

What's New (and Old) in Trademark/Unfair Competition Damages *Much to Gain, Little to Lose*

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Biography

Established in April, 2001, Eric W. Cernyar, P.C., specializes* in patent and trademark prosecution and writing district court and appellate briefs in intellectual property and constitutional law cases. Eric is a graduate of the University of Texas School of Law ('97) and the Georgia Institute of Technology (Electrical Engineering, '94), a former briefing attorney for the Texas Supreme Court ('97-99) and a former associate of Akin, Gump, Strauss, Hauer & Feld, L.L.P. ('99-01). Today, the firm serves several area law firms, institutional clients, and a handful of small clients with brief writing and patent and trademark prosecution services. Some of the firm's clients include Kinetic Concepts, Inc.; Gunn & Lee, P.C.; Tinsman, Scott & Sciano, Inc.; and Charles W. Hanor, P.C.

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Note: This paper focuses on the law of the Fifth Circuit

I. Remedies available to prevailing Lanham Act plaintiffs.

“The . . . courts . . . have power to grant injunctions . . . to prevent the violation of any right of the registrant of a mark registered in the Patent and Trademark Office or to prevent a violation under subsection (a), (c), or (d) of section 1125 of this title.”¹

“[T]he plaintiff shall be entitled, . . . 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.”²

A. Any injunctive or monetary remedy. Plaintiff must prove:

1. Defendant made a communication in commerce. Lanham Act liability may be predicated on a use in commerce of a “word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact.”³
 - To recover monetary remedies under section 32 for infringement, the mark must be registered and the registrant must provide notice of the registration.⁴
 - In dilution cases, the plaintiff must prove “commercial use in commerce of a mark or trade name” that began after the plaintiff’s mark became famous.⁵
2. That was likely to cause confusion, mistake, or deception, or that was misrepresentative, or that causes actual dilution of the distinctive quality of a famous mark.
 - In false designation of origin cases, the plaintiff must prove likely confusion, mistake, or deception about “the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person.”⁶

¹ 15 U.S.C. § 1116(a).

² *Id.* § 1117(a).

³ *Id.* § 1125(a)(1).

⁴ *Id.* § 1111 (“[I]n any suit for infringement under this chapter by such a registrant failing to give such notice of registration, no profits and no damages shall be recovered under the provisions of this chapter unless the defendant had actual notice of the registration.”).

⁵ *Id.* § 1125(c)(1).

⁶ *Id.* § 1125(a)(1)(A).

- In typical trademark infringement cases, likelihood of confusion is typically established through a digits-of-confusion analysis.⁷
 - In false description cases, the plaintiff must prove that the advertising or promotion “misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person’s goods, services, or commercial activities.”⁸
 - In dilution cases, the plaintiff must prove actual dilution, dilution meaning “the lessening of the capacity of a famous mark to identify and distinguish goods or services.”⁹
3. As demonstrated by direct, circumstantial, or substantial survey evidence of deception, confusion, or dilution.
- Required to recover *injunctive or monetary relief* in dilution cases.¹⁰
 - Highly relevant but not required for *monetary relief* in infringement cases.¹¹
 - Not required for *injunctive relief* in infringement cases.¹²
 - A substantial showing required for *monetary relief* in false advertising cases, if advertising is not literally false.¹³
 - A lesser showing is required for *injunctive relief* in false advertising cases. Plaintiff must prove “that defendant's representations ‘have a tendency to deceive

⁷ See *Westchester Media v. PRL USA Holdings, Inc.*, 214 F.3d 658, 664 (5th Cir. 2000)

⁸ 15 U.S.C. § 1125(a)(1)(B).

⁹ *Moseley v. V Secret Catalogue*, 537 U.S. 418, 433 (2003).

¹⁰ *Id.* at 434 (“It may well be, however, that direct evidence of dilution such as consumer surveys will not be necessary if actual dilution can reliably be proven through circumstantial evidence -- the obvious case is one where the junior and senior marks are identical. Whatever difficulties of proof may be entailed, they are not an acceptable reason for dispensing with proof of an essential element of a statutory violation.”).

¹¹ *Taco Cabana Int'l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1126 (5th Cir. 1991) (rejecting argument “that a monetary award requires evidence of actual confusion” and citing S.D.N.Y. case holding that “defendant's intentional copying entitles plaintiff to profits based on unjust enrichment theory despite failure to prove any instance of actual confusion”), *aff'd*, 505 U.S. 763 (1992); *but see Falcon Rice Mill, Inc. v. Community Rice Mill, Inc.*, 725 F.2d 336, 345 (5th Cir. 1984) (holding that actual confusion “must be proved to recover damages under section 43(a) of the Lanham Act”); *see also Waples-Platter Cos. v. General Foods Corp.*, 439 F. Supp. 551, 582 (N.D. Tex. 1977) (“Proof of actual confusion, is, however, an important consideration in determining whether damages should be awarded.”).

