# Intellectual Property Law: Cases & Materials

## Remedies Summaries Supplement

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## Remedies Summaries

Chapter 7 explores remedies doctrines across all IP types in more depth. In this supplement, we give an overview of the possible remedies tailored to each of the four core areas of intellectual property protection.

## Trade Secret

If a trade secret owner establishes both the existence of trade secret information and an act constituting misappropriation, what remedies should be available? The answer to this question turns, in part, on what goals the law is designed to achieve. First, stopping further use or disclosure is often extremely important to a trade secret owner. A law designed to accomplish that goal would provide confidence in the protection afforded by trade secret law and thus encourage investment in the creation of valuable trade secret information. Second, preventing misappropriators from profiting from their unlawful acts helps reinforce the policy choice to prohibit the type of free-riding that comes from trade secret misappropriation. Providing monetary sanctions in the form of a disgorgement of ill-gotten profits makes misappropriation far less attractive to potential misappropriators. Third, compensating trade secret owners harmed by acts of misappropriation comports with an understanding of trade secret law as protecting an asset that has value. The combination of remedies can deter misappropriation and bolster the incentives for investment in the creation of valuable information.

When litigating any particular trade secret case, the applicable state law must be consulted. Even when litigating in one of the many jurisdictions that have adopted the UTSA, the enacted version of the UTSA in that jurisdiction must be examined, as variations from the uniform act do exist.

### A. Injunctive Relief

Protecting a secret from threatened disclosure or from use by a competitor is often the top priority in any new trade secret litigation. The UTSA, Section 2 provides:

> (a) Actual or threatened misappropriation may be enjoined. Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.
>
> (b) In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited. Exceptional circumstances include, but are not limited to, a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable.
>
> (c) In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.

Trade secret cases often begin with the plaintiff seeking a preliminary injunction. Under general principles of equity, preliminary injunctions require that the plaintiff demonstrate (1) a likelihood of success on the merits, (2) that it is likely to suffer irreparable harm in the absence of preliminary relief, (3) that the balance of equities tips in its favor, and (4) that an injunction is in the public interest. *Winter v. Natural Resources Defense Council, Inc.*, 555 U.S. 7, 20 (2008).

If the case proceeds to trial and the plaintiff is successful in its claim of misappropriation, a court may enter an injunction, again following the general principals of equity. To obtain permanent injunctive relief, "[a] plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction." *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

How long should a permanent injunction last? Many trade secret injunctions will last until the trade secret information no longer qualifies for protection, for example if the trade secret has been publicly disclosed by the trade secret owner. Another approach is to enjoin the "use of the misappropriated information for the period of time that it would have taken to reverse engineer or independently develop the secret." Dan L. Burk, *Intellectual Property and the Firm*, 71 U. Chi. L. Rev. 3, 11 (2004). Some courts and commentators call this type of injunction a "head start" injunction because it prevents the misappropriator from benefitting from the misappropriation by getting a head start over other competitors. Recall the testimony of Dr. Johnson in the *CTI v. Three D Industries* case in Section I.A. He opined that "[i]t would be impossible for anyone, even a trained and experienced engineer, to complete the design process of a complex piece of machinery such as involved in this instance, to the point of having a perfectly functioning prototype, in less than six months without having at his disposal a vast amount of information." A head-start injunction in that case would last for at least six months.

## B. Damages

In addition to the possibility of injunctive relief, the Uniform Trade Secret Act specifies the availability of monetary damages for proven misappropriation:

> (a) Except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable, a complainant is entitled to recover damages for misappropriation. Damages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.

> (b) If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subsection (a).

UTSA § 3. The statute identifies three basic categories for appropriate monetary awards: (1) the profits lost by the plaintiff as a result of the misappropriation, (2) disgorgement of the ill-gotten gains obtained by the defendant, and (3) a reasonable royalty.

Unlike a tangible asset, the nonrivalrous-consumption characteristic of information makes establishing a value for that asset more difficult. If someone steals equipment, an appropriate damages amount could be the cost of replacing the equipment and any harm suffered by the time period in which the equipment owner did not have access and use of the equipment. But with intangible information, when someone misappropriates an intangible asset like a trade secret, the owner of the trade secret is not deprived of access or use of the information. How the court should set a value that is genuinely compensatory presents a series of challenges that are explored in Chapter 7.

In general, attorney fees are not recoverable in trade secret cases, although UTSA § 4 provides that attorney fees may be awarded in the case of "willful and malicious misappropriation." At the same time, the UTSA provides that a court may award attorney fees to a defendant if a plaintiff has made a misappropriation claim in bad faith. What policy goal is served by permitting an award of attorney fees to a defendant in a trade secret case?

# Patent

In patent law, as in trade secret law, the basic remedies are damages and injunctions. The Patent Act also provides both a punitive damages measure and a mechanism for making the losing party pay the winning party's reasonable attorney fees in exceptional cases.

