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# Fault Lines in Trademark Default Judgments

David S. Welkowitz

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## FAULT LINES IN TRADEMARK DEFAULT JUDGMENTS

*David S. Welkowitz\**

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\* Professor of Law, Whittier Law School. A.B. Princeton University; J.D. New York University. I would like to thank the attendees at the 2013 Intellectual Property Scholars Conference held at Cardozo Law School—especially Prof. Laura Heymann, and also the attendees at the 2014 Works in Progress Intellectual Property Conference at Santa Clara Law School, for their helpful comments on earlier drafts of this Article. I would also like to thank my research assistant, Nafisa Khwaja, for her excellent assistance. Any errors or omissions are, of course, my responsibility.

Imagine that you receive in the mail an envelope from a law firm. Inside is (what we in the legal profession know as) a summons and complaint and a form to be signed and returned acknowledging “service” of these papers. The complaint accuses you of some kind of infringement and/or dilution of a trademark or perhaps cybersquatting if you registered an internet domain name or domain names. The relatively lengthy document you have received accuses you of “willfully and maliciously” violating the law and asks for an injunction and damages in the hundreds of thousands, or even millions of dollars. It also asks that you be made to pay “costs, and reasonable attorneys’ fees” in an unspecified amount. Now, you don’t have hundreds of thousands of dollars, let alone millions. You don’t know any attorneys, except your second cousin in Poughkeepsie.<sup>1</sup> And, after reading the complaint, you realize that at least some of it is true—you did do the basic things it says you did (sold certain merchandise, used a certain name for your store, products, or services, registered a particular domain name or domain names), although you do not believe that you acted “willfully and maliciously.” Given all of that, you might think it is just junk mail, a joke, or something else you should ignore.<sup>2</sup> Or you ignore it because you don’t know what else to do. If you wait long enough, the sender likely will act—they will obtain an entry of default from the clerk of the court,<sup>3</sup> and will follow it up with a motion for a default judgment.<sup>4</sup> At that time, the court would find that you did “willfully and maliciously” infringe and could award substantial damages. For cybersquatting, for example, the law allows damages of \$1,000 to \$100,000 per domain name that you registered, without any showing of actual damages.<sup>5</sup> In addition, you may be compelled to pay the plaintiff’s attorneys’ fees. The Lanham Act allows for awards of

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<sup>1</sup> I mean no disrespect to Poughkeepsie—it’s just a literary device!

<sup>2</sup> For an actual narrative, albeit in a copyright case, see *Achte/Neunte Boll Kino Beteiligungs GmbH & Co. KG v. Plebaniak*, No. 11-10268-PBS, 2013 WL 1342321 (D. Mass. Mar. 18, 2013). Defendant, moving to set aside a default judgment, claimed that he thought letters demanding a settlement payment “were a ‘scam,’” and that was why he did not respond to them or the complaint. *Id.* at \*3. Although the court denied the motion (partly because it viewed the motion as untimely), the story is not entirely implausible.

<sup>3</sup> See FED. R. CIV. P. 55(a). If you did not sign and return the acknowledgement of service, you would be “served” in a more formal way, either by hand delivery or by some other method, perhaps including mail. See FED. R. CIV. P. 4(d) (waiver of service); FED. R. CIV. P. 4(e), F.R.C.P. (service on an individual).

<sup>4</sup> You may or may not receive notice of the motion, see FED. R. CIV. P. 55(b)(2).

<sup>5</sup> Lanham Act § 35(d), 15 U.S.C. § 1117(d) (2012). See also *id.* § 1117(c) (for counterfeit trademarks, statutory damages could be as high as \$2 million per “mark per type of goods” if the violation is willful; \$1,000 to \$200,000 if not).

attorneys' fees in "exceptional cases."<sup>6</sup> If the court finds your infringement to be "willful," it may conclude that the case is "exceptional."<sup>7</sup>

This somewhat melodramatic narrative illustrates the general issue I propose to address. Many trademark cases end with default judgments. Because of the rules regarding defaults, allegations of willful conduct often are accepted with little concrete evidence. Moreover, courts often find willfulness and an exceptional case based on the default itself.<sup>8</sup> Although default judgments serve valid purposes, both in trademark law and in litigation generally, the easy finding of willfulness, which greatly enhances potential liability, should be exercised with caution. This Article examines findings of willfulness and exceptionality in default cases in trademark law—and, for comparison, in some copyright and patent cases. The Article expresses skepticism about the process of making such findings in many cases, as well as about the disuniformity of such findings. Thereafter, I propose some process guidelines for default cases to properly balance the right of a trademark owner to an appropriate recovery against the right of a defendant to not be harshly treated for the mere act of defaulting. I also make some general observations about the manner in which courts decide these cases.

### I. DEFAULTS AND DEFAULT JUDGMENTS

Procedurally, default judgments in federal court are governed by Rule 55.<sup>9</sup> Under Rule 55(a), if a defending party "fail[s] to plead or otherwise defend"<sup>10</sup> the clerk must enter a default.<sup>11</sup> This is not a judgment. Judgments are

<sup>6</sup> *Id.* § 35(a), 15 U.S.C. § 1117(a).

<sup>7</sup> *E.g.*, *Suzuki Motor Corp. v. Juijiang Hison Motor Boat Co.*, No. 1:12-Civ.-20626, 2012 WL 2873733, at \*14 (S.D. Fla. June 29, 2012).

<sup>8</sup> *Id.*; *eAdgear, Inc. v. Liu*, No. Civ.-11-05398 JCS, 2012 WL 2367805, at \*19 (N.D. Cal. June 21, 2012); *Coach, Inc. v. McMeins*, No. 11 Civ. 3574 BSJJCF, 2012 WL 1071269, at \*4 (S.D.N.Y. Mar. 9, 2012) (awarding \$800,000 damages).

<sup>9</sup> FED. R. CIV. P. 55. Rule 37 also permits the entry of a default judgment if a party disobeys discovery orders. *Id.* at 37(b)(2)(vi). In those cases, the disobedient party has appeared, usually with an attorney, would have notice, and a default judgment would not raise all of the issues discussed here. The issue of statutory damages, if relevant, and the wide range and discretion afforded courts, would apply equally in such cases.

<sup>10</sup> The phrase "otherwise defend" is not very limiting. Potentially, a very wide range of activity, or inactivity, could fall into that phrase. See Sean T.H. Dutton, *Rule 55 At Trial: The Default Rule is Not Always Best*, 62 DEPAUL L. REV. 159, 160 (2012) (critiquing case law in some circuits that permits default judgments to be entered when a party fails to appear for trial). The focus of this Article is on cases where a party fails to plead—i.e., does not answer the complaint.

<sup>11</sup> FED. R. CIV. P. 55(a).

governed by Rule 55(b); a clerk may only enter a judgment “for a sum certain.”<sup>12</sup> Otherwise, a motion must be made to the court for a default judgment.<sup>13</sup> The court has discretion about the entry of the judgment and the relief granted,<sup>14</sup> although it is limited to the kind of relief requested by the complaint and it cannot award more than the amount requested in the complaint.<sup>15</sup> The defendant is only required to receive notice of the hearing on the motion for a default judgment if he or she “has appeared personally or by a representative.”<sup>16</sup> Appellate courts have set forth various factors to guide district judges when deciding whether to enter default judgments.<sup>17</sup> Moreover, judges will accept the “well pleaded” allegations of the complaint as true—conclusory allegations that would not suffice to raise plausible factual claims need not be accepted.<sup>18</sup> Although courts frequently hold hearings before awarding damages, a court may decide the issue on the motion papers.<sup>19</sup>

## II. WILLFULNESS AND THE LANHAM ACT

The Lanham Act uses the term “willful” in a number of places, although not as an element of a trademark infringement claim. Trademark infringement does not require fault or bad faith; demonstrating willful conduct is not necessary to obtain an injunction.<sup>20</sup> An injunction is the most common form of relief for

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<sup>12</sup> *Id.* § 55(b)(1).

<sup>13</sup> *Id.* § 55(b)(2).

<sup>14</sup> *See, e.g.,* Coach, Inc. v. Ocean Point Gifts, No. 09-4215, 2010 U.S. Dist. LEXIS 59003, at \*14 (D.N.J. June 14, 2010). *See also* Aldabe v. Aldabe, 616 F.2d 1089, 1092 (9th Cir. 1980) (noting that district court has discretion about whether to enter default judgment).

<sup>15</sup> FED. R. CIV. P. 54(c). *See* Levi Strauss & Co. v. Toyo Enter. Co., 665 F. Supp. 2d 1084, 1092 (N.D. Cal. 2009).

<sup>16</sup> FED. R. CIV. P. 55(b)(2). If so, then seven days notice is required. *Id.*

<sup>17</sup> *See, e.g.,* Eitel v. McCool, 782 F.2d 1470, 1471–72 (9th Cir. 1986) (listing seven factors: “(1) the possibility of prejudice to the plaintiff, (2) the merits of plaintiff’s substantive claim, (3) the sufficiency of the complaint, (4) the sum of money at stake in the action; (5) the possibility of a dispute concerning material facts; (6) whether the default was due to excusable neglect, and (7) the strong policy underlying the Federal Rules of Civil Procedure favoring decisions on the merits.”).

<sup>18</sup> *E.g.,* Century 21 Real Estate, LLC v. Bercosa Corp., 666 F. Supp. 2d 274, 280–81 (E.D.N.Y. 2009); *Levi Strauss & Co.*, 665 F. Supp. 2d 1084, 1097–98 (only an injunction sought).

<sup>19</sup> *E.g.,* Transatlantic Marine Claims Agency v. Ace Shipping Corp., 109 F.3d 105, 111 (2d Cir. 1997).