¹² *Blue Bell Bio-Medical v. Cin-Bad, Inc.*, 864 F.2d 1253, 1260 (5th Cir. 1989) (“Blue Bell need not prove an incident of actual confusion between the products to obtain equitable relief. Blue Bell must show, however, that confusion is probable; a mere possibility that some customers might mistakenly identify the CBi cart as a Blue Bell product is not sufficient.”) (citations omitted).

¹³ *Pizza Hut, Inc. v. Papa John's Int'l, Inc.*, 227 F.3d 489, 497 (5th Cir. 2000) (“Plaintiffs looking to recover monetary damages for false or misleading advertising that is not literally false must prove actual deception” through “actual consumer reaction to the challenged advertising or surveys showing that a substantial number of consumers were actually misled by the advertisements”).

consumers.”¹⁴ “To prove a tendency to deceive, plaintiffs need to show that at least some consumers were confused by the advertisements.”¹⁵

4. That injured or likely injured plaintiff. As an initial matter, plaintiff must have standing to assert the Lanham Act claims against defendant.¹⁶ The minimum legally sufficient proof of materiality, causation, and injury depends on the remedy sought¹⁷:
 - To recover the *defendant's* profits in a section 43(a) case, plaintiff does not have to prove “diversion of the [plaintiff's own] sales,”¹⁸ but there must be “sufficient evidence from which the jury could have inferred that [plaintiff] was *in some way* injured.”¹⁹

B. Recovery of defendant's profits. Plaintiff must also prove:

1. That the violations enriched the Defendant. Plaintiff must also prove that defendant benefited from the alleged false advertising or infringement.²⁰ In section 43(a) cases, at least, a “lack of evidence showing that any of Defendant's profits were the result of its infringement” or false advertising is fatal to recovery of *this* remedy.²¹
2. And that the Defendant acted willfully. Statutorily required for section 43(c) dilution claims,²² section 32(1)(b) claims,²³ and for section 32, 43(a) and 43(d) infringement

¹⁴ *Id.*

¹⁵ *Id.* at 498.

¹⁶ *Procter & Gamble Co. v. Amway Corp.*, 242 F.3d 539, 560 (5th Cir. 2001) (“[A] plaintiff must show (1) an injury in fact (2) that is fairly traceable to the actions of defendant and (3) that will likely be redressed by a favorable decision.”).

¹⁷ *Logan v. Burgers Ozark Country Cured Hams, Inc.*, 263 F.3d 447, 462-63 (5th Cir. 2001) (expressing agreement with *Balance Dynamics Corp. v. Schmitt Indus.*, 204 F.3d 683, 689 (6th Cir. 2000), that the elements necessary to prove a Lanham Act breach, per se, may differ “from the elements necessary to justify a certain remedy for that breach”); *Pizza Hut*, 227 F.3d at 497 (“The type of evidence needed to prove materiality also varies depending on what type of recovery the plaintiff seeks.”).

¹⁸ *Texas Pig Stands, Inc. v. Hard Rock Cafe Int'l, Inc.*, 966 F.2d 956, 957 (5th Cir. 1992); *see also Maltina Corp. v. Cawy Bottling Co.*, 613 F.2d 582, 585 (5th Cir. 1980) (“[A]n accounting is proper even if the defendant and plaintiff are not in direct competition, and the defendants' infringement has not diverted sales from the plaintiff.”)

¹⁹ *Logan*, 263 F.3d at 463 (emphasis added); *see also IQ Prods. Co. v. Pennzoil Prods. Co.*, 305 F.3d 368, 376 (5th Cir. 2002) (holding that even in a case involving literally false, but non-comparative statements, summary judgment was appropriate without “evidence that indicates that consumers would have bought IQ's tire inflator products instead of Fix-A-Flat in the absence of the defendants' allegedly false and misleading statements”).

²⁰ *See Logan*, 263 F.3d at 465 (false advertising case); *Texas Pig Stands*, 966 F.2d at 957 (infringement case); *see also Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co.*, 316 U.S. 203, 206 (1941) (“The plaintiff, of course, is not entitled to profits demonstrably not attributable to the unlawful use of his mark.”).

²¹ *Texas Pig Stands*, 966 F.2d at 957.

