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**FOCUS ON INTELLECTUAL PROPERTY ECONOMIC DAMAGES/
LOST PROFITS ANALYSES**



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COPYRIGHT AND TRADEMARK DAMAGES: ARE LARGER AWARDS ON THE HORIZON?

James D. Nguyen and Jeffrey Simmons

Historically, patent infringement litigation claims have outnumbered both copyright and trademark infringement litigation claims. Also, the magnitude of patent infringement awards has been greater than the magnitude of both copyright and trademark infringement awards. However, the volume of copyright and infringement claims seems to be on the increase. In addition, the level of copyright and trademark infringement awards seems to be increasing. This discussion explains the reasons why copyrights and trademarks are becoming increasingly important in this information age. And, this analyzes the trends in intellectual property infringement litigation and summarizes the trends in copyright and trademark damages awards.

INTRODUCTION

Intellectual property infringement lawsuits often make the news with reports of large damage awards for winning plaintiffs. Recently, the headlines with big damage awards tended to be dominated by patent infringement cases.

Some eye-popping examples of the high-stakes nature of patent litigation include:

1. the \$612 million settlement in 2006 between NTP (a patent holding company) and Research In Motion in the suit over Blackberry technology, and
2. a \$521 million jury verdict in 2003 against Microsoft for infringing an Internet browser patent (that award was later overturned on appeal).

In contrast, damage awards in copyright and trademark cases have received considerably less attention. But recent trends in the number of copyright and trademark infringement lawsuit filings, along with changes in federal law and in the business environment, suggest that larger damage awards in copyright and trademark cases may be on the horizon.

THE INCREASING IMPORTANCE OF COPYRIGHTS AND TRADEMARKS

Copyright, trademark, and patent law each protect distinct intellectual property interests. Patent law protects:

1. novel inventions, which can include physical goods, and
2. items that may be characterized as “ideas,” such as business methods and processes.

Copyright law, by contrast, does not protect ideas. Copyright law applies only to “original works of authorship,” such as books, movies, musical recordings, photographic images, and artistic works.¹ Trademark law protects words, names, symbols, and logos that serve as unique identifiers of the origin of products or services.²

The American economy continues to shift:

1. from one based on manufacturing to one based on services, and
2. from paper documents and brick-and-mortar businesses to electronic information and Internet retailers.

The speed of this shift in the American economy has become even more dramatic in the past ten years. This acceleration has occurred as the Internet and other digital media have come to dominate business and consumer life.³ This shift in the basic channels of industry has increased the importance of (1) copyright law and (2) trademark law as tools for protecting business assets.

The shift to a computer and service-based economy has increased the importance of copyright law in at least two ways. First, copyright law protects computer software

code, which is now integral to the operation of virtually every business. Second, computers, the Internet, and other emerging technologies make copying works so easy.

In fact, these technologies have exponentially increased the opportunities for both innocent and intentional copyright infringement. The recording industry's lawsuits against Napster and its file-sharing progeny highlight why enforcing copyrights in the digital age is so important for businesses.

Similarly, trademarks have become more important. This is because businesses selling services, which customers may value based on intangible perceptions of quality and prestige, need distinctive names and symbols to increase their appeal. One recent study reported that service sector businesses are the most frequent subjects of damage awards in trademark infringement lawsuits.⁴

In addition, the Internet has become a main engine for marketing and conducting business, especially with consumers. The mechanisms for searching and directing traffic to Internet web sites (such as use of Internet "key words" for searches) depend significantly on the fame of a company's trademarks.

This phenomenon has also made it easy for infringers to use a competitor's trademarks to misdirect consumers to their Web sites. And, this misdirection makes trademark disputes involving the Internet one of the fast-growing areas of intellectual property litigation.

INCREASED INTELLECTUAL PROPERTY LITIGATION

The increasing significance of copyrights and trademarks to businesses is reflected in the rising volume of copyright and trademark lawsuits filed during the last ten years.