<sup>20</sup> *See* J.T. MCCARTHY, MCCARTHY ON TRADEMARK AND UNFAIR COMPETITION (4th ed. 2014) (intent not an element of trademark infringement). However, intent to confuse is not generally considered irrelevant to the analysis of infringement. *See* Barton Beebe, *An Empirical Study of the Multifactor Tests for Trademark Infringement*, 94 CAL. L. REV. 1581, 1589–90 (2006) (noting that all

trademark infringement,<sup>21</sup> and default judgments commonly include such relief.<sup>22</sup> “Willful” conduct is used instead to enhance the relief available to successful litigants beyond an injunction. Monetary relief generally is governed by Section 35 of the Lanham Act,<sup>23</sup> and it is this form of relief for which willfulness is most relevant. Sometimes willfulness is judicially inserted into the analysis even if the statute does not require it, while in other cases the statute specifically refers to “willful” activity. Section 35(a) allows plaintiffs to recover actual damages and/or defendant’s profits. Actual damages sustained by plaintiff do not ordinarily require proof of willfulness.<sup>24</sup> However, some circuits require a showing of willfulness if defendant’s profits are to be recovered.<sup>25</sup> In addition, Section 35(a) allows the court to enhance the damages—up to three times actual damages or whatever amount is “just” if profits are an inadequate measure. Courts tend to use willfulness as a factor in deciding whether to enhance the damages even though the statute bars using enhancement as a penalty.<sup>26</sup> The sole mention of willfulness in Section 35(a) is in reference to dilution; Section 35(a) applies only to “a willful violation under section 1125(c) of this title” (i.e., Section 43(c)).<sup>27</sup> Section 43(c), the dilution provision of the Lanham Act, contains a very curious reference to willfulness. Under Section 43(c)(5), damages in dilution cases are only available if defendant “willfully intended to trade on the recognition of the famous mark” or “willfully

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circuits but one include defendant’s intent in their multifactor test); *id.* at 1608–09, 1626–31 (showing that existence of intent is highly correlated to plaintiff winning an infringement suit).

<sup>21</sup> 15 U.S.C. § 1116(a) (2012).

<sup>22</sup> *E.g.*, *Entrepreneur Media, Inc. v. JMD Entm’t Grp., LLC*, 958 F. Supp. 2d 588, 596 (D. Md. 2013).

<sup>23</sup> 15 U.S.C. § 1117 (2012).

<sup>24</sup> Actual damages are provided by § 35(a)(2), 15 U.S.C. § 1117(a)(2) (2012). As discussed below, the one exception to this statement is where the relief is granted pursuant to the federal dilution statute, which is § 43(c) of the Lanham Act. Damages for dilution require a showing of willful conduct.

<sup>25</sup> *McCARTHY*, *supra* note 20, § 30:62 (discussing the approaches of the different circuits). *See* Lanham Act § 35(a)(1), 15 U.S.C. § 1117(a)(1). *See also* *Purepacha Enters. v. El Matador Spices & Dry Chilies*, No. 11c 2569, 2013 U.S. Dist. LEXIS 94522, at \*5–6 (N.D. Ill. July 8, 2013) (noting that a default supports an award of defendant’s profits).

<sup>26</sup> “Such sum in either of the above circumstances shall constitute compensation and not a penalty.” Lanham Act § 35(a), 15 U.S.C. § 1117(a). *See, e.g.*, *Taco Cabana Int’l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1127 (5th Cir. 1991) (holding willfulness relevant to enhancement but may not be punitive), *aff’d on other grounds*, 505 U.S. 763 (1992); *La Quinta Corp. v. Heartland Properties, LLC*, 603 F.3d 327, 345 (6th Cir. 2010).

<sup>27</sup> 15 U.S.C. § 1117(a).

intended to harm the reputation of the famous mark.”<sup>28</sup> This seeming redundancy of “willful” and “intent” is not explained.

For specific types of infringement, Section 35 contains statutory damage provisions (i.e., provisions allowing damage awards without any actual proof of harm) and additional enhanced damage provisions. One such situation involves counterfeit marks.<sup>29</sup> Section 35(b) requires a trebling of damages or profits for a knowing use of a counterfeit mark.<sup>30</sup> If actual damages or defendant’s profits cannot be shown—a real possibility if defendant does not appear—then Section 35(c) provides statutory damages for the use of counterfeit marks. Section 35(c)(1) gives a very wide range: \$1,000 to \$200,000 per mark per type of goods sold “as the court considers just.”<sup>31</sup> The ceiling increases from \$200,000 to \$2 million “if the court finds that the use of the counterfeit mark was willful.”<sup>32</sup>

If defendant violates the anti-cybersquatting provisions of Section 43(d)(1), then statutory damages are available under Section 35(d). The permissible amounts range from \$1,000 to \$100,000 per domain name;<sup>33</sup> although not specified in the statute, courts use willfulness as a factor in determining what amount is “just.”<sup>34</sup>

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<sup>28</sup> *Id.* § 1125(c)(5)(B).

<sup>29</sup> *Id.* § 1127 (a counterfeit mark is “a spurious mark which is identical with, or substantially indistinguishable from [another’s registered trademark]”); *id.* (definition of “counterfeit”); *id.* § 1116(d)(1)(B)(ii) (also defining counterfeit). The definition only applies to *registered* marks.

<sup>30</sup> § 35(b)(1), 15 U.S.C. § 1117(b)(1). *But cf.* Purepacha Enters. Inc. v. El Matador Spices & Dry Chiles, 2013 U.S. Dist. LEXIS 94522, at \*12 (N.D. Ill. July 8, 2013) (trebling damages is up to the court’s discretion). Sometimes courts seem to overlook a key word in this provision: counterfeit. Hockey Club of the Ohio Valley, LLC v. Eagle Mktg. Group, L.L.C., 2013 WL 6524719, at \*3–4 (N.D. W. Va. Dec. 12, 2013) (in this case, there appears to be a counterfeit mark, but the court did not mention this when discussing this provision).

<sup>31</sup> 15 U.S.C. § 1117(c)(1).

<sup>32</sup> *Id.* § 1117(c)(2). There are courts that seem to have lost sight of the Lanham Act definition of “counterfeit,” which makes a finding on a default even more problematic. Lane Crawford LLC v. Kelex Trading (CA) Inc., 2013 WL 6481354, at \*2 n.5 (S.D.N.Y. Dec. 3, 2013) (citing cases which did not appear to require an “identical or substantially indistinguishable” mark).

<sup>33</sup> 15 U.S.C. § 1117(d).

<sup>34</sup> *E.g.*, eAdGear, Inc. v. Liu, 2012 WL 2367805, at \*18 (N.D. Cal. June 21, 2012). *But cf.* Facebook, Inc. v. Banana Ads LLC, 2013 WL 1873289, at \*19 (N.D. Cal. Apr. 30, 2013) (distinguishing *eAdGear*, stating that typosquatting is not as egregious as other forms of cybersquatting, and awarding statutory damages in amounts ranging from \$5,000 to \$25,000 per domain name, depending on the number of domains registered and “repeated cybersquatting”). Like § 35(c), § 35(d) contains the phrase “as the court considers just.” Section 35(e) creates a rebuttable presumption of willfulness—applicable to all of § 35—if the defendant knowingly gives false contact information when registering or renewing a domain name. 15 U.S.C.

Finally, Section 35(a) permits an award of attorneys' fees "in exceptional cases."<sup>35</sup> The determination of exceptionalism involves several factors, but willful infringement is one of the key factors.<sup>36</sup> There has been some disagreement about whether electing statutory damages under Section 35(c) (for counterfeits) precludes an award of attorneys' fees under Section 35(a).<sup>37</sup> The Second Circuit has ruled that a plaintiff may be awarded both statutory damages and attorneys' fees.<sup>38</sup>

Thus, willfulness is an important aspect of trademark remedies, though not of liability in general. But all of these statutory provisions lack a crucial feature—a definition of "willful." Is it any intentional conduct? That seems too broad. It would turn almost any infringement suit into a willful infringement, since defendants normally intend their own actions. Perhaps it is conduct that reveals that the actor has knowledge of (or at least is reckless in disregard of) the fact that one's conduct violates the law? If the latter, then a mere allegation of "willful" conduct in a complaint hardly demonstrates, without more, that a defendant not only acted intentionally, but also with knowledge of the act's illegality. One court stated that "[w]illfulness requires a connection between the defendant's awareness of its competitors and the defendant's actions at those competitors' expense."<sup>39</sup> Another court stated that "willfulness required for a disgorgement award is the 'intent to benefit from the goodwill or reputation of the trademark holder.'"<sup>40</sup> Neither of these seem to require that defendant know that its actions are infringing, and the latter formulation omits any reference to confusion. These distinctions may not appear critical to the analysis, but in the case of counterfeits it can make a

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§ 1117(e). However, unlike § 35(c) (or copyright's 17 U.S.C. § 504(c)), § 35(d) does not contain any specific damage enhancement for a willful violation of the anticybersquatting statute.

<sup>35</sup> 15 U.S.C. § 1117(a).

<sup>36</sup> *Louis Vuitton Malletier, S.A. v. LY USA, Inc.*, 676 F.3d 83, 108–09 (2d Cir. 2012) (holding bad faith or willfulness is a requirement for attorneys' fees). *Accord*, *Mister Softee of Brooklyn, Inc. v. Boula Vending Inc.*, 484 F. App'x 623, 624 (2d Cir. 2012) (upholding denial of fees).

<sup>37</sup> See *Louis Vuitton Malletier, S.A.*, 676 F.3d at 106–07 (citing cases). The Ninth Circuit declined to rule on the issue in a case holding that electing Section 35(c) damages precluded an automatic award of attorneys' fees under Section 35(b). *K & N Eng'g v. Bulat*, 510 F.3d 1079, 1082 & n.5 (9th Cir. 2007).

<sup>38</sup> *Louis Vuitton Malletier S.A.*, 676 F.3d at 108–11. Presumably, this holding would apply equally to claims for cybersquatting, where statutory damages are sought under Section 35(d).

<sup>39</sup> *Coach, Inc. v. Sexy Fashion*, No. Civ. 12-05713 RSWL (SSx), 2013 WL 3233393, at \*2 (C.D. Cal. June 25, 2013).