²² 15 U.S.C. § 1125(c)(2) (“In an action brought under this subsection, the owner of the famous mark shall be entitled only to the injunctive relief as set forth in section 1116 unless the person against whom the injunction is sought willfully intended to trade on the owner's reputation or to cause dilution of the famous mark.”).

claims involving certain kinds of parties;²⁴ practically required for all other section 43(a) claims, even though willfulness it is not technically a general prerequisite for an accounting of profits for section 43(a) violations.²⁵

3. Other relevant factors include the adequacy of other remedies, the plaintiff's delay in asserting its rights, the public interest in making the misconduct unprofitable, and whether the case involves "palming off."²⁶
4. Once plaintiff proves entitlement to an accounting, it need only prove Defendant's total sales. The burden is upon the defendant to "isolate the profits" and prove any elements of cost or deduction.²⁷

*"In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed."*²⁸

5. The court may adjust award of profits if inadequate or excessive

*"If the court shall find that the amount of 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."*²⁹

- "The purpose of section 1117 is to take all the economic incentive out of trademark infringement."³⁰

²³ 15 U.S.C. § 1114(1) ("Under subsection (b) of this section, the registrant shall not be entitled to recover profits or damages unless the acts have been committed with knowledge that such imitation is intended to be used to cause confusion, or to cause mistake, or to deceive.").

²⁴ *Id.* § 1114(2) provides a narrowly applicable "innocent infringer" defense for special kinds of parties (such as publishers, distributors, and printers) accused of infringement under sections 32, 43(a) and 43(d), which defense limits a plaintiff's remedies for violations of those sections to an injunction. See generally *Dial One of the Mid-South, Inc. v. BellSouth Telcomms., Inc.*, 269 F.3d 523, 525-27 (5th Cir. 2001) (discussing this defense).

²⁵ See *Quick Techs. v. Sage Group Plc*, 313 F.3d 338, 349 (5th Cir. 2002) (upholding district court's discretion to give jury instruction predicated on finding of willful infringement, but declining to adopt a bright-line rule making willfulness a prerequisite); *Seatrax, Inc. v. Sonbeck Int'l, Inc.*, 200 F.3d 358, 372 n.9 (5th Cir. 2000) (noting that the Fifth Circuit's own research was unable to "reveal[] any cases from this circuit where an accounting of profits has been awarded without a finding of willfulness"); but see *Rolex Watch USA, Inc. v. Meece*, 158 F.3d 816, 823, 826 (5th Cir. 1998) (string citing cases from other jurisdictions requiring showing of willfulness and then declaring, three pages later, that "[a]s stated, under § 1117(a), an award of profits requires proof of willful or deliberate infringement, and the decision whether to award profits is subject to equitable considerations"); see also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 37, comment e (1995) ("The better view limits an accounting of profits to acts intended to create confusion or to deceive prospective purchasers.").

²⁶ *Pebble Beach Co. v. Tour 18 I, Ltd.*, 155 F.3d 526, 554 (5th Cir. 1998).

²⁷ *Id.* at 555.

²⁸ 15 U.S.C. § 1117(a).

²⁹ *Id.*

- Court may adjust award where defendant benefited from the violations but still has no profits. In *Otis Clapp & Son v. Filmore Vitamin Co.*,³¹ the court awarded 15% of the defendant's sales, rather than the defendant's profits, because defendant actually lost money. The Seventh Circuit upheld the award on "the theory that the plaintiff should not be prejudiced by the defendant's inefficiency" and declared that the award "cannot be characterized as a penalty."³²
- Where infringer has no legal right to sell infringing product, court may award gross sales revenues, instead of profits.³³

C. Recovery of lost profits. Plaintiff must also prove:

1. Plaintiff's own losses with "particularity."³⁴

- The Western District of Texas recently held that "the district court may take into account the difficulty of proving an exact amount of damages from false advertising, as well as the maxim that 'the wrongdoer shall bear the risk of the uncertainty which his own wrong has created.'"³⁵
- In one case, the Southern District of Texas granted partial summary judgment on lost profits because the plaintiffs had "not submitted sufficient evidence to permit a reasonable jury to conclude that the alleged infringement was a proximate cause of a reasonably certain number of lost sales of, and a reasonably certain amount of lost profits on, the contemplated mass market kettle."³⁶
- The Fifth Circuit has noted that, for Texas state and common law causes of action, "[t]he standard under Texas law for proving lost profits is onerous. The amount of profits lost 'must be shown by competent evidence with reasonable certainty.'"³⁷

³⁰ *Rolex Watch USA, Inc. v. Meece*, 158 F.3d 816, 824 (5th Cir. 1998) (quoting *Intel Corp. v. Terabyte Int'l, Inc.*, 6 F.3d 614, 621 (9th Cir. 1993)).

³¹ 754 F.2d 738 (7th Cir. 1985).

³² *Id.* at 744-45.

³³ *See Polo Fashions, Inc. v. Dick Bruhn, Inc.*, 793 F.2d 1132, 1135 (9th Cir. 1986) (awarding plaintiff infringer's sales revenues of counterfeit shirts because infringer was legally obligated to destroy, rather than sell, the counterfeit shirts).

³⁴ *Logan*, 263 F.3d at 462-63; *see also Rodeway Inns Int'l, Inc. v. Amar Enterprises, Inc.*, 742 F. Supp. 365, 369 (S.D. Miss. 1990) ("A determination of damages under the Lanham Act must be supported by evidence of actual damage suffered by the plaintiff.").