The number of copyright cases increased by more than 150 percent, from 2,146 cases in 1996, to 5,394 cases in 2005.⁵ The number of trademark cases filed in U.S. federal court increased by 26 percent, from 2,907 cases to 3,668 cases over the same period.⁶ In fact, in 2004 and 2005, copyright and trademark lawsuits were far more common than patent suits.⁷

The above-cited statistics do not even reflect the number of trademark lawsuits in state courts across the United States. Unlike copyright, which is purely governed by federal law, trademark rights can be enforced in both federal and state courts.

While there is no empirical evidence available about why the number of lawsuits is increasing, the increase can likely be attributed to several factors. First, copyrights and trademarks are far easier to obtain than patent rights. Second, as discussed above, copyrights and trademarks have become more important to business success in the new economy.

Third and most practically, the costs of bringing copyright and trademark lawsuits, while not inexpensive, are relatively low compared to those for patent litigation.

According to a study by the American Intellectual Property Law Association, in 2005, the typical total cost of a patent suit ranged from (1) a low of \$650,000 for cases with less than \$1 million at risk, to (2) a high of \$4.5 million for cases with more than \$25 million at risk.

By contrast, the typical cost of a trademark suit with less than \$1 million at risk was \$300,000, and was \$1.25 million for cases with more than \$25 million at risk.

The costs of copyright cases were even lower, typically costing (1) a "mere" \$250,000 for cases involving less than \$1 million and (2) \$975,000 for cases with more than \$25 million at stake.⁸

AVAILABLE MONETARY AWARDS IN COPYRIGHT AND TRADEMARK CASES

The rewards of successful copyright and trademark litigation are potentially great. A variety of monetary damages are available to plaintiffs. Both copyright and trademark law allow successful plaintiffs to recover damages measured by any actual financial losses they have suffered as a result of the infringement, including lost profits.⁹

In addition, the Copyright Act permits plaintiffs to recover any profits the defendant earned as a result of the infringement, to the extent those profits exceed the plaintiff's own loss.¹⁰

Federal trademark law also permits the recovery of a defendant's profits. However, the awarding of such damages is more discretionary. The award of trademark damages depends in part on the perceived culpability of the defendant.¹¹

Federal copyright and trademark statutes also permit other awards of enhanced damages for particularly culpable defendants. In cases involving "willful infringement," the Copyright Act permits plaintiffs to recover up to \$150,000 for each work infringed.¹² Federal trademark statutes gives courts the discretion to award triple a plaintiff's actual damages.¹³

In addition, federal law permits (but does not require) courts in both copyright and trademark cases to award (in certain circumstances) winning plaintiffs their attorneys fees incurred to bring the lawsuit.

One form of damages awarded in copyright cases merits special attention. The Copyright Act permits a successful plaintiff to choose an award of "statutory damages" in lieu of (1) actual damages or (2) the defendant's profits.¹⁴

Statutory damages can be especially important in cases where a plaintiff's losses or a defendant's profits are small or difficult to quantify.

The amount of statutory damages permitted under the Copyright Act has increased considerably over the last 30 years. In 1978, the Copyright Act capped maximum statutory damages at \$10,000.¹⁵ In 1989, Congress increased that maximum to \$20,000, and the amount was increased again to \$30,000 in 1999.¹⁶

The limits on statutory damages are even higher in cases where the copyright infringement is proven to be willful. The limits on statutory damages for willful infringement increased during the same above-mentioned period from \$50,000 to \$100,000 and, finally, to the current \$150,000.¹⁷

A plaintiff can receive an award of statutory damages for each work infringed.¹⁸ While the maximum statutory damage number may appear small in comparison to the typical cost of a copyright suit, statutory damages can add up to tremendous sums. This is true if a defendant has infringed numerous works. This is especially true if the infringement is willful.

This multiplying effect often happens in cases involving musical recordings or photographs. In these cases, dozens, if not hundreds and thousands, of individual works may be implicated.

The growth of Internet and computer-related businesses in the economy may contribute to increasing damage awards in at least two ways.