## A. Damages

### 1. Marking and the Statute of Limitations

The Patent Act cabins infringement damages, both procedurally and temporally. First, on procedure, the Act disallows damages for product-claim infringement during the time *before* which the patentee put the accused infringer on notice. Specifically, the patent owner must mark the product with the word "patent" or the abbreviation "pat." together with the patent number. 35 U.S.C. § 287(a). Without proper marking, the statute provides that "no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice." *Id.* While a patent application is pending an applicant can mark its product with "patent pending," although such marking is not legally required and has no legal effect. *Falsely* marking something as patented, or *false* use of phrases such as "patent pending" or "patent applied for," with "the purpose of deceiving the public," *is* subject to fines. 35 U.S.C. § 292(a).

Damages are also limited in time. Specifically, the Patent Act provides that "no recovery shall be had for any infringement committed more than six years prior to the filing of the complaint or counterclaim for infringement." 35 U.S.C. § 286. Damages generally accrue for conduct occurring after the PTO formally issues the patent. In addition, under a "provisional rights" system Congress created in 1999, an issued patent gives a patentee the right to recover against someone who acted with notice of the invention from the pre-issuance published patent application and practiced the invention before the patent's issue date. The patentee's provisional rights are, however, subject to the following constraints: (a) the accused infringer must have had "actual notice of the published patent application"; (b) the allegedly infringed application claim must be "substantially identical to" a claim in the issued patent; and (c) the patentee must bring the action within six years of the patent's issue date. 35 U.S.C. § 154(d).

### 2. Adequate Compensation

The Patent Act makes adequate compensation the key criterion for damages, and sets a reasonable royalty floor below which damages cannot fall. It provides as follows:

> Upon finding for the claimant the court shall award the claimant damages *adequate to compensate* for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

35 U.S.C. § 284, ¶ 1 (emphasis added). As the Federal Circuit has emphasized, "the language of the statute is expansive rather than limiting. It affirmatively states that damages must be adequate, while providing only a lower limit and no other limitation." *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1544 (Fed. Cir. 1995) (en banc).

As a practical matter, patent damages theories break out into two basic types. One type is the *lost profits* theory, which applies where the patentee and accused infringer compete in a goods or services market and the patentee can show that it has lost sales to the infringer. Another type is the *reasonable royalty damages* theory, which applies where lost profits cannot be proved. Perhaps the toughest issue in a lost profits case is the issue of causation. "To recover lost profits, the patent owner must show causation in fact, establishing that but for the infringement, he would have made additional profits." *Grain Processing Corp. v. Am. Maize-Prods.*, 185 F.3d 1341, 1349 (Fed. Cir. 1999). And "market sales of an acceptable noninfringing substitute often suffice alone to defeat a case for lost profits." *Id.* at 1352.

To guide reasonable royalty findings, the courts have long used the construct of a hypothetical negotiation between a willing patentee and a willing licensee, at which the parties would determine the royalty. "A reasonable royalty is the amount that a person, desiring to manufacture, use, or sell a patented article, as a business proposition, would be willing to pay as a royalty and yet be able to make, use, or sell the patented article, in the market, at a reasonble profit." *Trans-World Mfg. v. Al Nyman & Sons, Inc.*, 750 F.2d 1552, 1568 (Fed. Cir. 1984) (internal quotations and alterations omitted). Although a damages expert can range far and wide over a large set of factual considerations to justify a given royalty rate in her testimony, the courts recognize two touchstones. First, where there is an established royalty rate, it carries great weight. Indeed, where it exists, it "is usually the best measure of a 'reasonable' royalty for a given use of an invention because it removes the need to guess at the terms to which parties would hypothetically agree." *Monsanto Co. v. McFarling*, 488 F.3d 973, 979 (Fed. Cir. 2007). Second, where the accused infringer can establish the cost of using the next-cheapest noninfringing substitute, the cost difference between it and the infringing technology can function as something of a soft cap on the likely royalty rate the parties would have determined in the hypothetical negotiation. Third, the Federal Circuit has categorically rejected what, until recently, was a widely used rule of thumb among expert witnesses on patent damages—the "25% rule"—according to which a hypothetical would-be licensee would agree to pay the patentee 25% of its expected profits from using the patented technology. Canvassing widespread criticism of the rule and its overuse among licensing witnesses, the Federal Circuit held that "as a matter of Federal Circuit law . . . the 25 percent rule of thumb is a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation. Evidence relying on the 25 percent rule of thumb is thus inadmissible under [the] *Daubert* [case, which governs expert testimony in federal court,] and the Federal Rules of Evidence, because it fails to tie a reasonable royalty base to the facts of the case at issue." *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1315 (Fed. Cir. 2011)

### 3. Treble Damages and Attorney Fees

The Patent Act provides that the court "in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285. The statute is clear that attorney fees can be awarded to either side, whichever is the "prevailing party." The Act does not specially define what makes a case "exceptional." The Supreme Court, however, has recently held that "an 'exceptional' case is simply one that stands out from others with respect to the substantive strength of a party's litigation position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated. District courts may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances." *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014).