<sup>40</sup> *Klein-Becker USA, LLC v. Englert*, 711 F.3d 1153, 1162 (10th Cir. 2013), quoting *W. Diversified Servs., Inc. v. Hyundai Motor Am., Inc.*, 427 F.3d 1269, 1273–74 (10th Cir. 2005).

significant difference. One may knowingly sell counterfeits without any intent to confuse customers (as does a web site called [goodcounterfeitsgalore.com](http://goodcounterfeitsgalore.com)<sup>41</sup>).

Some courts are more careful about defining willfulness. In *Ashland v. Randolph*,<sup>42</sup> the court said that “[W]illfulness’ means *more than* simply that the act of infringement was done voluntarily and intentionally and not because of accident or other innocent reason.”<sup>43</sup> Although not a model of clarity, it appears the court is conveying the sense that the intent must be to violate the law, not just to do the act that is infringing.

If, as discussed below, the pleadings are a determining factor for willfulness, then we will need a better explication of the meaning of willfulness. To state a plausible claim of willful infringement should require facts, not simply a bare allegation of willful conduct.<sup>44</sup> To judge a pleading properly, especially in a default—where the pleading is the primary source of facts, we should have a common understanding of the key terms—particularly willfulness.

### III. DEFAULTS AND WILLFULNESS

Default judgments in trademark law are not uncommon, particularly in cases involving counterfeits or cybersquatting.<sup>45</sup> The crucial question is how courts analyze willfulness in default cases. The answer is that default judgments and

<sup>41</sup> See *Chanel, Inc. v. Dudum*, 2012 WL 5833562, at \*4 & n.5 (N.D. Cal. Oct. 29, 2012) (sellers told buyers that the goods were not genuine). A court might decide that this is evidence of an intent to cause post-sale confusion. *Id.* But that looks more like a rationalization for imposing a penalty for selling counterfeits than a thoughtful analysis of the statute.

<sup>42</sup> No. 3:13-21768, 2013 WL 5777172 (S.D. W. Va. Oct. 25, 2013).

<sup>43</sup> *Id.* at \*5 (quoting *In re Outsidewall Tire Litig.*, 748 F. Supp. 2d 557, 562 (E.D. Va. 2010) (emphasis added)).

<sup>44</sup> *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009) (bare conclusions not sufficient to satisfy Rule 8). Although FED. R. CIV. P. 9(b), allows intent to be pleaded generally, *Iqbal* seems to require that there be sufficient facts from which to draw an inference of willfulness.

<sup>45</sup> The numbers appear to have increased significantly over the last ten years. A Westlaw search of (lanham or trademark) /p “default judgment” in the ALLFEDS database, with yearly date restrictions, yielded only 18 results in 2005 (not all of which were actually default judgments). In 2006, the search yielded 51 results, in 2008, 103 results, and in 2011, 159 results. In 2013 there were 128 results, and, as of the end of February, 2014, there were 22 results for 2014. I should note that the same search on Lexis produces a different number of results. For example, in 2005, Lexis reports thirty-five results, not eighteen. For the numerical comparisons among different years, I have used Westlaw results in this paper, recognizing that there will be discrepancies in the data. However, some of the cases discussed here are only available on Lexis. It should be further noted that some of the search results are not pertinent and many of the cases show up twice in the results—once when a magistrate judge issues a recommendation, and again when the district judge is asked to confirm (or modify) that recommendation.

findings of willfulness almost go hand in hand in trademark cases. Moreover, courts reach these results without requiring much, if any, proof from the plaintiff on this issue. They use two precepts, either singly or in combination. First, many complaints allege that the defendant acted willfully. Courts frequently find that by defaulting defendant has admitted the allegations of willful conduct.<sup>46</sup> Second, courts often state that willfulness may be inferred from the act of defaulting.<sup>47</sup> This is particularly true in cases alleging trademark counterfeiting. As an example, consider *Coach, Inc. v. McMeins*.<sup>48</sup> The complaint alleged that defendant sold counterfeit Coach merchandise through a website.<sup>49</sup> Coach purchased one item for \$74.98 (which the website stated had a retail value of \$259.95), which Coach determined was counterfeit.<sup>50</sup> The court recited a statement often repeated in default cases: “[f]ollowing a default, all factual allegations of the complaint, except those relating to damages, must be accepted as true.”<sup>51</sup> The court then found that Coach’s allegations sufficiently demonstrated ownership of a valid mark and likelihood of confusion.<sup>52</sup> Subsequently, the court stated that “the defendant’s failure to appear and defend permits an inference that he was willful in infringing upon the trademarks,”<sup>53</sup> and that therefore “an award of statutory damages under § 1117(c)(2) is appropriate.”<sup>54</sup> Willfulness was further relevant in that a willful infringement permits a statutory award that includes “a punitive component to discourage further wrongdoing.”<sup>55</sup> Although there was no evidence introduced about defendant’s actual sales, the court posited that at \$259.95 retail, a sale of four thousand items would equal more than \$1 million.<sup>56</sup> The court awarded

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<sup>46</sup> *E.g.*, *American Automobile Ass’n v. Dickerson*, 2014 WL 234362, at \*3 (E.D. Mich. Jan. 22, 2014); *U.S.A. Famous Original Ray’s Licensing Corp.*, 2013 WL 5363777, at \*4 (S.D.N.Y. Sept. 26, 2013); *Rolex Watch U.S.A., Inc. v. Lynch*, 2013 WL 2897939, at \*5 (M.D. Fla. June 12, 2013).

<sup>47</sup> *E.g.*, *Coach, Inc. v. Sexy Fashion*, 2013 WL 3233393, at \*3 (C.D. Cal. June 25, 2013); *Coach, Inc. v. McMeins*, 2012 WL 1071269, at \*3 (S.D.N.Y. Mar. 9, 2012) (magistrate judge recommendation).

<sup>48</sup> No. 11 Civ. 3574 (BSJ) (JCF), 2012 WL 1071269 (S.D.N.Y. Mar. 9, 2012) (magistrate judge recommendation).

<sup>49</sup> *Id.* at \*1.

<sup>50</sup> *Id.* at \*2.

<sup>51</sup> *Id.* at \*3 (citations omitted).

<sup>52</sup> *Id.*

<sup>53</sup> *Id.* (citations omitted). *Accord*, *Petmed Express, Inc. v. Medpets.com*, 336 F. Supp. 2d 1213, 1220 (S.D. Fla. 2004).

<sup>54</sup> 2012 WL 1071269, at \*3.

<sup>55</sup> *Id.* (quoting *All-Star Mktg. Grp., LLC v. Media Brands Co.*, 775 F. Supp. 2d 613, 622 (S.D.N.Y. 2011)).

<sup>56</sup> *Id.* at \*4.

\$800,000 in statutory damages (representing \$200,000 per infringing mark), and again cited defendant's willfulness in support of a large award.<sup>57</sup>

A similar situation exists in cybersquatting cases. Although the statute does not mention willful conduct, courts consider it as a factor when determining statutory damages, and it is a prime factor when assessing requests for attorneys' fees. Thus, in *Wecosign, Inc. v. IFG Holdings, Inc.*,<sup>58</sup> the court entered a default judgment on various claims, including trademark infringement and cyberpiracy. On the latter claim, the court's statutory damage award included consideration of defendant's willfulness.<sup>59</sup> Furthermore, the court awarded attorneys' fees, stating that "Plaintiff *alleged* that Defendants' acts were 'willful and deliberate.'" <sup>60</sup>

Similarly, in *eAdgear, Inc. v. Liu*,<sup>61</sup> the court deemed defendant's acts to be willful by virtue of its default.<sup>62</sup> On the cybersquatting claim, the court awarded the maximum allowed, citing willfulness.<sup>63</sup> The court also awarded attorneys' fees, again finding willfulness based on default.<sup>64</sup>

In *Citigroup, Inc. v. Malik*,<sup>65</sup> the court found defaulting defendants liable for cybersquatting and, based on the finding of a bad faith intent to profit (a necessary element of cybersquatting under Section 43(d)), found the case to be "exceptional" and recommended an award of attorneys' fees.<sup>66</sup> In *Hertz Corp. v. Hertz Auto Transport*,<sup>67</sup> the court found defendants (all of whom defaulted) liable for infringement, dilution, and cybersquatting, and found the case exceptional, but without explanation in the reported opinion.<sup>68</sup>

In counterfeiting and cybersquatting cases, findings of willfulness are doubly penalized. First, where statutory damages are sought in counterfeiting cases, willfulness dramatically increases the size of the potential damages award.<sup>69</sup> As

<sup>57</sup> *Id.* See Philip Morris, USA, Inc. v. Escandon, No. Civ. S-05-1337 WBS DAD, 2005 U.S. Dist. LEXIS 26766, at \*6–12 (E.D. Cal. Nov. 4, 2005) (granting statutory damages and attorneys' fees).

<sup>58</sup> 845 F. Supp. 2d 1072 (C.D. Cal. 2012).

<sup>59</sup> *Id.* at 1086.

<sup>60</sup> *Id.* (emphasis added). *Accord*, CrossFit, Inc. v. Jenkins, 2014 WL 4706066, at \*8 (D. Colo. Sept. 22, 2014) (granting \$100,000 statutory damages).

<sup>61</sup> No. Civ.-11-05398JCS, 2012 WL 2367805 (N.D. Cal. June 21, 2012).

<sup>62</sup> *Id.* at \*19.

<sup>63</sup> *Id.*

<sup>64</sup> *Id.*

<sup>65</sup> No. 1:07Civ.1168, 2009 U.S. Dist. LEXIS 126676 (E.D. Va. June 16, 2009).

<sup>66</sup> *Id.* at \*24. The magistrate also recommended awarding statutory damages of \$200,000.

<sup>67</sup> No. 09-23476-CIV, 2010 WL 5151625 (S.D. Fla. Dec. 13, 2010).

<sup>68</sup> *Id.* at \*4.