First, under both copyright and trademark law, one way to measure a plaintiff's losses from infringement is to determine what a reasonable royalty would be for the rights used by the defendant. This calculation assumes that the defendant properly obtained a license in the first place.

Such implied royalty rates are often calculated based on evidence of the actual royalty rates that businesses pay in the marketplace to obtain similar rights. Recent data shows that average royalty rates in all segments of the economy have been increasing steadily, from 6 percent in 2001, to 6.7 percent in 2005.¹⁹

More significantly, average royalty rates are highest in Internet and software industries, with average royalty rates of 12.9 percent and 11.8 percent, respectively.²⁰ Because software and Internet cases look to be an increasing share of the copyright and trademark case load, higher damage awards can be expected to follow.

Second, the sheer magnitude of the infringements enabled by the Internet and digital technologies will necessarily result in tremendous damage awards. Recent verdicts and settlements illustrate this fact.

DAMAGES AWARDS IN RECENT JUDICIAL DECISIONS

In copyright infringement, music recording cases lead the pack when it comes to damage awards. In *Atlantic Recording v. Media Group*,²¹ a group of 23 recording companies won a whopping \$136 million in damages for copyright infringement.²² The companies had sued a Taiwanese company for selling CDs containing pirated copies of more than 1,500 songs.²³ Utilizing the statutory damage and willful infringement provisions of the Copyright Act, a Los Angeles jury awarded an average of \$90,000 for each separate recording infringed.²⁴

Another recording industry case, *UMG Recordings v. MP3.com*,²⁵ yielded similar results. The defendant in that case offered a service that permitted subscribers to listen to CDs from any place with an Internet connection.²⁶ The flaw in the defendant's business plan, however, was that it illegally copied "tens of thousands" of CDs onto its servers so that its subscribers could replay them.²⁷

In the *UMG Recordings* case, the court awarded statutory damages of \$25,000 per CD infringed. The parties settled the case for approximately \$53 million—before the court had a chance to determine the total number of CDs infringed.²⁸ The potential total damages in the case were estimated to be as high as \$250 million.²⁹

But the recording industry does not have a monopoly on large copyright damage awards, as financial services giant Legg Mason discovered in *Lowry's Reports, Inc. v. Legg Mason, Inc.*³⁰ The plaintiff in the case published daily and weekly newsletters containing analyses of the stock market.³¹

Only one employee of Legg Mason had a subscription to the newsletter. However, she posted each issue of the newsletter on the company's firm-wide intranet for several years and, later, e-mailed it to other employees.³²

In *Lowry's Reports, Inc.*, the court found that Legg Mason employees had accessed or downloaded copies of the newsletter more than 16,000 times.³³ The plaintiff received an award of approximately \$19.7 million in damages.³⁴

In the trademark arena, the Internet has similarly helped to generate some of the largest recent damage awards in trademark infringement cases. In *Phillip Morris USA v. Otamedia, Ltd.*,³⁵ the American cigarette manufacturer brought trademark infringement claims against a Switzerland-based Internet retailer of cigarettes.

The court awarded Phillip Morris the estimated profits that the defendant had earned on its infringing sales, which amounted to more than \$57 million.³⁶ In addition, the court tripled those damages—for a total award of more than \$171 million. This is because the court found that the defendant's infringement had been willful.³⁷

Qwest Communications obtained a similarly impressive award in *Qwest Communications International v. OneQwest, LLC*.³⁸ Qwest brought trademark infringement claims against an Internet retailer offering telecommunications services in the form of "memberships." The Internet retailer sold these memberships for \$1,300 a piece.³⁹ The defendant had managed to sell 90,000 of those memberships.⁴⁰

Finding that the defendant's use of the "OneQwest" name placed Qwest's reputation and goodwill "clearly in danger," the trial judge awarded Qwest the full amount of revenue earned on the memberships. In *Qwest Communications International*, the court ordered a total damage award of \$117 million.⁴¹

SUMMARY AND CONCLUSION

As the foregoing cases show, the Internet has compounded the scope of infringement—and thus increased the range of damage awards. It remains to be seen whether these anecdotal examples will turn into a long-term trend of increased damage awards in copyright and trademark cases.