The Patent Act also empowers "the court [to] increase the damages up to three times the amount" of the compensatory award, 35 U.S.C. § 284, ¶ 2, but says nothing about when such an enhancement is warranted. The case law the Act codifies makes clear that "enhanced damages are punitive, not compensatory. Enhancement is not a substitute for perceived inadequacies in the calculation of actual damages, but depends on a showing of willful infringement or other indicium of bad faith warranting punitive damages." *Sensonics, Inc. v. Aerosonic Corp.*, 81 F.3d 1566, 1574 (Fed. Cir. 1996). Importantly, "a finding of willful infringement merely *authorizes*, but does not *mandate*, an award of increased damages." *Modine Mfg. v. Allen Group, Inc.*, 917 F.2d 538, 543 (Fed. Cir. 1990) (emphasis in original). The Federal Circuit has approved the following list of factors for determining whether to enhance damages upon a willfulness finding:

> (1) whether the infringer deliberately copied the ideas or design of another, (2) whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed, (3) the infringer's behavior as a party to the litigation, (4) the infringer's size and financial condition, (5) the closeness of the case, (6) the duration of the infringer's misconduct, (7) any remedial action by the infringer, (8) the infringer's motivation for harm, and (9) whether the infringer attempted to conceal its misconduct.

*Johns Hopkins University v. CellPro, Inc.*, 152 F.3d 1342, 1352 n.16 (Fed. Cir. 1998).

## B. Injunctions

The Patent Act gives the federal courts broad discretion to enjoin patent infringement. 35 U.S.C. § 283. Until recently, Federal Circuit case law categorically mandated a permanent injunction in a prevailing patentee's favor in all but the most unusual circumstances. The Supreme Court recently set aside the Federal Circuit's approach, emphasizing that injunctive relief is always a matter of equity, involving fact-sensitive discretion, not categorical entitlement. To obtain injunctive relief, "[a] plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction." *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

# Copyright

As with the other areas of intellectual property, copyright law remedies fall into two broad categories: monetary awards and injunctions. The Copyright Act also contains provisions making certain types of infringement a criminal offense.

## A. Injunctions

The Copyright Act provides that courts may "grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of a copyright." 17 U.S.C. § 502. In addition to furnishing the general power to grant injunctions, the statute allows courts to order the impoundment and destruction of copies or phonorecords "made or used in violation of the copyright owner's exclusive rights, and of all plates, molds, matrices, masters, tapes, film negatives, or other articles by means of which such copies or phonorecords may be reproduced." 17 U.S.C. § 503.

The Supreme Court's ruling in *eBay Inc. v. MercExchange LLC,* 547 U.S. 388 (2006), a patent case, also applies to copyright cases. To obtain an injunction, "[a] plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction." *Id.* at 391. Following Supreme Court precedent in *eBay* and *Winter v. Natural Resources Defense Counsel*, 129 S. Ct. 365 (2008) (concerning preliminary injunctions), the courts must ensure that the general principles of equity are followed when deciding whether to grant and injunction, including the important first element of demonstrating irreparable harm. In the context of a preliminary injunction in a copyright case, the Second Circuit has articulated the inquiry as follows:

> The court must not adopt a "categorical" or "general" rule or presume that the plaintiff will suffer irreparable harm . . . . Instead, the court must actually consider the injury the plaintiff will suffer if he or she loses on the preliminary injunction but ultimately prevails on the merits, paying particular attention to whether the "remedies available at law, such as monetary damages, are inadequate to compensate for that injury." *eBay*, 547 U.S. at 391. Third, a court must consider the balance of hardships between the plaintiff and defendant and issue the injunction only if the balance of hardships tips in the plaintiff's favor. *Winter*, 129 S. Ct. at 374; *eBay*, 547 U.S. at 391. Finally, the court must ensure that the "public interest would not be disserved" by the issuance of a preliminary injunction. *eBay*, 547 U.S. at 391; *accord Winter,* 129 S. Ct. at 374.

*Salinger v. Colting*, 607 F.3d 68, 80 (2d Cir. 2010) (noting that "[h]arm might be irremediable, or irreparable, for many reasons, including that a loss is difficult to replace or difficult to measure, or that it is a loss that one should not be expected to suffer"). In the Copyright context, the public interest in free expression plays an important role and can weigh heavily against the grant of an injunction, particularly a preliminary one.

## B. Damages

Section 504 of the Copyright Act sets out the monetary awards that a copyright owner may seek. Specifically, a copyright owner may elect to recover either "the copyright owner's actual damages and any additional profits of the infringer," or statutory damages. 17 U.S.C. § 504. As we highlighted in Section III, statutory damages are available only if the copyright owner registered the work *prior* to the infringement commencing; the Act also provides a grace period of three months, following publication, in which to seek registration and retain the ability to elect statutory damages. 17 U.S.C. § 412.

### 1. Actual Damages

Section 504 of the Copyright Act sets out the actual damages for which an infringer may be liable:

> (b) Actual Damages and Profits.—The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages. In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.