<sup>69</sup> 15 U.S.C. § 1117(c)(2) (2012) (increasing maximum statutory damages for counterfeiting from \$200,000 per mark to \$2,000,000 per mark). See *Chanel, Inc. v. 7perfecthandbags.com*, No.

noted above, courts also consider willful conduct a reason to enhance statutory awards in cybersquatting cases.<sup>70</sup> Statutory damages are commonly requested in counterfeiting and cybersquatting cases, and courts frequently grant them as part of default judgments (though not usually at the statutory maxima), often while noting that defaults are the archetypical case for which such damages are appropriate.<sup>71</sup> These cases represent a significant percentage of default judgments.<sup>72</sup> Second, as discussed below, willfulness supports an award of attorneys' fees.<sup>73</sup>

But findings of willfulness are not limited to cases of counterfeiting or cybersquatting. Other cases have found defaulting defendants to have admitted allegations of willful conduct in the complaint which warranted awards of attorneys' fees or enhanced damages.<sup>74</sup>

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12-22057-CIV, 2014 WL 352197, at \*7 n.6 (S.D. Fla. Jan. 31, 2014) (taking willfulness into account); *Stark Carpet Corp. v. Stark Carpet & Flooring Installations Corp.*, 954 F. Supp. 2d 145, 156 (E.D.N.Y. 2013) (citing cases giving large awards for willful infringement); *eAdGear, Inc. v. Liu*, No. Civ.-11-05398 OCS, 2012 WL 2367805, at \*19 (N.D. Cal. June 21, 2012) (citing cases indicating that willful conduct makes larger damage awards more likely); *Citigroup, Inc. v. Malik*, No. 1:07Civ.1168, 2009 U.S. Dist. LEXIS 126676, at \*24–25 (E.D. Va. June 16, 2009) (awarding \$200,000 for two domains with a finding of willfulness).

<sup>70</sup> See *Coach, Inc. v. McMeins*, 2012 WL 1071269; *Wecosign, Inc. v. IFG Holdings*, 845 F. Supp. 2d 1072; *dAdgear, Inc. v. Liu*, 2012 WL 6484354.

<sup>71</sup> E.g., *Citigroup, Inc.*, 2009 U.S. Dist. LEXIS 126676; *Tiffany (NJ), LLC v. Dongping*, No. 10-61214-CIV, 2010 WL 4450451, at \*6 (S.D. Fla. Oct. 29, 2010); *Rolex Watch USA, Inc. v. Aulov*, Civ.10-3547 (DLI) (VV), 2011 U.S. Dist. LEXIS 99531, at \*15–16 (E.D.N.Y. July 15, 2011); *Coach, Inc. v. Melendez*, No. 10 Civ. 6178 (BSJ) (HBP), 2011 U.S. Dist. LEXIS 116842 at \*18–19 (S.D.N.Y. Sept. 2, 2011); *WFTV, Inc. v. Maverik Prod. LLC*, No. 6:11-Civ.-1923-ORL-28KRS, 2013 U.S. Dist. LEXIS 86137, at \*35–36 (M.D. Fla. Apr. 19, 2013) (statutory damages used to punish wrongful conduct); *Estate of Mercer K. Ellington v. Harbrew Imports, Ltd.*, 812 F. Supp. 2d 186, 192–93 (E.D.N.Y. 2011) (court grants counterfeit statutory damages though no indication of a claim for counterfeiting). See also *Hertz Corp.*, 2010 WL 5151625, at \*4 (awarding \$200,000).

<sup>72</sup> In 2006, nine of the fifty-one reported results had a statutory damage award, or just under 20%. (I am including all of the reported results for each year. As noted earlier, not all of the cases are actually default judgments and some cases may be reported twice.) In 2007, twenty-six of sixty-six cases had statutory damage awards, or more than one-third. In 2008, just under 30% (30 of 103) had such awards, and in 2011, 47 of 159, or 30%. In 2011, attorneys' fees were also awarded in half of the reported cases, 80 out of 159.

<sup>73</sup> See *infra* notes 74–86 and accompanying text.

<sup>74</sup> E.g., *Coach, Inc. v. Chouman's Ass'n*, 2012 WL 6705412, at \*4 (E.D. Mich. Dec. 26, 2012) (default admits allegations of willfulness and supports award of attorneys' fees). In 2005, in all three cases in which statutory damages were awarded attorneys' fees followed (plus one additional case granted attorneys' fees). In 2008, attorneys' fees were awarded in 40 of 103 cases (no fees were sought in twenty of the cases), and in 2011, attorneys' fees were awarded in 80 of 159 cases (no fees were sought in twenty-six of the cases).

A useful example is *BMW of N. Am., LLC v. Mini Coupe Ham*.<sup>75</sup> Defendant sold and rented three-wheeled vehicles it called “MiniCoupes”; BMW claimed that this infringed and diluted its MINI marks for cars.<sup>76</sup> Although BMW did not seek monetary damages, it did seek attorneys’ fees. The court found the case to be “exceptional” and warranting a fee award, stating that “[c]ases are also exceptional where a defendant has defaulted or otherwise failed to appear.”<sup>77</sup>

In *Guishan, Inc. v. Faith Ice, Inc.*,<sup>78</sup> plaintiff sued various defendants alleging that they used plaintiff’s Mr. Softee trademark and/or trade dress in various places in New York.<sup>79</sup> The court initially noted that by defaulting, “defendants [are] deemed to have admitted all of the well pleaded allegations pertaining to liability.”<sup>80</sup> With respect to attorneys’ fees, the court did not just cite the usual standard of “fraud, bad faith, or willful infringement,”<sup>81</sup> but noted that the award is discretionary “even with a finding of bad faith.”<sup>82</sup> The magistrate did recommend fee awards against those defendants deemed to have infringed plaintiff’s trademarks, but recommended considerably less than the fee request.<sup>83</sup> The plaintiffs, however, objected to the magistrate’s report in part and the district judge granted an injunction against other defendants based on

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<sup>75</sup> No. 12-00331 OMS KSC, 2013 U.S. Dist. LEXIS 30696 (D. Haw. Feb. 13, 2013), *recommendation adopted*, 2013 U.S. Dist. LEXIS 30639 (D. Haw. Mar. 5, 2013).

<sup>76</sup> BMW also claimed that defendant’s web domain, *minicoupehawaii.com*, was infringing. However, no claim was brought for cybersquatting.

<sup>77</sup> No. 12-00331 OMS KSC, at \*19 (citation omitted). *Accord*, *Coach, Inc. v. Sac a Main*, No. 1:12-Civ.-00840-LJ-SMS, 2012 U.S. Dist. LEXIS 159907, at \*18 (E.D. Cal. Nov. 7, 2012) (in default judgment case, awarding attorneys’ fees because the complaint alleged willful and malicious conduct); *Philip Morris USA, Inc. v. Escandon*, No. Civ. S-05-1337, 2005 U.S. Dist. LEXIS 26766, at \*11–12 (E.D. Cal. Nov. 4, 2005) (default makes case exceptional). *See* *Rio Properties, Inc. v. Rio International Interlink*, 284 F.3d 1007, 1023 (9th Cir. 2002) (default accepts complaint’s allegations of willful and malicious conduct, making the case exceptional); *Derek Andrew, Inc. v. Poof Apparel Corp.*, 528 F.3d 696, 702 (9th Cir. 2008) (same, citing *Rio*).

<sup>78</sup> No. 08Civ.2407 (DLI) (RMC), 2009 U.S. Dist. LEXIS 126146 (E.D.N.Y. Aug. 28, 2009) (magistrate judge recommendation).

<sup>79</sup> *Id.* at \*4.

<sup>80</sup> *Id.* at \*2 (citations omitted). However, the court refused to enter an injunction (or grant a fee award) against some of the defaulting defendants who, in the court’s estimation, had not been shown by evidence—largely photographs—to have committed trademark infringement. *Id.* at \*9–10.

<sup>81</sup> *Id.* at \*14.

<sup>82</sup> *Id.*

<sup>83</sup> *Id.* at \*15–28.

their default (i.e., their default constituted admissions of infringing activity)<sup>84</sup> and increased the fee award.<sup>85</sup>

Many other cases have also awarded attorneys' fees based on defendant's deemed admission of allegations of willfulness.<sup>86</sup>

There are occasional courts that appear to recognize more or less explicitly that a default by itself should not be equated with bad faith.<sup>87</sup> Even then, however, the default may lead to the same end if the court accepts as true allegations of willfulness in the complaint.<sup>88</sup>

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<sup>84</sup> *Guishan, Inc. v. Faith Ice, Inc.*, No. 08-Civ.-2407 (DLI) (RMC), 2010 U.S. Dist. LEXIS 26830, at \*6–10 (E.D.N.Y. Mar. 22, 2010).

<sup>85</sup> *Id.* at \*10–12.