Copyright and trademark litigation may never fully rival patent lawsuits in sheer dollar awards. However, copyright and trademark lawsuits will make even bigger headlines—as the engines of business migrate to the Internet and other digital technologies.

Notes:

1. 17 U.S.C. § 102.
2. 15 U.S.C. § 1127.
3. See generally U.S. Department of Commerce, Economics and Statistics Administration, *Digital Economy 2003* (December 2003), available at www.esa.doc.gov.
4. PriceWaterhouseCoopers, *2006 Patent and Trademark Damages Study*, pp. 17-18, available at www.pwc.com.
5. Based on information contained on the Administrative Office of the U.S. Courts' Public Access to Court Electronic Records (PACER) database, at <http://pacer.uspci.uscourts.gov>.
6. *Ibid.*
7. *Ibid.*
8. *AIPLA Report of the Economic Survey 2005* (Arlington, VA: American Intellectual Property Law Association, 2005), p. 22.
9. 17 U.S.C. § 504; 15 U.S.C. § 1117(a).
10. 17 U.S.C. § 504(b).
11. 15 U.S.C. § 1117(a); 5 J. Thomas McCarthy, *McCarthy on Trademarks* (4th ed. 2006) § 30:89.
12. 17 U.S.C. § 504(c).
13. 15 U.S.C. § 1117(a).
14. 17 U.S.C. § 504(c).
15. 4 Melville B. Nimmer and David Nimmer, *Nimmer on Copyright*, § 14.04[B][1] (2005).
16. *Ibid.*
17. 15 U.S.C. § 504(c).
18. *Ibid.*
19. Alan Ratliff, *Selected Recent Developments in Intellectual Asset and IP Damages Litigation* (Houston: Stoneturn Group, 2006), p. 15.
20. *Ibid.*
21. Case No. 00-CV-6122 (C.D. Cal. 2002).
22. "Litigation Week: Verdicts and Settlements, Copyright," 26 *National Law Journal* (November 4, 2002), p. B2.
23. *Ibid.*
24. "California Jury Verdicts Soar in 2002," *The Recorder* (July 7, 2003).
25. 2000 U.S. Dist. LEXIS 5761 (S.D.N.Y. 2000).
26. *Ibid.*
27. *Ibid.*
28. "Corporate Brief: IP Roundup: Recent Items of Interest," 23 *National Law Journal*, p. B11.
29. Michael Landau, "Statutory Damages' in Copyright Law and the MP3.com Case," available at www.gigalaw.com.
30. Case No. WDQ-01-3898 (D. Md. 2003).
31. *Ibid.*, see Judge William J. Quarles' July 10, 2003 Memorandum and Order, p. 3.
32. *Ibid.*, p. 5.
33. *Ibid.*, p. 10.
34. "Top Verdicts of 2003," 26 *National Law Journal* (February 9, 2004), p. S1.
35. *Phillip Morris USA, Inc. v. Otamedia Ltd.*, No. 02-Civ. 7575, 2005 U.S. Dist. LEXIS 1259 (S.D.N.Y. January 28, 2005).
36. *Ibid.*
37. *Ibid.*
38. *Qwest Communications International v. OneQwest, LLC*, No. 002-829R, 2002 U.S. Dist. LEXIS 25469 (W.D. Wash. Nov. 11, 2002).
39. *Ibid.*
40. *Ibid.*
41. *Ibid.*

James Nguyen is a partner in the Los Angeles office of national law firm Foley & Lardner LLP. He co-leads the firm's Trademark and Copyright litigation team and Entertainment and Media industry team. Mr. Nguyen can be reached at jnguyen@foley.com.

Jeffrey Simmons is senior counsel in Foley & Lardner's Madison, Wisconsin, office. He is a member of the firm's intellectual property litigation group. He can be reached at jsimmons@foley.com.

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