A core goal of a monetary remedy is to make the plaintiff whole—to compensate for any harm caused by the defendant's infringement. An award of actual damages is designed to accomplish that result. Actual damages could be lost sales or it could be the value that the copyright owner has lost as a result of the defendant's infringement.

The Copyright Act also permits a disgorgement remedy. Indeed, the Act is clear that so long as there is not double recovery, the disgorgement remedy may be awarded *in addition to* the amount awarded for harm to the plaintiff. Double recovery would occur, for example, when the plaintiff suffered lost sales of copies of the work due to the sales made by the defendant. Disgorgement should not be awarded in addition to an amount representing lost sales, absent a showing of a price differential or some other reason why double recovery is not present.

When a disgorgement remedy is warranted, the court must first determine what constitutes "profit"—which expenses can be deducted from gross revenue. Here the Copyright Act is clear that the defendant bears the burden of proof. Once the net profits are established, the next inquiry is one of apportionment—what *portion* of that profit is attributable to the infringement. For example, if an infringing movie is made based on a book, the movie's profits may also be attributable to the stars that performed in the movie, the skill of the director. Only a portion of the profits should be award to the copyright owner in the book.

### Notes & Questions

1. Unlike the Patent Act, the Copyright Act does not mention the possibility of an award of a reasonable royalty as a minimum measure of damages. Should that omission from the statute bar use of a reasonable royalty amount as an aspect of "actual damages"? In determining the amount of a license fee to award, should it matter whether the plaintiff would have objected to the use of his work in the manner in which the defendant used it? Some courts have awarded a license fee as actual harm, the amount the copyright owner lost, *see OnDavis v. The Gap, Inc.*, 246 F.3d 152 (2d Cir. 2001), but only if the copyright owner can prove a fair market value for the work, *see Dash v. Mayweather*, 731 F.3d 303, 333 n.6 (4th Cir. 2013).

2. The Patent Act does not provide for a disgorgement remedy. What, if anything, might justify the difference in remedies available for copyright infringement? Patent infringement and copyright infringement are both strict liability offenses. However, copyright infringement, unlike patent infringement, requires proof of copying-in-fact. Does that justify the availability of the disgorgement remedy?

3. Section 507(b) of the Copyright Act provides that copyright claims must be "commenced within three years after the claim accrued." 17 U.S.C. § 507(b). The Supreme Court has recognized a "separate accrual" for copyright infringement actions: "Each time an infringing work is reproduced or distributed, the infringer commits a new wrong. Each wrong gives rise to a discrete 'claim' that 'accrue[s]' at the time the wrong occurs. In short, each infringing act starts a new limitations period." *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 134 S. Ct. 1962 (2014). This "rolling" statute of limitations can result in a claim for infringement brought decades after the defendant first infringed, so long as the defendant continues to infringe. *Petrella*, for example, involved infringement claims brought in 2009 concerning the movie Raging Bull, released in 1980. The Supreme Court rejected defendants claim that laches should bar the plaintiffs claim given the long delay in filing suit. *Id.* at 1973-74. The copyright plaintiff cannot, however, reach back beyond the three-year limit and sue for damages or other relief for infringing acts that he knew about at the time but did not pursue. *Id.* at 1970.

### 2. Statutory Damages

As an alternative to actual damages/lost profits, the Copyright Act provides for a different type of monetary award:

> (c) Statutory Damages.—
> (1) Except as provided by clause (2) of this subsection, the copyright owner may elect, at any time before final judgment is rendered, to recover, instead of actual damages and profits, an award of statutory damages for all infringements involved in the action, with respect to any one work, for which any one infringer is liable individually, or for which any two or more infringers are liable jointly and severally, in a sum of not less than $750 or more than $30,000 as the court considers just. For the purposes of this subsection, all the parts of a compilation or derivative work constitute one work.

> (2) In a case where the copyright owner sustains the burden of proving, and the court finds, that infringement was committed willfully, the court in its discretion may increase the award of statutory damages to a sum of not more than $150,000. In a case where the infringer sustains the burden of proving, and the court finds, that such infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court in its discretion may reduce the award of statutory damages to a sum of not less than $200.

The difficulty in proving damages—both actual damages and the infringer's profits—can often make an award of statutory damages an attractive option. Additionally, statutory damages can sometimes result in a higher monetary award, depending on the facts of the case.

The Copyright Act specifies that a statutory damages award can be made "for all infringements involved in the action, with respect to any one work, for which any one infringer is liable individually, or for which any two or more infringers are liable jointly and severally." 17 U.S.C. § 504. Thus what matters in calculating statutory damages is not how many infringing copies the defendant created but rather how many separate copyrighted works were infringed. The parties sometimes dispute what constitutes "one work." For example in one case the defendant had been found to infringe the television series "Who's the Boss?" The court rejected the defendant's argument that the entire series was one work, concluding that each episode represented a separate copyrighted work. *See Columbia Pictures Television, Inc. v. Krypton Broadcasting,* 259 F.3d 1186 (9th Cir. 2001) (affirming jury award of $32 million in statutory damages). In general, courts have held that separate copyrights are distinct works if they can "live their own copyright life" and each have "an independent economic value" that is, "in itself, viable." *Id.* (quoting *Walt Disney Co. v. Powell*, 897 F.2d 565, 569 (D.C. Cir. 1990).

