fund, Inc. v. Royal Bank of Canada*, 525 F. Supp. 1108 (S.D.N.Y. 1981).

#### **Copyrights**

As with trademarks, there appears to be no obligation on a party to obtain legal advice to avoid copyright infringement, however, ignoring warnings that activities were infringing can result in enhanced statutory damages, *Marvin Music Co. v. BHC Ltd. Partnership*, 830 F. Supp. 651 (D. Mass. 1993).

*If so*

- a) *what is the obligation and when does it arise and*

See answer above.

b) *how is that advice assessed in subsequent infringement proceedings?*

Answer: The weight that may fairly be placed on the presence or absence of an opinion of counsel varies with the circumstances of each case. When the opinion was obtained in relation to the accused infringer's learning of the patent, the quality of the opinion, and the steps taken by an accused infringer before and after an opinion is obtained are among the factors that can influence a court's decision to award enhanced damages. For example, in trademark cases, a court was troubled that a defendant had consulted with legal counsel to imitate plaintiff's trade dress "as much as the law would allow," *Chevron Chemical Co. v. Voluntary Purchasing Groups, Inc.*, 659 F.2d 695 (5<sup>th</sup> Cir. 1981). If, however, a defendant timely requests and honestly relies on the advice of counsel, a court is unlikely to find defendant to be a willful infringer. See, e.g., *Cuisinarts, Inc. v. Robot-Coupe Int'l Corp.*, 580 F. Supp. 634 (S.D.N.Y. 1984). Thus, a party is well-advised to seek the advice of legal counsel before adopting a trademark.

4) a) *Is there a pre-trial discovery system which allows an IP owner to review the defendant's behaviour?*

Yes.

b) *If so, are the parties required to give discovery of documents held abroad?*

This depends on the nature of the documents and their accessibility.

5) *What is the impact in court proceedings in your country of the ability of courts in other countries to award punitive damages?*

The ability of foreign courts to award punitive damages does not affect U.S. court proceedings.

6) *Proposals for harmonising the treatment of punitive damages and the processes concerning them in court proceedings?*

The processes for assessing punitive or enhanced damages should be harmonized consistent with the rules discussed above, i.e., they should turn on findings of knowing and willful infringement based on defendant's failure to exercise due care and its knowing disregard of the rights of the plaintiff.

### **Summary**

Enhanced (or punitive) damages should be available in cases of willful infringement of an intellectual property right. Willful infringement should be found where it is proven by clear and convincing evidence that an individual knows of the existence of an intellectual property right and infringed that right with no reason to believe that the right was invalid or unenforceable or that his or her acts did not infringe that right. The award of enhanced damages for willful infringement serves the purpose of limiting the defendant's ability to profit from tortious behavior. As noted above, if a willful infringer only has to return what he or she gained from the infringement, there is little incentive not to engage in the infringing behavior. Criminal law sanctions by themselves will not be sufficient to combat willful infringement of intellectual property rights as it is frequently difficult to obtain the necessary assistance and participation of the enforcement authorities.

### **Résumé**

Des dommages et intérêts accrus (ou punitifs) doivent être disponibles dans des cas de contrefaçon intentionnelle de droits de propriété intellectuelle. Un acte de contrefaçon intentionnel devrait être

reconnu lorsque des preuves claires et convaincantes démontrent qu'un individu connaît l'existence d'un droit de propriété intellectuelle et a violé ce droit sans aucune raison de penser que ce droit était nul ou inapplicable ou que ses actes ne violaient pas ce droit. L'attribution de dommages et intérêts accrus pour contrefaçon intentionnelle a pour but de limiter la capacité du défendeur à profiter de son comportement répréhensible. Comme noté ci-dessus, si un contrefacteur intentionnel doit seulement rendre ce qu'il a obtenu à travers un acte de contrefaçon, il n'est guère dissuadé de ne pas commettre de tels actes. Des sanctions pénales ne suffisent pas, en elles-mêmes, à combattre des actes de contrefaçon intentionnels car il est souvent difficile d'obtenir l'assistance nécessaire et la participation des autorités.

### **Zusammenfassung**

Erhöhter (oder Straf-) Schadenersatz sollte in den Fällen der vorsätzlichen Verletzung von geistigem Eigentum zur Verfügung stehen. Von einer vorsätzlichen Verletzung sollte ausgegangen werden, wenn es durch klare und überzeugende Beweismittel erwiesen ist, dass ein Individuum von der Existenz eines geistigen Eigentumsrechts weiss und dieses verletzt, ohne Grund zu der Annahme zu haben, dass das Recht unwirksam oder undurchsetzbar war oder dass dessen Handlungen keine Verletzung darstellten. Der Zuspruch erhöhten Schadenersatzes für vorsätzliche Verletzungen dient dem Zweck, das Profitieren des Beklagten von seinem unerlaubten Verhalten zu begrenzen. Wie zuvor erwähnt, wenn ein vorsätzlich Handelnder nur das herauszugeben hat, was er durch die Verletzung erlangt hat, so besteht wenig Anreiz dafür, vom verletzenden Verhalten Abstand zu nehmen. Strafrechtliche Sanktionen allein werden nicht ausreichen, um die vorsätzliche Verletzung geistiger Eigentumsrechte zu bekämpfen, da es häufig schwierig ist, die notwendige Unterstützung und Beteiligung der Behörden zu erhalten.