³⁵ *Healthpoint, Ltd. v. Stratus Pharms.*, 273 F. Supp. 2d 871, 897 (W.D. Tex. 2001) (quoting *Porous Media Corp. v. Pall Corp.*, 110 F.3d 1329, 1336 (8th Cir. 1997)).

³⁶ *Chantal Cookware Corp. v. Vitrex Gourmet Corp.*, 1999 U.S. Dist. LEXIS 22948, *3 (S.D. Tex. 1999).

³⁷ *Information Commun. Corp. v. Unisys Corp.*, 181 F.3d 629, 633 (5th Cir. 1999) (quoting *Texas Instruments, Inc. v. Teletron Energy Management, Inc.*, 877 S.W.2d 276, 279 (Tex. 1994)); *see also id.* at 633 ("Lost profits may not be recovered where they are 'too uncertain or speculative, or where the enterprise is new or unestablished.'").

- In *Taco Cabana*, the Fifth Circuit affirmed an award of lost profits and income that, according to expert testimony, was caused by the defendant Two Peso's preemption of the Houston market as a viable place for plaintiff's expansion.³⁸
2. For certain causes of action, that the Defendant acted willfully. Statutorily required for section 43(c) dilution claims,³⁹ section 32(1)(b) claims,⁴⁰ and for section 32, 43(a) and 43(d) infringement claims involving certain kinds of parties;⁴¹ not required for other claims.

D. Recovery of damage to goodwill.

- One district court held that damage to goodwill "may be measured either the by cost of corrective advertising (even if not undertaken), or the value of a 'reasonable royalty.'"⁴²
- Expert testimony about diminished business value, combined with selective use of data to construct a "market multiple," can yield extremely generous damage models. I did not, however, find any cases from the Fifth Circuit addressing the recoverability of a loss of business value as a remedy for Lanham Act violations.

E. Reasonable royalty. In infringement cases, Plaintiff can recover a reasonable royalty as a form of "actual damages," even if there is no proof of lost or diverted sales, on the theory that "[f]or the period defendant was infringing, plaintiffs were deprived of the economic benefits they normally would have received by licensing the use of their marks in connection with the sale of cloth patches."⁴³

- According to one district court, the Georgia/Pacific factors apply, but "considerations of these factors prove difficult if not impossible here where there has been no prior negotiations which culminated determination of a royalty in connection with the use of the mark."⁴⁴

³⁸ *Taco Cabana*, 932 F.2d at 1125-26.

³⁹ 15 U.S.C. § 1125(c)(2).

⁴⁰ 15 U.S.C. § 1114(1).

⁴¹ 15 U.S.C. § 1114(2).

⁴² *A Touch of Class Jewelry Co. v. J.C. Penney Co.*, 2000 U.S. Dist. LEXIS 12898, *26 (E.D. La. 2000).

⁴³ *Boston Professional Hockey Ass'n v. Dallas Cap & Emblem Mfg., Inc.*, 597 F.2d 71, 75 (5th Cir. 1979); *see also Sans, Taylor & Wood v. Quaker Oats Co.*, 34 F.3d 1340, 1345 (7th Cir. 1994), *corrected, subst. op. in part, reh'g denied, in part*, 44 F.3d 579 (7th Cir. 1995) (affirming base award of \$10.5 million computed as reasonable royalty of infringing sales).

⁴⁴ *A Touch of Glass*, 2000 U.S. Dist. LEXIS 12898 at *28.

F. **Recovery of “damage control” costs.** A plaintiff may also recover damages for “damage control costs” such as corrective advertising.⁴⁵ The specific proof needed to obtain this remedy is debatable.

- Recovery of “damage control” costs that have not actually been incurred is very unlikely.⁴⁶
- A Sixth Circuit opinion embraced by a 2001 Fifth Circuit opinion recently held that this remedy requires less proof of causation and injury than required for a recovery of “marketplace damages” such as lost profits.⁴⁷
- The 2000 Fifth Circuit case of *Pizza Hut, Inc. v. Papa John’s Int’l, Inc.*, however, reversed a district court judgment granting the plaintiff a \$467,619.75 award for having to run corrective ads. Therefore, its discussion of the standards generally applicable to recovery of damages would seem to be applicable also to the recovery of damage control costs.⁴⁸
- The 1991 Fifth Circuit case of *Taco Cabana Int’l v. Two Pesos, Inc.* affirmed an *injunction* that required the *defendant* to issue corrective advertising.⁴⁹

G. Recovery of statutory damages

1. Statutory damages, in lieu of actual damages and profits, of between \$500 and \$100,000 (or \$1,000,000, if willfulness shown) per counterfeit mark per type of goods or services sold, are available for uses of counterfeit marks.⁵⁰
2. Statutory damages, in lieu of actual damages and profits, of between \$1,000 and \$100,000 per domain name are available in section 43(d)(1) (cyberpiracy) cases.⁵¹

H. Recovery of enhanced damages

1. A trebling of defendant’s profits or plaintiff’s damages, whichever is greater, is automatic, except where extenuating circumstances exist, in cases involving

⁴⁵ *Healthpoint, Ltd. v. Stratus Pharms.*, 273 F. Supp. 2d 871, 897 (W.D. Tex. 2001) (holding that genuine issues of material fact existed “about whether Healthpoint may be entitled to compensation for corrective advertising”).