Despite the statute's language directing *courts* to award statutory damages, there is a right to jury trial under the seventh amendment on the issue of statutory damages. *Feltner v. Columbia Pictures Television, Inc.,* 523 U.S. 340 (1998)).

Pursuing an award of statutory damages, instead of actual damages, is an election made by the copyright owner, so long as registrations were timely filed. 17 U.S.C. § 412.

## Notes & Questions

1. The Second Circuit rejected the possibility that Congress, as a way to encourage prompt registration, chose to leave those who delay in registering their copyrights with no remedy if they can't prove actual harm or the infringer's ill-gotten gains. *OnDavis v. The Gap, Inc.*, 246 F.3d 152 (2d Cir. 2001). Such a result would certainly provide an incentive for prompt registration. Registering a claim to an entitlement such as a copyright generates the benefit of creating a clear registry that provides information about who is interested in protecting their rights along with information concerning who to contact for obtaining a license to use the work. Without a timely registration, if the copyright owner cannot prove any

actual harm and the defendant has not gain any profits from the infringement, should the copyright owner still be entitled to a monetary award? If so, how should the amount be determined? If not, does that mean a defendant can infringe with impunity?

### 3. Attorney's Fees

In addition to monetary damages awards, the Copyright Act contains a fee shifting provision, permitting the court, in its discretion, to "award a reasonable attorney's fee to the prevailing party." 17 U.S.C. § 505. For a prevailing copyright owner to be eligible for a fee award, they must have timely registered the work (registering prior to the infringement commencing, or within the first three months after publication). *See* 17 U.S.C. § 412. Unlike the Patent Act, a showing that the case is "exceptional" is not required. Indeed, courts have factored in many different considerations when determining whether an award of attorney's fees is appropriate to prevailing copyright owner. *See*, *e.g.*, *Gonzales v. Transfer Techs., Inc.*, 301 F.3d 608, 610 (7th Cir. 2002) ("[T]he smaller the damages, provided there is a real, and especially a willful, infringement, the stronger the case for an award of attorneys' fees. . . . [T]he prevailing party in a copyright case in which the monetary stakes are small should have a presumptive entitlement of an award of attorneys' fees.").

The Supreme Court has provided the following guidance on when it would be appropriate to award fees to a prevailing defendant:

> Because copyright law ultimately serves the purpose of enriching the general public through access to creative works, it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible. To that end, defendants who seek to advance a variety of meritorious copyright defenses should be encouraged to litigate them to the same extent that plaintiffs are encouraged to litigate meritorious claims of infringement. . . . [A] successful defense of a copyright infringement action may further the policies of the Copyright Act every bit as much as a successful prosecution of an infringement claim by the holder of a copyright.

*Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 527 (1994) (rejecting a "dual standard" under which prevailing defendants had to prove that the claim was frivolous or lacking in good faith in order to recover fees).

#### Notes & Questions

1. Patent law requires a showing that the case is an "exceptional case" before a fee award can be made. Does it make sense to have a lower standard in copyright cases? In trade secret law, section 4 of the UTSA permits awards of attorney fees in the case of "willful and malicious misappropriation." What might explain the different standards?

## C. Criminal Infringement

Unlike the Patent Act, the Copyright Act identifies certain types of infringement as worthy of criminal sanctions. Specifically, the statute provides:

> Any person who willfully infringes a copyright shall be punished as provided under section 2319 of title 18,[*] if the infringement was committed—
>
> (A) for purposes of commercial advantage or private financial gain;
>
> (B) by the reproduction or distribution, including by electronic means, during any 180-day period, of 1 or more copies or phonorecords of 1 or more copyrighted works, which have a total retail value of more than $1,000; or
>
> (C) by the distribution of a work being prepared for commercial distribution, by making it available on a computer network accessible to members of the public, if such person knew or should have known that the work was intended for commercial distribution.

17 U.S.C. § 506. Note that the three different types of criminal infringement activity are joined by an "or"—any one of the types of infringing activity identified in (A)–(C) qualifies for criminal sanctions. Note also that for all three, the infringement must be committed "willfully".