<sup>86</sup> *E.g.*, *Blowbar, Inc. v. Blow Bar Salon Inc.*, No. 8:13-v-1430=T-17EAJ, 2013 WL 6244531, at \*3 (M.D. Fla. Dec. 3, 2013); *AARP v. Sycle*, 991 F. Supp. 2d 224, 234 (D.D.C. Nov. 27, 2013) (an admission of allegations of willfulness equates to an exceptional case, even where the court refused statutory damages based on inadequate support in the record); *Unilever Supply Chain, Inc. v. I & I Wholesale Food, Inc.*, 10-Civ.-1077 (RJD) (RER), 2011 U.S. Dist. LEXIS 30661, at \*6–7, \*19 (E.D.N.Y. Feb. 17, 2011), *citing* *Louis Vuitton Malletier v. WhenU.com, Inc.*, No. 2006 U.S. Dist. LEXIS 97550, 2007 WL 25717, at \*4 (S.D.N.Y. Jan. 26, 2007) (admission by default supports an attorneys' fee award); *Protection One Alarm Monitoring, Inc. v. Exec. Prot. One Sec. Serv., LLC*, 553 F. Supp. 2d 201, 207–08 (E.D.N.Y. 2008) (default admits willfulness and makes the case exceptional), *citing* *Tiffany (NJ), Inc. v. Luban*, 282 F. Supp. 2d 123, 124 (S.D.N.Y. 2003), and *Fallaci v. New Gazette Literary Corp.*, 568 F. Supp. 1172, 1173 (S.D.N.Y. 1983); *99¢ Only Stores v. 99¢ Store*, No. Civ.-09-0440 CBM, 2009 U.S. Dist. LEXIS 131649, at \*4 (C.D. Cal. Oct. 9, 2009) (judge reduced the fee request); *see* *Beautybank, Inc. v. Harvey Prince, LLP*, No. 10 Civ. 955 (DAB) (GWG), 2011 U.S. Dist. LEXIS 17932, at \*12 (S.D.N.Y. Feb. 23, 2011) (default admits allegation of willful infringement regarding profits), *citing* *Louis Vuitton Malletier v. Carducci Leather Fashions, Inc.*, 648 F. Supp. 2d 501, 504 (S.D.N.Y. 2009); *Gen. Nutrition Inv. Co. v. Gen. Vitamin Ctrs.*, 817 F. Supp. 2d 66, 74–75 (E.D.N.Y. 2011) (also citing defendant's failure to respond to plaintiff's earlier inquiries); *Mr. Softee, Inc. v. Awawda*, Civ. 11-01632-PHX-FJM, 2011 U.S. Dist. LEXIS 149822, at \*5–6 (D. Ariz. Dec. 29, 2011) (attorneys' fees awarded because complaint alleges willful conduct).

<sup>87</sup> *Coach, Inc. v. Just a Boun, LLC*, No. 6:11-Civ.-797-ORL-18GJK, 2011 U.S. Dist. LEXIS 144582, at \*12 (M.D. Fla. Nov. 8, 2011) (“A party's default alone is not an exceptional circumstance.”); *Doehrer v. Caldwell*, 127 U.S.P.Q. 391 (N.D. Ill. 1980) (default does not establish willfulness); *see* *Century 21 Real Estate, LLC v. Bercosa Corp.*, 666 F. Supp. 2d 274, 290 n.10 (E.D.N.Y. 2009). Copyright cases raise similar concerns because of the statutory damages provisions of 17 U.S.C. § 504(c) (2012). Although many copyright cases are decided in a fashion similar to trademark cases—i.e., accepting willfulness allegations at face value—one can find exceptions in copyright decisions as well. *E.g.*, *AF Holdings, LLC v. Bossard*, No. 1:12-Civ.-1101, 2013 U.S. Dist. LEXIS 143055, at \*5 (W.D. Mich. Feb. 13, 2013) (in a copyright default case, expressing concern about finding willfulness based on “simple conclusory assertions of willful conduct” in the complaint).

<sup>88</sup> *Just a Boun*, 2011 U.S. Dist. LEXIS 144582, at \*12–13.

These cases illustrate the key problems. First, by defaulting, defendants are deemed to admit the allegations relating to liability, including allegations of willful infringement. Second, and more troubling, in many cases courts state that *the default itself* is a basis for finding bad faith and/or willfulness.<sup>89</sup> These findings pertain both to damages and attorneys' fees; sometimes, the default alone is found sufficient to make a case exceptional.<sup>90</sup> Whatever the justification for accepting the complaint's allegations of willfulness, this cannot be transferred to the act of default.<sup>91</sup> This is particularly problematic where the complaint itself does not allege willful conduct or does so in a conclusory fashion. In those situations, the defendant would have no reasonable basis to believe that the act of defaulting would lead to such a finding.

These cases also illustrate the recurring theme—and difficult issue—that underlies default judgments. The fact of default is used to impose a substantial damage award and attorneys' fees without forcing plaintiffs to submit significant evidence to support the awards (although they do frequently have evidence, especially in counterfeiting cases). Statutory damages are intended to allow plaintiffs to recover damages where Congress has determined that plaintiff should be able to recover notwithstanding the difficulties of proving harm. And counterfeiters that default clearly make it difficult for plaintiffs to demonstrate damages such as lost profits. Nevertheless, there are also cases

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<sup>89</sup> *Krevat v. Burgers to Go, Inc.*, 2014 WL 4638844, at \*6 (E.D.N.Y. Sept. 16, 2014); *Unilever Supply Chain, Inc. v. I & I Wholesale Food, Inc.*, 10-Civ.-1077(RJD) (RER), 2011 U.S. Dist. LEXIS 30661, at \*6–7, \*19 (E.D.N.Y. Feb. 17, 2011), *citing* *Louis Vuitton Malletier v. WhenU.com, Inc.*, 05 Civ. 1325 (LAN)(DFE), 2006 U.S. Dist. LEXIS 97550, 2007 WL 257717, at \*4 (S.D.N.Y. Jan. 26, 2007); *Four Green Fields Holdings, LLC v. Four Green Fields*, No. 8:10-Civ.-3800-5 (TEA), 2011 U.S. Dist. LEXIS 126707, at \*3 (M.D. Fla. Oct. 17, 2011), *citing* *Franchise Co. v. Express Corporate Apparel, LLC*, 2011 WL 1226002, at \*9 (M.D. Fla. Feb. 28, 2011); *Taylor Made Golf Co. v. Carsten Sports, Ltd.*, 175 F.R.D. 658, 663 (S.D. Cal. 1997); *Tiffany (NJ), Inc. v. Luban*, 282 F. Supp. 2d 123, 124 (S.D.N.Y. 2003) (“By virtue of the default, the Lubans’ infringement is deemed willful . . . .”); *Gucci America, Inc. v. Myreplciahandbag.com*, No. 07 Civ. 2438(JGK), 2008 WL 512789, at \*3 (S.D.N.Y. Feb. 26, 2008) (counterfeits). *But see* *Coach, Inc.*, 2011 U.S. Dist. LEXIS 144582, at \*12 (“A party’s default alone is not an exceptional circumstance.”). However, in *Just a Boun*, the court deemed allegations of willfulness in the complaint admitted by default. *Id.* at \*12–13.

<sup>90</sup> *E.g.*, *BMW of N. Am., LLC v. Quality Star Benz LLC*, No. 2:12-Civ.-00889-GMN-VLF, 2013 WL 6451854, at \*1 (D. Nev. Dec. 9, 2013). *See* *Lane Crawford LLC v. Kelex Trading (CA) Inc.*, No. 12 Civ. 9190(GBD) (AJP), 2013 WL 6481354, at \*6 (S.D.N.Y. Dec. 3, 2013).

<sup>91</sup> *See, e.g.*, *Bandana Co. v. RJEJ Inv. LLC*, No. 3:12-Civ.-00846-TBR, 2013 U.S. Dist. LEXIS 119820, at \*10 (W.D. Ky. Aug. 23, 2013) (in a copyright case, refusing to find defendant’s actions willful due to its default, despite acknowledging precedent to support such a finding).

where a large damage award is clearly speculative and primarily punitive and where the defendant is not a renegade, or if she is, is a very small-time renegade.

Thus, there is a conundrum in the finding of willfulness and bad conduct from the fact of a default. Defendants may default for a number of reasons. Some of the reasons, such as obstreperous litigation tactics, or a defendant's desire to escape justice, deserve judicial condemnation. But in other cases defendants may default either because they don't really understand the consequences of a default or because they do not have the resources to hire a lawyer.<sup>92</sup> Apart from the punitive statutory damages, the court's imposition of attorneys' fees on defaulting defendants in effect turns what should be a remedy for the most egregious cases—"exceptional" ones—into a virtual fee shifting statute whenever defendant defaults. Moreover, forcing a defendant to engage a lawyer to avoid imposition of fees may backfire in terms of the expenditure of judicial resources. Once an attorney is engaged, it undoubtedly results in greater litigation expense for *both* sides, with no guarantee that, for the defendant, the result will be better. So the defendant may end up with a larger bill for plaintiff's attorneys' fees because he or she engaged an attorney. And what if defendant consults an attorney who tells her that she is likely to lose? Should she be forced to litigate (perhaps in contravention of Rule 11) in order to avoid an automatic finding of willfulness?<sup>93</sup>

This conundrum is caused by the very crude regime of default judgments. A default effectively admits the complaint, leaving defendant little room to effect a settlement. The current system, however, does not readily discriminate between those defaulters seeking to escape proper condemnation and those who lack the resources to litigate the claims.

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<sup>92</sup> If they don't have insurance, they would have to pay by the hour which adds up quickly. For an example of a situation in which an attorney would be important to one's understanding of the complaint, *see* *Century 21 Real Estate, LLC v. Bercosa Corp.*, 666 F. Supp. 2d 274 (E.D.N.Y. 2009). The case involved a franchisee who continued to use the mark after the franchise ended. Although the mark used was described by the court as "genuine," it also fit the statutory definition of a counterfeit mark. *Id.* at 290. This is not something that would be obvious to a person with no background in trademark law.

<sup>93</sup> Answering the complaint, admitting liability while denying allegations of willfulness, as well as allegations of damages, is a possible tactic. But it is an unlikely tactic for someone lacking an attorney's advice. In one case, a corporation and its principal owner were sued as joint defendants. The corporation defaulted, but the individual defendant appeared *pro se*. The court found the corporation's default to be evidence of willful conduct, despite the principal's appearance. *Krevat v. Burgers to Go, Inc.*, No. 13-Civ.-6258(JS)(AKT), 2014 WL 4638844, at \*6 (E.D.N.Y. Sept. 16, 2014). Since the principal appeared *pro se* (and corporations cannot appear without counsel) it is very possible that the principal did not understand the consequences of allowing the corporation to default while he defended.