⁴⁶ *Data Race, Inc. v. Lucent Techs., Inc.*, 73 F. Supp. 2d 698, 726 (W.D. Tex. 1999).

⁴⁷ *Balance Dynamics Corp. v. Schmitt Indus.*, 204 F.3d 683, 691-92 (6th Cir. 2000) (“[D]amage control expenses should be recoverable upon a showing of the likelihood of actual confusion, rather than upon a showing of actual confusion itself. This rule recognizes that it is unreasonable to expect a businessperson faced with a Lanham Act violation to sit idly by until a customer manifests actual confusion. The law should encourage quick responses and the mitigation of damage, and should not require parties to suffer an injury before trying to prevent it.”); *cf. Logan*, 263 F.3d at 463-65 (citing *Balance Dynamics* case extensively with approval on several other points).

⁴⁸ *Pizza Hut*, 227 F.3d at 494, 497 (“Plaintiffs looking to recover monetary damages for false or misleading advertising that is not literally false must prove actual deception.”).

⁴⁹ *Taco Cabana Int’l*, 932 F.2d at 1126.

⁵⁰ 15 U.S.C. § 1117(e).

⁵¹ *Id.*

intentional and knowing unauthorized uses of a “counterfeit” of a registered trademark in connection with the sale, offering for sale, or distribution of goods or services, which use is likely to cause confusion, mistake or deceive.”⁵²

2. In other Lanham Act cases, a court *may* award enhanced damages up to three times actual damages.

*“In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount.”*⁵³

- a. As a practical matter, willful and deliberate conduct is a prerequisite to enhanced damages under this section.⁵⁴
- b. Statutory Dilemma: Upward adjustments must be compensatory, not punitive.

*“Such sum in either of the above circumstances shall constitute compensation and not a penalty.”*⁵⁵

The Fifth Circuit has remarked that “[i]t is anomalous to say that an enhancement of damages, which implies an award exceeding the amount found ‘compensatory,’ must be ‘compensatory’ and not ‘punitive.’”⁵⁶ But enhancement can give “proper redress to an otherwise undercompensated plaintiff where imprecise damage calculations fail to do justice, particularly where the imprecision results from defendant's conduct.”⁵⁷ Upward adjustments may be made to account for “possible uncertainty in the estimates of future profits, whether evidence was corroborated, whether the harm from the infringing listing would continue beyond the actual period of infringement, and possible variability of profit margins.”⁵⁸

- c. Does this permit a court to treble “damages” only, or also an accounting of profits?

⁵² 15 U.S.C. § 1117(b).

⁵³ 15 U.S.C. § 1117(a).

⁵⁴ *Taco Cabana*, 932 F.2d at 1127 (“An enhancement of damages *may* be based on a finding of willful infringement, but cannot be punitive.”); *Neles-Jamesbury, Inc. v. Bill's Valves*, 974 F. Supp. 979, 983 (S.D. Tex. 1997) (dicta suggesting that enhancement is only permitted in cases involving willful and deliberate conduct).

⁵⁵ 15 U.S.C. § 1117(a).

⁵⁶ *Taco Cabana*, 932 F.2d at 1127.

⁵⁷ *Id.*

⁵⁸ *Dial One of the Mid-South, Inc. v. BellSouth Telcomms., Inc.*, 269 F.3d 523, 527 (5th Cir. 2001).

- In *Thompson v. Haynes*, the Federal Circuit held that § 1117(a) does not permit trebling of an accounting of profits.⁵⁹
- The Fifth Circuit has not, to my knowledge, addressed this issue directly. In *Holiday Inns, Inc. v. Alberding*,⁶⁰ the Fifth Circuit rejected the plaintiff's challenge to an award that found that only 30% of the defendant's profits were attributable to infringement. The Fifth Circuit suggested that plaintiff should be content that the judge exercised his discretion under § 1117(a) to enhance the award to an amount equal to *three times* that amount. In *Rolux Watch USA, Inc. v. Meece*,⁶¹ the Fifth Circuit distinguished *Joy Manufacturing Co. v. CGM Valve & Gauge Co., Inc.*,⁶² a case that awarded plaintiff trebled profits under § 1117(a), on the basis that the conduct of the defendant in *Joy* was more egregious than the conduct of the defendant in *Rolux Watch*.
- In *Caesars World, Inc. v. Venus Lounge, Inc.*,⁶³ the Third Circuit endorsed another judge's analysis that "throughout the section 'damages' means an award based on either actual damages to the plaintiff or actual profits of the infringer."
- Even if a trebling of profits is permitted, the award must be *compensatory*, not *punitive*.