In the criminal context "willful" takes on a somewhat different meaning from that encountered in cases determining whether enhanced civil damages should be awarded. *See*, *e.g.*, *Zomba Enterprises, Inc. v. Panorama Records, Inc.,* 491 F.3d 574 (6th Cir. 2007). In the criminal context demonstrating willfulness requires showing a "voluntary, intentional violation of a known legal duty." *United States v. Moran,* 757 F. Supp. 1046 (D. Neb. 1991) (quoting *Cheek v. United States*, 498 U.S. 192 (1991)). In *Cheek* the Supreme Court held that showing willfulness requires proof that the defendant was aware of the duty at issue and also requires negating a defendant's claim of either ignorance of the law or a good-faith belief in the lawfulness of the activity at issue. This negation is part of the government's burden "because one cannot be aware that the law imposes a duty upon him and yet . . . believe that the duty does not exist." *Cheek*, 498 U.S. at 202. The defendant's belief that his conduct is lawful is not to be judged by an objective standard but rather a subjective, good-faith belief in the lawfulness of the activity. Of course, the more unreasonable that belief is, the more difficult it will be for the finder of fact to believe the credibility of an assertion of a good-faith belief, but such credibility determination is to be left to the trier of fact. *Moran*, 757 F. Supp. at 1051.

## Notes & Questions

1. The Copyright Act defines "financial gain" to include the "receipt, or expectation of receipt, of anything of value, including the receipt of other copyrighted works." 17 U.S.C. § 101. Thus, "sharing" digital files with an expectation that others will share their files with you could fit into the definition of financial gain. Eric Goldman, *A Road to No Warez: The No Electronic Theft Act and Criminal Copyright Infringement*, 82 Or. L. Rev. 369 (2003) (discussing criminal liability in the context of P2P sharing). If infringement is undertaken for financial gain, there

[*] [ *Eds. Note*: This provision specifies the criminal sanctions imposed, ranging from 1 to 5 years in prison for a first offense and up to 10 years for a second or subsequent offense. ]

is no need to reach the $1,000 required under (B). Have you ever swapped copies of your favorite music with your friends? Should that behavior be criminal?

2. When one considers how easy it is to reach the $1,000 threshold for criminal liability over any six-month period, determining what constitutes willfulness takes on increased urgency. Does a good faith belief that the law is wrong, or unjust, take one outside the bounds of an intentional violation of a known legal duty?

# Trademarks

As with the Patent Act and the Uniform Trade Secrets Act, the Lanham Act expressly provides for both damages and injunctions. The framing of these remedies, however, differs somewhat for trademark infringement, cybersquatting, and trademark dilution. In addition, although criminal penalties exist, they apply only in the context of counterfeiting.

## A. Monetary Awards

Under the Lanham Act, a successful infringement or cybersquatting plaintiff is "entitled, and *subject to the principles of equity*, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action." 15 U.S.C. § 1117(a) (emphasis added). The reference to equity in the context of damages—which is typically thought of as the classic remedy at law—is a lasting sign of trademark litigation's history, from the era when equity courts were separate from law courts. As the *Restatement (3rd)* explains,

> [b]ecause of the difficulty of establishing the fact and extent of loss attributable to a competitor's unfair competition and the threat of continuing harm, the equitable action for injunctive relief became the preferred remedy. Courts of equity, in order to avoid the need for a separate action at law, sometimes awarded damages or an accounting of the defendant's profits in addition to injunctive relief. These monetary awards were subject to traditional equitable principles such as laches and unclean hands. The modern rules governing the recovery of monetary relief in actions for trademark infringement and unfair competition reflect this history.

*Rest. (3rd) Unfair Competition* § 36, cmnt. b (1995). Courts thus remain attuned, in the trademark context, to providing a damages remedy that most closely responds to all the facts, and the fairness, of the individual case.

Damages sustained by the mark owner typically include lost sales and other damage to goodwill (if proven), as well as the cost of corrective advertising to restore the value of the mark. Older cases required a finding of willful infringement or bad faith before awarding an accounting of the infringer's profits, *see*, *e.g.*, *Banff, Ltd. v. Colberts, Inc.*, 996 F.2d 33 (2d Cir. 1993), but courts have interpreted a 1999 statutory change to signal that willfulness is not required for an accounting. *See*, *e.g.*, *Banjo Buddies, Inc. v. Renosky*, 399 F.3d 168, 174-75 (3d Cir. 2005). Plaintiffs often prefer to pursue this disgorgement of the defendant's profits, both because this remedy does not entail proving any lost plaintiff sales, and because the Lanham Act, similar to the Copyright Act, expressly gives the plaintiff a strategic advantage in proving this damages theory: "In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed." 15 U.S.C. § 1117(a).

In the case of registered marks, the Lanham Act limits damages with a notice requirement: a registrant must provide either constructive notice, akin to that required by the patent marking statute; or actual notice of the registration to a defendant. 15 U.S.C. § 1111. The registrant gives constructive notice "by displaying with the mark the words 'Registered in U.S. Patent and Trademark Office' or 'Reg. U.S. Pat. & Tm. Off.' or the letter R enclosed within a circle, thus ®." *Id.* In the absense of notice, "no profits and no damages shall be recovered." *Id.* However, monetary awards for claims brought under § 43(a) are not subject to this marking requirement, even if brought by a registered mark owner. Thus, in practice, the marking requirement typically has no effect on the award of damages.

The Act does not provide for punitive damages in the traditional sense, although it *does* empower the court to enhance damages up to three times the actual damages. Specifically,

> 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 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.