Even if the bare default is not used to infer willfulness, accepting the complaint's allegations of willfulness as true, for purposes of imposing higher damages or awarding fees is highly questionable as a matter of legal process.<sup>94</sup> Two related principles are axiomatic (at least if one believes the case citations) when dealing with defaults: (1) a default admits the well-pleaded allegations of the complaint *as to liability*.<sup>95</sup> (2) Allegations as to damages, however, are *not* deemed admitted, which explains why a hearing is required by Rule 55(b)(2).<sup>96</sup> In the normal infringement case (including cases of counterfeiting), a showing of willfulness is not a necessary element. Thus, accepting as true allegations of willfulness that relate to the potential damage award (and fee award) would conflict with the second principle. Yet most courts do not even perceive the anomaly and accept as true allegations of willful conduct used solely to justify awards of damages—especially statutory damages—and awards of attorneys' fees.<sup>97</sup>

One might argue that, at least in some cases, willfulness is relevant to the issues of liability, not just damages. Cybersquatting, for example, requires a "bad faith intent to profit" from registering, trafficking in, or using domain names that are confusingly similar to plaintiff's mark.<sup>98</sup> Thus, in order to

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<sup>94</sup> *E.g.*, *AF Holdings LLC v. Bossard*, 976 F. Supp. 2d 927, 930 (W.D. Mich. 2013) (in a copyright default case, expressing concern about finding willfulness based on "simple conclusory assertions of willful conduct" in the complaint).

<sup>95</sup> *Geddes v. United Fin. Grp.*, 559 F.2d 557, 560 (9th Cir. 1977) (securities case). Only those allegations that would satisfy the pleading standards set forth in *Asbroft v. Iqbal*, 556 U.S. 662 (2009), and *Bell Atl. Corp. v. Twombly*, 550 U.S. 544 (2007), will be accepted. A complaint must state a proper cause of action for the defaulting defendant to be held liable. See *N.V.E., Inc. v. Felice*, No. 09-2053(WJM), 2010 U.S. Dist. LEXIS 121083, at \*5–6 (D.N.J. Nov. 16, 2010) (denying judgment against one defendant where the complaint did not state a proper claim against him); *Crescent Servs., Inc. v. Mich. Vacuum Trucks, Inc.*, 714 F. Supp. 2d 425, 428 (W.D.N.Y. 2010).

<sup>96</sup> *Geddes*, 559 F.2d at 560. Technically, it has been held that a formal hearing is not required, as long as the plaintiff presents evidence in its motion papers sufficient to support a damages award. See CHARLES ALAN WRIGHT & ARTHUR R. MILLER, *FEDERAL PRACTICE AND PROCEDURE* § 10A (4th ed. 1993 & Supps. 1984–1997); *Transatlantic Marine Claims Agency v. Ace Shipping Corp.*, 109 F.3d 105, 111 (2d Cir. 1997). But this does not alter the fact that plaintiff must offer evidence outside of the complaint to support an award of actual damages.

<sup>97</sup> One unusual example of a court that saw the conflict is *Century 21 Real Estate, LLC v. Berosa Corp.*, 666 F. Supp. 2d 274 (E.D.N.Y. 2009). The magistrate judge called decisions that ruled that defaults support willfulness in damages claims "in tension with the general rule that a default suffices to establish the allegations in a pleading that relates to liability but not those that relate to damages." *Id.* at 290 n.10. The district judge subsequently adopted the magistrate's report in full. *Id.* at 278.

<sup>98</sup> 15 U.S.C. § 1125(d)(1)(A)(i), (B).

demonstrate *liability*, bad faith must be shown.<sup>99</sup> However, the statutory damages provision for cybersquatting does not expressly authorize additional damages for willful conduct although such conduct is taken into account by courts.<sup>100</sup>

Counterfeiting is less amenable to a deemed admission of willfulness. There is not a separate action per se for counterfeiting, in the same manner as for cybersquatting, with operative elements of a claim clearly spelled out. Section 34(d) of the Lanham Act,<sup>101</sup> titled “Civil actions arising out of use of counterfeit marks,” describes a remedy—seizure of goods and records—for an infringement of a registered mark (that is, a demonstration of likelihood of confusion) by use of a counterfeit. The term “counterfeit mark” is defined (though not very well) by Sections 34(d)(1)(B) and 45.<sup>102</sup> Thus, one could claim that there is a separately defined, if limited, cause of action for counterfeiting. But Section 34(d) does not require any sort of bad faith or willful conduct and, in any event, it is more of a remedial section than an operative one. Sections 35(b) and (c) also provide special remedies for counterfeiting.<sup>103</sup> Both of these sections refer to intent or willful conduct. Section 35(b) requires trebling of actual damages for intentional use of a counterfeit mark.<sup>104</sup> Section 35(c) provides statutory damages for counterfeits. Neither intent nor willful conduct is required for statutory damages under Section 35(c), but Section 35(c)(2) increases the ceiling of potential damages by a factor of ten if the use was willful.<sup>105</sup> Again, Section 35(c)(2) is a remedial section, not an operative section. Therefore, its requirements are not elements of a claim but enhancements of remedies. Counterfeiting is a subset of ordinary infringement; the elements are the same; it is the characteristics of the infringing mark—identical or nearly identical to the infringed mark—that make it counterfeiting. Willful or

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<sup>99</sup> Bad faith intent to profit is not necessarily the same as willfulness, if willfulness means knowledge that the conduct violates the law. One may have a bad faith intent to profit without knowing that acting on that intent violates trademark law.

<sup>100</sup> See *supra* text accompanying notes 58–68.

<sup>101</sup> 15 U.S.C. § 1116(d).

<sup>102</sup> *Id.* § 1116(d)(1)(B); *id.* § 1127 (definition of “counterfeit”). To some degree § 34(d)(1)(B) is completely circular; in certain instances, however, it defines a counterfeit in the same way as § 45—as a “spurious” mark essentially “identical” to the registered one.

<sup>103</sup> *Id.* § 1117(b), (c).

<sup>104</sup> *Id.* § 1117(b).

<sup>105</sup> *Id.* § 1117(c)(2).

intentional conduct does not define counterfeiting; it just enhances the remedies.<sup>106</sup>

With respect to cybersquatting, although “bad faith” of some sort is an element of the claim, it is far from clear that Congress intended the “bad faith” element of cybersquatting to be sufficient to award attorneys’ fees. If Congress had so intended, it would have made more sense to include an attorneys’ fees provision in Section 35(d), along with the statutory damages provision. However, courts frequently award attorneys’ fees while seeming to assume that “bad faith intent to profit” satisfies the requirements of an exceptional case.<sup>107</sup>

Even if we concede that many of the default judgments involve counterfeiters (or sellers of counterfeit goods) who should be punished, the process by which significant damages are imposed in defaults is less than desirable.<sup>108</sup> Finding willfulness—not an element of the claim for counterfeiting—because of the default alone or because of a deemed admission, and using that finding to impose substantial penalties without requiring much (or any) proof on the part of the plaintiff seems unfair. The unfairness is compounded by the fact that statutory damages are subject to so few limits. Yet, if we require plaintiffs to demonstrate willfulness, we must ask what would constitute sufficient evidence in the default context. There is also a need to strike a balance between fairness to the defendant and fairness to a plaintiff who may have a legitimate claim of right. In many cases, the plaintiff has sent a cease and desist letter, and courts point to defendant’s continued use after

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<sup>106</sup> Also, “willful” may be a mixed question of fact and law, then deeming it admitted from a conclusory allegation in a complaint is inappropriate; there should be additional facts that lead to the conclusion of willful conduct. (Of course, if the complaint is sufficiently detailed, then the predicate facts could be deemed admitted, unless one limits admissions to facts directly related to liability and not remedies.)

<sup>107</sup> See, e.g., *PetMed Express, Inc. v. MedPets.com, Inc.*, 336 F. Supp. 2d 1213, 1222 (S.D. Fla. 2004) (citing, *inter alia*, defendants’ willful registration of the offending domain names); *Rolex Watch U.S.A., Inc. v. Mills*, No. 3:12-Civ.-000G1-L, 2012 U.S. Dist. LEXIS 167008, at \*12 (N.D. Tex. Nov. 26, 2012) (“The court has already held that Defendants acted with bad faith intent and therefore concludes that this is an exceptional case.”); see also *Boyd Gaming Corp. v. King Zulu, LLC*, No. 2:12-Civ.-16 JCM(CWH), 2012 U.S. Dist. LEXIS 153347, at \*9 (D. Nev. Oct. 25, 2012) (awarding attorneys’ fees without explanation).

<sup>108</sup> In fairness, courts do not blindly give large damage awards. See *AARP v. Sycle*, 991 F. Supp. 2d 224, 232–34 (D.D.C. Nov. 27, 2013) (refusing to award statutory damages where plaintiff gave no record basis for it, but allowing plaintiff additional time to produce a basis); see also *Chanel, Inc. v. Yang*, No. C12-4428 PJH, 2013 WL 5755217, at \*12–13 (N.D. Cal. Oct. 21, 2013) (granting statutory damages for counterfeiting but refusing to award damages for cybersquatting in light of the counterfeiting award).

receiving such letters as evidence of willfulness.<sup>109</sup> But is a cease and desist letter sufficient? It is, after all, only the plaintiff's claim of right. And experience with takedown notices under the copyright law does not inspire confidence that rights owners will act responsibly when asserting their rights.<sup>110</sup> The default judgment opinions reinforce this concern. Trademark owners frequently ask for maximum, or very large, statutory damage awards (which are often reduced by courts).<sup>111</sup> If trademark owners want the added benefit of significantly higher damage awards, is it too much to ask for more proof than a cease and desist letter?<sup>112</sup>

#### IV. DEFAULT, WILLFULNESS, AND BANKRUPTCY

One might argue that we should not be overly concerned with large damage awards in default cases. At least in some cases, they serve a valid deterrent function, especially for those who might edge close to the line of infringement

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<sup>109</sup> *E.g.*, *Boost Worldwide, Inc. v. Cell Station Wireless, Inc.*, No. 2:13-Civ.-490, 2014 WL 47977, at \*4 (S.D. Ohio Jan. 17, 2014); *WFTV, Inc. v. Maverik Prod., LLC*, No. 6:11-Civ.-1923-ORL-28KRS, 2013 U.S. Dist. LEXIS 86137, at \*36 (M.D. Fla. Apr. 19, 2013); *Rutt's Hut, Inc. v. Mutt's Hut Int'l*, No. 11-1350 (SRC), 2011 WL 2923697, at \*1-2 (D.N.J. July 18, 2011). *See* *Hockey Club of the Ohio Valley, LLC v. Eagle Mktg. Grp., L.L.C.*, No. 5:12 Civ.161, 2013 WL 6524719, at \*4 (N.D. W. Va. Dec. 12, 2013) (cease and desist letter among the pieces of evidence).