I. **Recovery of punitive damages.** By pairing a parallel state law claim with a Lanham Act claim, the same facts that merit an award under the Lanham Act may also merit an award of punitive damages under the state law claim. Such an award of punitive damages should not be confused with an award of "enhanced damages" under the Lanham Act, which, by definition, do not constitute a penalty.

- In *Artcraft Novelties Corp. v. Baxter Lane Co.*,⁶⁴ the Fifth Circuit affirmed an award of actual and punitive damages, as well as attorney's fees, for trademark infringement claims brought under both the common law and the Lanham Act.
- In *Taco Cabana Int'l, Inc. v. Two Pesos, Inc.*, the Fifth Circuit cited with approval a New York case which awarded punitive damages, among other remedies, to the

⁵⁹ *Thompson v. Haynes*, 305 F.3d 1369, 1380 (Fed. Cir. 2002) ("By the terms of the statute, 'damages' are to be treated separately from 'profits.' As for damages, the court may award up to three times actual damages, depending on the circumstances of the case. As for profits, however, the court is not authorized to award up to three times the amount proved. For profits, the court is constrained to award the amount proved, subject only to an adjustment, up or down, where the recovery would be otherwise unjust. The court may not, as it did here, simply lump profits together with damages and apply the same measure of enhancement to both.").

⁶⁰ 683 F.2d 931, 935 (5th Cir. 1982).

⁶¹ 158 F.3d 816, 828 (5th Cir. 1998).

⁶² 730 F. Supp. 1387 (S.D. Tex. 1989).

⁶³ 520 F.2d 269, 274 (3d Cir. 1975).

⁶⁴ *Artcraft Novelties Corp. v. Baxter Lane Co.*, 685 F.2d 988, 990 (5th Cir. 1982).

- plaintiff, who brought claims for trademark infringement under both the Lanham Act and a New York statute.⁶⁵
- In *Healthpoint, Ltd. v. Ethex Corp.*,⁶⁶ the court awarded Healthpoint \$6,349,030 in enhanced damages under the Lanham Act and an additional \$3,174,515.00 in punitive damages, under its common law unfair competition claim, because “Ethex made a deliberate choice to make representations about its product that were false, knowing that such representations would cause substantial injury to Healthpoint.”
 - The Texas Civil Practices and Remedies Code caps exemplary damages at two times the amount of economic damages, which is defined as “compensatory damages for pecuniary loss.”⁶⁷
 - Under Texas law, a plaintiff cannot “mix and match” punitive damages from one theory with actual damages from another.⁶⁸

J. Recovery of attorneys’ fees

1. Mandated in intentional trademark counterfeiting cases.⁶⁹
2. Permitted in exceptional cases
*“The court in exceptional cases may award reasonable attorney fees to the prevailing party.”*⁷⁰
 - To recover attorneys’ fees, a prevailing plaintiff must prove “a high degree of culpability” by the defendant.⁷¹ Evidence of “deliberate pirating,” or other “malicious,” “fraudulent,” or “bad faith” conduct on the part of a defendant may make the case “exceptional.”⁷²
 - It is not enough to show that the act alleged to constitute an infringement was done “voluntarily and intentionally.”⁷³
 - The existence of a reasonable legal defense may preclude an exceptional classification.⁷⁴

⁶⁵ *Taco Cabana*, 932 F.2d at 1128 (citing *Shen Mfg. Co. v. Suncrest Mills, Inc.*, 673 F. Supp. 1199, 1207 (S.D.N.Y. 1987)).

⁶⁶ 2002 U.S. Dist. LEXIS 26858, *10-*11 (W.D. Tex. 2002).

⁶⁷ TEX. CIV. PRAC. & REM. CODE §§ 41.001(4), 41.008.

⁶⁸ *Quest Medical v. Apprill*, 90 F.3d 1080, 1093-94 (5th Cir. 1996), *accord*, *Sterling Trust Co. v. Adderley*, 119 S.W.3d 312, 323 (Tex. App. – Fort Worth 2003, pet. granted).

⁶⁹ 15 U.S.C. § 1117(b).

⁷⁰ 15 U.S.C. § 1117(b).

⁷¹ *Martin's Herend Imports v. Diamond & Gem Trading USA*, 112 F.3d 1296, 1305 (5th Cir. 1997).

⁷² *Texas Pig Stands, Inc. v. Hard Rock Cafe Int'l, Inc.*, 951 F.2d 684, 697 (5th Cir. 1992).

⁷³ *Id.*

⁷⁴ *Procter & Gamble Co. v. Amway Corp.*, 280 F.3d 519, 527 & n.11 (5th Cir. 2002) (citing cases).