15 U.S.C. § 1117(a).

The Lanham Act, like the Patent Act, permits the shifting of attorneys' fees only in "exceptional cases" but does not specify what makes a case "exceptional." 15 U.S.C. § 1117(a). Courts have concluded that a key basis for holding that a trademark case is "exceptional" is a finding that the infringement was "willful."

Proof that the defendant acted willfully is necessary to obtain *any* monetary award for a claim of dilution. If willfulness is shown, then a successful dilution plaintiff "shall also be entitled to the remedies set forth in section[] 1117(a)." 15 U.S.C. § 1125(c)(5)(A), (B).

In a cybersquatting case under § 43(d), a plaintiff has the option to recover actual damages and profits or to elect to recover "an award of statutory damages in the amount of not less than $1,000 and not more than $100,000 per domain name, as the court considers just." 15 U.S.C. § 1117(d). Recall the excerpts from the *Carnivale* case, concerning the domain name "theaffordablehome.com," in Section III.E. In that litigation the mark owner obtained a statutory-damages award of $25,000 in addition to an injunction. *Carnivale v. Staub Design, LLC*, 2012 WL 6814251 (D. Del. 2012). The trial court gave no explanation for the amount of the award. On appeal, the defendant did not challenge that aspect of the trial court determination.

## B. Injunctions & Destruction Orders

The Lanham Act gives courts broad "power to grant injunctions, according to the principles of equity and upon such terms as the court may deem reasonable, to prevent the violation of any right" conferred by the basic infringement provisions, §§ 32 and 43(a), as well as by the antidilution and anticybersquatting provisions, §§ 43(c), (d). 15 U.S.C. § 1116(a).

The *Restatement (3rd) of Unfair Competition* explains the tilt toward injunctive relief in Lanham Act cases this way:

> In cases of deceptive marketing, trademark infringement, or trademark dilution, a prevailing plaintiff is ordinarily awarded injunctive relief to protect both the plaintiff and the public from the likelihood of future harm. . . .
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> . . . The plaintiff's interest in protecting the good will symbolized by its trademark . . . is unlikely to be adequately secured by monetary relief, and the equities thus normally favor the award of an injunction. The public interest in preventing confusion and deception also typically weigh in favor of an injunction. . . .

*Rest. (3rd) Unfair Competition* § 35, cmnt. b (1995). Moreover, "[a]bsent special circumstances, courts will ordinarily grant a preliminary injunction in a trademark infringement action if there is strong evidence of likelihood of confusion." *Id.* at cmnt. h.

The Lanham Act also empowers the courts—in cases where the court finds a defendant to have violated either basic infringement provision, §§ 32 and 43(a), *or* to have willfully violated the antidilution provision, § 43(c)—to impound and destroy infringing items. Section 1118 states, in relevant part, as follows:

> the court may order that all labels, signs, prints, packages, wrappers, receptacles, and advertisements in the possession of the defendant, bearing the . . . mark or . . . the word, term, name, symbol, device, combination thereof, designation, description, or representation that is the subject of the violation, or any reproduction, counterfeit, copy, or colorable imitation thereof, and all plates, molds, matrices, and other means of making the same, shall be delivered up and destroyed.

15 U.S.C. § 1118. As you can see, the statute aims to be comprehensive.

## C. Laches

"[T]he Lanham Act does not contain a statute of limitations. Rather, courts use the doctrine of laches," an equitable doctrine, "to determine whether a suit should be barred." *Audi AG v. D'Amato*, 469 F.3d 534, 545 (6th Cir. 2006). Courts differ in the nuances with which they define the laches bar. It is fair to say, however, that what the doctrine amounts to is this—"Laches consists of two elements: (1) inexcusable delay in bringing suit, and (2) prejudice to the defendant as a result of the delay." *Santana Products, Inc. v. Bobrick Washroom Equipment, Inc.*, 401 F.3d 123, 138 (3d Cir. 2005). In the Lanham Act context, many regional Courts of Appeals establish a presumption of laches, *i.e.*, a presumption of unreasonable delay and prejudice to the defendant, if a plaintiff delays filing suit for more time than the period set by borrowing the most closely analogous state limitations statute. For example, the Ninth Circuit, concluding that "Lanham Act claims are governed by the analogous state statute of limitations, [such as] state trademark infringement and dilution claims," recently explained its approach this way:

> In order to succeed on a defense of laches, a defendant must prove both: (1) an unreasonable delay by plaintiff in bringing suit, and (2) prejudice to himself. In considering whether a plaintiff's delay was unreasonable, courts consider: (1) the length of the delay, measured from the time the plaintiff knew or should have known about his potential cause of action, and (2) whether the plaintiff's delay was reasonable, including whether the plaintiff has proffered a legitimate excuse for his delay.
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> If a plaintiff files suit within the applicable period of limitations for his claim, there is a strong presumption that laches does not bar the claims. Conversely, if any part of the alleged wrongful conduct occurred outside of the limitations period, courts presume that the plaintiff's claims are barred by laches.