<sup>110</sup> *See, e.g.*, Rebecca Tushnet, *Form v. Content in DMCA Notices*, REBECCA TUSHNET'S 43(B)log (Mar. 11, 2014, 9:32 AM), <http://tushnet.blogspot.com/2014/03/form-v-content-in-dmca-notice.html>. The problems of misuse of cease and desist letters are discussed in Leah Chan Grinstead, *Policing the Cease-and-Desist Letter*, 49 U.S.F. L. REV. (forthcoming 2015) (manuscript at 14-32), available at <http://ssrn.com/abstract=2115455>.

<sup>111</sup> *E.g.*, *Bentley Motors Ltd. Corp. v. McEntegart*, No. 8:12-Civ.-1582-T-33TBM, 2014 WL 408375, at \*4-6 (M.D. Fla. Feb. 3, 2014) (requesting \$1 million statutory damages; award was \$500,000); *Coach, Inc. v. Paula's Store Sportswear, LLC*, No. 13-3263 (SRC), 2014 WL 347893, at \*3-4 (D.N.J. Jan. 31, 2014) (requesting \$800,000 statutory damages, awarded \$80,000); *Chanel, Inc. v. The P'ship or Unincorporated Ass'n*, No. 1:12-Civ.-22745, 2014 WL 352208, at \*6-7 (S.D. Fla. Jan. 31, 2014) (requesting \$2 million per counterfeit mark; awarded \$18,000 per mark); *Hsiao & Montano, Inc. v. Zhang*, No. 2:13-Civ.-00493 ODW (VBxx), 2013 WL 3872207, at \*4-5 (C.D. Cal. July 24, 2013) (requesting \$2 million per mark for counterfeiting; awarded \$250,000 per mark; requesting \$100,000 per domain name for cybersquatting, awarded \$3,000 per domain name); *Coach, Inc. v. Sexy Fashion*, No. Civ. 12-05713 RSWL (SSx), 2013 WL 3233393, at \*2-3 (C.D. Cal. June 24, 2013) (requesting \$100,000; awarding \$40,000, with the court citing several cases in which Coach was awarded much less than its request).

<sup>112</sup> To illustrate the frequency of findings of willfulness after default. *See supra* table in the Appendix, which gives details for 2012 and 2013. As can be seen, where courts discuss the issue (and frequently the issue does not arise—either because it is deferred or, possibly, because the plaintiff does not seek damages or attorneys' fees) a finding of willfulness almost always follows.

and those who then cross it unintentionally. Trademark owners certainly would like to keep unauthorized users away from that line.<sup>113</sup> Moreover, if a court awards what a defendant believes are excessive damages, a defendant could move to reopen the judgment under Rule 60(b).<sup>114</sup> But Rule 60(b) is not automatic; a defendant would have to present a very good reason for not responding to the complaint in the first place in order to succeed.<sup>115</sup> Still, one might further say that even a defendant who is saddled with a large damages payment could declare bankruptcy and seek to have the judgment debt discharged. That route, however, contains some very tricky obstacles.

Ordinarily, bankruptcy proceedings would result in the discharge of a debt as part of the process of granting the bankrupt a new start financially. However, not all debts are dischargeable. (Think student loans.) In particular, debts that are the result of “willful and malicious injury by the debtor to another entity or to the property of another entity” are excluded from discharge.<sup>116</sup> This language—from Section 523(a)(6) of the bankruptcy law—has been held to apply to judgments incurred by willful trademark infringement.<sup>117</sup> Because “[e]xceptions to discharge must be construed narrowly,”<sup>118</sup> it is important to note some differences between Section 523(a)(6) and a general standard of willfulness upon which many default judgments are based. First, Section 523(a)(6) requires a “willful *and* malicious” act by the debtor. This requires an intentional act, not merely a reckless one, and one that is intended to injure “or which is substantially certain to cause injury.”<sup>119</sup> Malice does not require ill will, but it does require showing that the act was “wrongful and without just cause.”<sup>120</sup> However, in many of the default cases discussed above, the findings suggest that the defendants’ acts would satisfy that standard.<sup>121</sup>

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<sup>113</sup> Whether they have a right to expect others to keep away from the line is a broader issue of trademark law—and intellectual property law in general—beyond the scope of this Article.

<sup>114</sup> FED. R. CIV. P. 60(b).

<sup>115</sup> See 10 JAMES WM. MOORE ET AL., MOORE’S FEDERAL PRACTICE § 55.82[2] (3d ed. 1999) (Rule 60(b)(1) more stringent than Rule 55(c)). Defendant may have wished to concede liability only. That could be accomplished by answering the complaint, admitting the allegations relating only to liability, and denying those relating to willfulness while denying allegations related to remedies. See FED. R. CIV. P. 8. But that assumes defendant has access to legal counsel to advise defendant on the proper way to do this.

<sup>116</sup> 11 U.S.C. § 523(a)(6) (2012).

<sup>117</sup> *E.g.*, *In re Butler*, No. 11-40930-MGD, 2013 WL 5591922 (Bankr. N.D. Ga. Sept. 9, 2013).

<sup>118</sup> *Id.* at \*3.

<sup>119</sup> *Id.*, quoting *In re Jennings*, 670 F.3d 1329, 1334 (11th Cir. 2012).

<sup>120</sup> *Id.*, quoting *Holt*, 173 B.R. 806, 812 (Bankr. M.D. Ga. 1994).

<sup>121</sup> See, e.g., *WFTV, Inc. v. Maverik Prod., LLC*, No. 6:11-Civ.-1923-orl-28krs, 2013 U.S. Dist. LEXIS 86137 (M.D. Fla. Apr. 19, 2013). The court cited defendant’s refusal to cease using a

Assuming that many default judgments with findings of willfulness would be exempt from discharge, there is a matter of procedure to be considered. The burden is on the person opposing discharge to demonstrate non-dischargeability. In some cases, that can be accomplished by using issue preclusion. Thus, in *In re Butler*, the court granted a motion for summary judgment on the issue of dischargeability in a claim involving trademark infringement and cybersquatting.<sup>122</sup> The court first found that a jury verdict of cybersquatting demonstrated willful and malicious conduct by virtue of the bad faith intent to profit element.<sup>123</sup> Second, although the court recognized that even willful trademark infringement does not automatically constitute willful and malicious conduct, it found enough evidence in the record to apply issue preclusion to the trademark infringement claim as well and grant summary judgment on the issue of non-dischargeability.<sup>124</sup>

*Butler*, however, imposed issue preclusion on a judgment resulting from a trial on the merits before a jury. Default judgments do not stand in the same position regarding issue preclusion. Because the default judgments we have discussed involve federal questions, federal preclusion law ought to apply.<sup>125</sup> Under Section 27 of the *Restatement (Second) of Judgments*, an issue must be “actually litigated and determined” to be preclusive.<sup>126</sup> It is not necessary for there to be a trial on the merits; a motion to dismiss for failure to state a claim, or a motion for summary judgment would suffice.<sup>127</sup> However, where the judgment is the result of a default, “none of the issues is actually litigated.”<sup>128</sup> Thus, it appears that the judgment creditor would have to introduce evidence of willful and malicious conduct in the bankruptcy proceeding to prevent a

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domain name after being asked to stop as evidence of willfulness. While refusal to comply with a cease and desist request alone may not suffice for § 523(a)(6), the “bad faith intent to profit” required by Section 43(d) may be sufficient. Moreover, the court in *Maverik* specifically found that defendant had no reasonable basis to believe that it had a legitimate right to use the domain name. *Id.* at \*25.

<sup>122</sup> *In re Butler*, 2013 WL 5591922, at \*6.

<sup>123</sup> *Id.* at \*4–5.

<sup>124</sup> *Id.* at \*6–7.

<sup>125</sup> *Semtek Int’l, Inc. v. Lockheed Martin Corp.*, 531 U.S. 497, 507–08 (2001). Federal preclusion law in federal question cases generally follows the *Restatement (Second) of Judgments*. See *Taylor v. Sturgell*, 553 U.S. 880, 893 (2008) (citing *Restatement*).

<sup>126</sup> RESTATEMENT (SECOND) JUDGMENTS § 27, cmt. d.

<sup>127</sup> *Id.*

<sup>128</sup> *Id.* cmt. e.

discharge of the default judgment.<sup>129</sup> However, at least one court seemed to believe that a bankruptcy court would adopt its findings of willful and malicious conduct, even from a default.<sup>130</sup>

Even if the issue of willful and malicious conduct from a default is not preclusive, there is another possible preclusion issue that may favor non-dischargeability. The Supreme Court has stated that in diversity cases, the federal preclusion rule is to follow the preclusion law of the judgment-rendering state, absent countervailing federal interests.<sup>131</sup> If that also means that we apply state preclusion law to supplemental state claims in the original judgment,<sup>132</sup> that could lead to preclusion as to those claims. Some states (apparently a minority) give preclusive effect to default judgments.<sup>133</sup> Therefore, even if a plaintiff could not use preclusion to establish non-dischargeability of the federal claims, it may be able to do so with respect to substantially identical state claims, assuming the necessary findings were made in the original case.<sup>134</sup>

Regardless of whether preclusion applies, the fact that willful infringement can prevent discharge of the debt in bankruptcy is significant. Unless the judgment debtor is able to mount a significant defense in the bankruptcy proceeding (something it would not or could not mount in the prior defaulted case), it seems likely that many default judgments will not be dischargeable. This enhances the value of the default judgments where willfulness is shown.