- Attorneys' fees are being awarded with increasing frequency to prevailing plaintiffs. There are at least sixteen reported cases from Fifth Circuit courts that have made such awards.⁷⁵

K. Multiple recoveries. A plaintiff may recover defendant's profits *and* plaintiff's damages under the Lanham Act, together with additional damages proven under other causes of action.

- In *Alameda Films S A De C V v. Authors Rights Restoration Corp.*,⁷⁶ the Fifth Circuit rejected an argument that the jury's award of damages for both copyright infringement and trademark infringement constituted a double recovery. Because "it is common practice for copyright owners to sue for both infringement under the 1976 Copyright Act and unfair competition under the Lanham Act," and this "has never been disallowed by the courts on grounds of . . . impermissible double recovery," the Fifth Circuit concluded that there was "no basis in law or fact" requiring the district court to reduce the award.⁷⁷
- In *Healthpoint, Ltd. v. Ethex Corp.*,⁷⁸ the court awarded Healthpoint \$5,000,000 in actual damages and \$1,640,000 in profits that Ethex enjoyed as a result of those acts.

L. Recovery of costs of action. See 15 U.S.C. § 1117.

M. Ex parte seizure of infringing articles bearing a "counterfeit" mark. Plaintiff must:⁷⁹

1. Show that its own mark is registered on the principal register.
2. Show that allegedly infringing mark is a "counterfeit."⁸⁰

⁷⁵ See *Alameda Films S A De C V v. Authors Rights Restoration Corp.*, 331 F.3d 472, 485 (5th Cir. 2003); *Taco Cabana Int'l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1128 (5th Cir. 1991); *Appraisal Inst. v. Gallagher*, 2003 U.S. Dist. LEXIS 4354, at *14 (N.D. Tex. Mar. 20, 2003); *Quizno's Corp. v. Makda*, 2003 U.S. Dist. LEXIS 1170, at *5 (N.D. Tex. Jan. 23, 2003); *Healthpoint, Ltd. v. Ethex Corp.*, 2002 U.S. Dist. LEXIS 26858, at *12 (W.D. Tex. 2002); *ErgoBilt, Inc. v. Neutral Posture Ergonomics, Inc.*, 2002 U.S. Dist. LEXIS 12459, at *24 (N.D. Tex. July 9, 2002); *Baylor Univ. v. Int'l Star, Inc.*, 2001 U.S. Dist. LEXIS 23678, at *3 (W.D. Tex. Nov. 6, 2001); *Auto Wax Co. v. Mark V Prods., Inc.*, 2001 U.S. Dist. LEXIS 15029, at *7-*8 (N.D. Tex. Sept. 20, 2001); *Rolex Watch U.S.A., Inc. v. Meece*, 2000 U.S. Dist. LEXIS 20583, at *14 (N.D. Tex. Jan. 25, 2000); *Polo Ralph Lauren L.P. v. Schuman*, 46 U.S.P.Q.2d 1046, 1998 U.S. Dist. LEXIS 5907, at *15 (S.D. Tex. 1998); *Neles-Jamesbury, Inc. v. Bill's Valves*, 974 F. Supp. 979, 984 (S.D. Tex. 1997); *Interstate Battery Sys., Inc. v. Wright*, 811 F. Supp. 237, 246 n.7 (N.D. Tex. 1993); *Joy Mfg. Co. v. CGM Valve & Gauge Co.*, 730 F. Supp. 1387, 1395 (S.D. Tex. 1989); *CPC Int'l, Inc. v. Albury Sales Co.*, 504 F. Supp. 549, 551 (S.D. Fla. 1980); *Holiday Inns, Inc. v. Airport Holiday Corp.*, 493 F. Supp. 1025, 1028 (N.D. Tex. 1980), *aff'd*, 683 F.2d 931 (5th Cir. 1982); *Clairol, Inc. v. Save-Way Industries, Inc.*, 211 U.S.P.Q. 223, 1980 U.S. Dist. LEXIS 16914, at *1 (S.D. Fla. 1980).

⁷⁶ *Alameda Films S A De C V v. Authors Rights Restoration Corp.*, 331 F.3d 472, 482 (5th Cir. 2003).

⁷⁷ *Id.* at 482-83.

⁷⁸ 2002 U.S. Dist. LEXIS 26858, *10-*11 (W.D. Tex. 2002).

⁷⁹ See generally 15 U.S.C. § 1116(d); *Waco Int'l, Inc. v. KHK Scaffolding Houston, Inc.*, 278 F.3d 523, 531 (5th Cir. 2002); *Martin's Herend Imports v. Diamond & Gem Trading*, 112 F.3d 1296, 1306 (5th Cir. 1997) (both warning that ex parte seizure can be wrongful even if the defendant has committed acts of infringement).

⁸⁰ See 15 U.S.C. § 1127 (defining a "counterfeit" as "a spurious mark which is identical with, or substantially indistinguishable from, a registered mark").