*Miller v. Glen Miller Productions, Inc.*, 454 F.3d 975, 997 (9th Cir. 2006) (quoting the trial court's opinion in the case, which it adopted, in relevant part, as its own).

## D. Trademark Counterfeiting

Some trademark owners face a different kind of problem from the one that you have seen in the cases in Chapter 5: counterfeiting. Often the counterfeit goods are manufactured in foreign countries, with low labor costs, and are sold at a much lower price. With such activity, the counterfeiter—a true "free-rider"—is benefiting from the goodwill of the mark owner. Trademark owners suffer significant harm from this counterfeiting activity. For example, one industry trade group claims counterfeiting is a $600 billion a year problem. See Get Real: The Truth About Counterfeiting, http://www. iacc.org/counterfeiting/counterfeiting.php. Additionally, the public can be seriously harmed by fakes in the marketplace:

> Counterfeit marks can mislead consumers. They give the ring of authenticity to goods of lower quality. They can even mask serious health or safety risks to consumers, as in the cases of counterfeit food products, batteries, prescription drugs, or automotive parts. S. Rep. No. 98-526, at 4-5 (1984). Trademark counterfeiting can also be difficult to regulate civilly. With a large number of victims across a potentially large geographic region—especially in the case of goods offered online—and small losses per victim, a large-scale counterfeiter can often evade civil sanctions. . . .
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> Sales of counterfeit products can hurt . . . third parties who use the goods or services after the initial purchase. For example, airline passengers are victims of counterfeit airplane parts, coronary patients are victims of counterfeit heart pumps, and children are victims of counterfeit infant formula, even though in each case the counterfeit goods were purchased for those consumers' benefit by another person. These are the types of situations that Congress sought to eradicate by criminalizing trademark infringement. See H.R. Rep. No. 104-556, at 3 (1996).
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> Just as counterfeiting money and forging financial instruments undermine fundamental rules of the marketplace, counterfeiting trademarks weakens modern commercial systems. David J. Goldstone & Peter J. Toren,

*The Criminalization of Trademark Counterfeiting*, 31 Conn. L. Rev. 1, 17-19 (1998).

U.S. Dept. of Justice, *Prosecuting Intellectual Property Crimes* 86-87 (3d ed. 2006).

The Trademark Counterfeiting Act of 1984 provides criminal and civil penalties for anyone who intentionally traffics "in goods or services and knowingly uses a counterfeit mark on or in connection with such goods or services." The Lanham Act defines a counterfeit mark as "a spurious mark which is identical with, or substantially indistinguishable from, a registered mark." 15 U.S.C. § 1127.

Counterfeiting is not a new problem; it has troubled mark owners for decades, if not centuries. The internationalization of commerce, however, has only made the problem of counterfeiting worse. In response, Congress enacted three different statutes directed at the problem: the Anticounterfeiting Protection Act of 1996 (Pub. L. No. 104-153); the Stop Counterfeiting in Manufactured Goods Act (Pub. L. No. 109-181) in 2006; and finally, in 2008, the Prioritizing Resources and Organization for Intellectual Property Act ("PRO-IP Act") (Pub. L. No. 110-403). Each of these new enactments enhanced the civil and criminal penalties for counterfeiting, provided for mandatory restitution awards, and devoted more government resources to combating counterfeiting.

The civil judgments that can be obtained for counterfeiting include statutory damages, mandatory attorney fees and trebling of damages. 15 U.S.C. § 1117(b), (c). In addition to the civil judgments that trademark owners can obtain, trafficking in counterfeit goods can bring hefty criminal consequences as well: fines of not more than $5 million and imprisonment of up to 10 years. 18 U.S.C. § 2320(a)(1).

## Notes & Questions

1. Sometimes the purchasers of counterfeit goods believe they are getting the genuine article, but other times the purchaser is fully aware that they are buying a knock-off. How many people really believe that the "Gucci" handbag that they are buying for $20 from a street vendor, is a genuine Gucci bag that normally retails for hundreds, if not thousands of dollars? In other words, the consumer is not confused as to the origin of the product or even as to any sponsorship or affiliation. In fact, some would argue that the only reason the genuine Gucci bag costs as much as it does is the "snob factor" that is important in a society concerned with status. *See* Jonathan M. Barnett, *Shopping for Gucci on Canal street: Reflections on Status Consumption, Intellectual Property and the Incentive Thesis*, 91 Va. L. Rev. 1381, 1386-91 (2005). To some, this is a downside of robust trademark protection: increased attention on "brand name" goods for the sake of the brand name itself, not the quality it might signify. Should this potential negative side of trademark protection factor into the scope of protection?

2. One way that counterfeiters previously had sought to avoid the penalties of the law was to sell copies of the mark owners' distinctive labels, hangtags, or boxes separate from the products themselves. Purchasers could then proceed to attach the tags, or use the boxes, and impress their friends and family. Trafficking in such counterfeit labels is now also a crime. See 18 U.S.C. § 2320(a).