3. Provide security determined adequate by court.
4. Show that no other order would be adequate and that immediate and irreparable injury will occur if the seizure is not ordered.
5. Show that applicant has not publicized the requested seizure.
6. Show that applicant is likely to succeed that accused used a counterfeit.
7. Show that denial of the application would harm the applicant more than the seizure would harm the legitimate interests of the accused.
8. That accused would likely destroy, move, or hide articles if applicant were to proceed on notice to the person.

N. **Destruction of infringing articles.** See generally 15 U.S.C. § 1118.

II. Monetary remedies available to prevailing defendants under the Lanham Act

- A. **Appropriate relief for wrongful seizure.** In wrongful ex parte seizure cases, a defendant may recover “relief as may be appropriate,” including lost profits, cost of materials, loss of good will, punitive damages if bad faith shown, “and, unless the court finds extenuating circumstances, . . . a reasonable attorney’s fee.”⁸¹
- B. **Attorneys’ fees in exceptional cases.** In cases alleging section 43 violations, a prevailing defendant can, in “exceptional cases,” theoretically recover attorneys’ fees. But it has never happened in the Fifth Circuit, even though this provision has been around for over 25 years.
 1. The legislative history of section 35 of the Lanham Act shows that Congress intended for attorneys’ fees to be awarded “when equitable considerations justify such awards.”⁸² According to the Senate Report on the Lanham Act fee shifting provision, Congress intended the provision to, among other things, “provide protection against unfounded suits brought by trademark owners for harassment and the like.”⁸³
 2. Most circuits have held that exceptional circumstances other than bad faith can justify shifting fees in favor of the prevailing defendant. The Fifth Circuit specifically requires the defendant to prove that the plaintiff brought the action in “bad faith”⁸⁴ even though nothing in the legislative history supports this requirement.⁸⁵ But the

⁸¹ See generally 15 U.S.C. § 1116(d)(11); *Waco Int’l, Inc.*, 278 F.3d at 531 (“There is no support for the proposition that, in all cases, a wrongful seizure claimant must show bad faith.”).

⁸² S. Rep. No. 93-1400, at 2, reprinted in 1974 U.S.C.C.A.N. 7132, 7136-37 (quoted extensively in *Yankee Candle Co. v. Bridgewater Candle Co.*, 140 F. Supp. 2d 111, 121 (D. Mass. 2001)).

⁸³ *Id.*; see *Tamko Roofing Prods., Inc. v. Ideal Roofing Co.*, 294 F.3d 227, 231 (1st Cir. 2002) (whether a legal position is unfounded depends on whether the “arguments, while not strong, were respectable; were made in areas where the law of this circuit was unclear; and had some reason to them”).

⁸⁴ *Procter & Gamble*, 280 F.3d at 527-28 & n.12.

⁸⁵ *Scotch Whisky Ass’n v. Majestic Distilling Co.*, 958 F.2d 594, 600 (4th Cir. 1992) (“Notably absent in the [legislative history] discussion relating to fee awards to prevailing defendants is language suggesting a requirement of bad faith.”).

- Fifth Circuit has also held that “bad faith” is a shorthand for considering “all the facts and circumstances,” and instructed courts to consider the objective merits of the suit to determine whether the plaintiff brought a case in bad faith.⁸⁶
3. No prevailing defendant in the Fifth Circuit has ever recovered attorneys’ fees based on a finding that the case was exceptional. Two years ago, the Fifth Circuit reversed the only known judgment granting attorneys’ fees to a prevailing Lanham Act defendant under section 1117.⁸⁷ In at least four other cases, the Fifth Circuit has affirmed district court decisions refusing to award attorneys’ fees to a prevailing Lanham Act defendant.⁸⁸

⁸⁶ *Procter & Gamble*, 280 F.3d at 527; see also *Pebble Beach Co. v. Tour 18 I Ltd.*, 155 F.3d 526, 556 (5th Cir. 1998); *CJC Holdings, Inc. v. Wright & Lato, Inc.*, 979 F.2d 60, 65 (5th Cir. 1992).

⁸⁷ See *Procter & Gamble Co. v. Amway Corp.*, 280 F.3d 519, 526-28 (5th Cir. 2002).

⁸⁸ See, e.g., *Eppendorf-Netheler-Hinz GmbH v. Ritter GmbH*, 289 F.3d 351, 354, 358 (5th Cir. 2002); *Waco Int'l, Inc. v. KHK Scaffolding Houston, Inc.*, 278 F.3d 523, 536 (5th Cir. 2002); *Fuji Photo Film Co. v. Shinohara Shoji Kabushiki Kaisha*, 754 F.2d 591, 602 (5th Cir. 1985); *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 797 (5th Cir. 1983) (all affirming decisions that declined to award section 1117 attorneys’ fees to prevailing Lanham Act defendants).