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<sup>129</sup> However, if, despite failing to answer, the defendant had appeared at the hearing on damages in the default judgment proceeding, that might be deemed sufficient to allow a bankruptcy court to determine that issues raised at the hearing were actually litigated.

<sup>130</sup> *Coach, Inc. v. Allen*, No. 11 Civ. 3590, 2012 WL 5359579, at \*3 (S.D.N.Y. July 20, 2012) (citing § 523(a)(6)).

<sup>131</sup> *Semtek*, 531 U.S. at 508.

<sup>132</sup> See *In re Kory*, No. 11-64454, 2013 WL 1340215, at \*2 (Bankr. E.D. Mich. Mar. 28, 2013) (following Michigan preclusion rules on the effect of default judgments).

<sup>133</sup> See, e.g., *In re Catt*, 368 F.3d 789, 791 (7th Cir. 2004) (citing Indiana as a state granting preclusive effect to defaults and using preclusion in a subsequent bankruptcy proceeding as to a finding of fraud).

<sup>134</sup> One question would be whether the state law claims could support the original damage awards, many of which derive from the Lanham Act's statutory damage provisions. While states may have criminal counterfeiting statutes, or civil statutes permitting enhanced damages (such as treble damages) for willful counterfeiting, they may not have statutory damage provisions equivalent to § 35(c)(2). For example, the Model State Trademark Bill contains a remedies provision that allows for enhanced damages, but does not contain a statutory damages provision. See Model State Trademark Bill § 14 (INTA).

V. COMPARING TRADEMARK DEFAULTS TO PATENT AND COPYRIGHT—  
CONTRAST AND CONFLUENCE

Defaults in patent and copyright cases provide useful points of comparison with trademark. Like trademark law, patent law allows awards of attorneys' fees in "exceptional cases."<sup>135</sup> Like trademark law, copyright law provides for statutory damages with a wide range of possible damage awards.<sup>136</sup> Below, we examine how courts use these provisions in default cases as compared with trademark defaults.

A. PATENT CASES

Patent law does not provide for statutory damages (it does provide for at least a "reasonable royalty," which is quite different and far less wide-ranging<sup>137</sup>). However, the court can treble whatever damages are found, but only with a finding of willful infringement.<sup>138</sup> The Federal Circuit has held that this means there must be a showing of at least "objective recklessness" by clear and convincing evidence.<sup>139</sup> Like trademark law, patent law allows awards of attorneys' fees only in "exceptional cases."<sup>140</sup> But the interpretation of that provision, including in default cases, does not mirror that of trademark law. It is worth comparing patent defaults to trademark defaults with respect to fee awards, as well as looking at treble damage awards where willfulness is relevant.

In general, there appear to be a few interesting differences between patent and trademark cases when it comes to default judgments. There are many fewer reported default judgment cases in patent than trademark. A broad-based Westlaw search for such cases in 2012 and 2013 revealed a very large difference in the number of relevant cases compared with trademark.<sup>141</sup>

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<sup>135</sup> 35 U.S.C. § 285 (2012).

<sup>136</sup> 17 U.S.C. § 504(c).

<sup>137</sup> 35 U.S.C. § 285. Infringement of a design patent gives a minimum damage recovery of defendant's "total profit, but not less than \$250." *Id.* § 289.

<sup>138</sup> *Parker West Int'l, LLC v. Clean Up America, Inc.*, No. C-08-2810, 2009 WL 2916664, at \*7 (N.D. Cal. Sept. 1, 2009) (finding willfulness), *citing* *Graco, Inc. v. Binks Mfg. Co.*, 60 F.3d 785, 792 (Fed. Cir. 1995).

<sup>139</sup> *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007).

<sup>140</sup> 35 U.S.C. § 285.

<sup>141</sup> A search for patent /p "default judgment" and date(>1/1/2012 and <1/2/2013), for example, turned up only thirty-seven cases, of which fewer than ten turned out to be actual default judgments in patent cases (a few actually were trademark cases). Running the search for 2013 cases returned only forty-three cases. Of these forty-three, fewer than ten were true patent

The case of *Reshare Commerce, LLC v. Antioch Co.*,<sup>142</sup> is illustrative of a cautious approach to both enhanced damages and attorneys' fees. Plaintiff requested enhanced damages and attorneys' fees based on defendant's willful infringement. Although the court acknowledged that the complaint did allege willfulness, it refused to award either enhanced damages or fees. It noted that plaintiff failed to send any pre-suit notice to defendant.<sup>143</sup> Moreover, it emphasized that the allegations of willfulness in the complaint "are conclusory" and did not indicate how plaintiff inferred defendant's knowledge of plaintiff's patent.<sup>144</sup> Also interesting was the court's discussion of the effect of a default on a finding of willfulness. The court stated that the *default* must be found willful to support a finding.<sup>145</sup> In the court's words, "the court must be persuaded that the defendant made a strategic decision and deliberately chose not to appear."<sup>146</sup> This must be supported by some evidence in the record, which the court found lacking.<sup>147</sup> That attitude is markedly different from trademark (or copyright) cases, where the reason for a default normally appears to be irrelevant; a default usually created a presumption of willfulness in trademark cases.<sup>148</sup>

Consider first attorneys' fee awards, where the relevant statutory language is the same. The Federal Circuit had held that a case must be shown to be exceptional by clear and convincing evidence—the same standard is used for awarding treble damages.<sup>149</sup> This is a higher level of proof than the normal preponderance ("more likely than not") standard used in civil cases. No such

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default cases (as in 2012, where several were actually trademark cases). A search for (lanham or trademark) /p "default judgment" and date(>12/31/2011 and <1/2/2013) returned 135 cases, most of which were relevant.

<sup>142</sup> No. 11-2616(MOD/LIB), 2014 WL 309309 (D. Minn. Jan. 28, 2014).

<sup>143</sup> *Id.* at \*2.

<sup>144</sup> *Id.* See also *id.* at \*3 (discussing attorneys' fees).

<sup>145</sup> *Id.* at \*2.

<sup>146</sup> *Id.* (quoting *United Pet Group, Inc. v. Axon US Corp.*, No. 13-Civ.-126(WFK) (MDG), 2013 WL 5592617, at \*3 (E.D.N.Y. Oct. 10, 2013)).

<sup>147</sup> *Id.*

<sup>148</sup> This is not to say that courts never award enhanced damages or attorneys' fees in patent default cases. See, e.g., *SDS Korea Co. v. SDS USA, Inc.*, No. 2:12-Civ.-4053(WJM), 2012 WL 3114753, at \*3-4 (D.N.J. July 31, 2012) (awarding enhanced damages and fees).

<sup>149</sup> *Aspex Eyewear, Inc. v. Clariti Eyewear, Inc.*, 605 F.3d 1305, 1314 (Fed. Cir. 2010); *Forest Labs., Inc. v. Abbot Labs.*, 339 F.3d 1324, 1327 (Fed. Cir. 2003). The United States argued that clear and convincing evidence is an improper standard in a case recently decided by the United States Supreme Court. Transcript of Oral Argument at 19, 26-27, *Octane Fitness, LLC v. Icon Health & Fitness Inc.*, 134 S. Ct. 1749 (2014) (No. 12-1184). See also *id.* at 37-38 (discussing the fact that the Lanham Act has identical language but it is interpreted differently).

heightened level of proof is ordinarily required in trademark default cases (or non-default trademark cases for that matter).<sup>150</sup> However, in *Octane Fitness, Inc. v. ICON Health & Fitness, Inc.*,<sup>151</sup> the Supreme Court held that a clear and convincing standard was not required by the patent statute.<sup>152</sup> Moreover, the Court overturned the Federal Circuit's standard for awarding fees, which the Court found overly restrictive.<sup>153</sup> On the other hand, the Court did not view the patent fee-shifting statute as stating a general preference for attorneys' fee awards. Rather, the Court indicated that district courts should have additional discretion to determine when a litigant's claims or conduct were sufficiently "uncommon,' 'rare,' or 'not ordinary'"<sup>154</sup> that fee shifting should apply. However, the *type* of conduct that would trigger an exceptional case finding (which the Court did not actually overturn) is similar to trademark law: willful infringement, bad faith litigation conduct, and inequitable conduct before the PTO.<sup>155</sup> And it was not always clear whether the higher burden of proof was a serious barrier in a default judgment case.<sup>156</sup>

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<sup>150</sup> *But see* *Pebble Beach Co. v. Tour 18 I, Ltd.*, 155 F.3d 526, 555–56 (5th Cir. 1998) (requiring clear and convincing evidence in trademark case); *Ashland v. Randolph*, No. 3:13-21768, 2013 WL 5777172, at \*5 (S.D. W. Va. Oct. 25, 2013) (same); *Filtration Sys. Worldwide, Inc. v. Gulf Coast Filters, Inc.*, No. 08-0102-Civ.-FJG, 2010 WL 2134274, at \*7 (W.D. Mo. May 26, 2010) (same); *Castrol, Inc. v. Pennzoil Quaker State Co.*, 169 F. Supp. 2d 332, 341 n.8 (D.N.J. 2001) (same). Only *Ashland* is a default case, however. In *Finance Investment Co. (Bermuda) Ltd. v. Geberit AG*, 165 F.3d 526, 533 (7th Cir. 1998), the court enunciated a clear and convincing standard, but appeared to limit it to awards made to a prevailing *defendant*. In *Koob Chun Hing Kee Soy & Sauce Factory, Ltd. v. Star Mark Management, Inc.*, 628 F. Supp. 2d 312 (E.D.N.Y. 2009), the court expressly rejected a clear and convincing standard. *Id.* at 322 & n.13.

<sup>151</sup> 134 S. Ct. 1749 (2014).

<sup>152</sup> *Id.* at 1758.

<sup>153</sup> The Court stated that the Federal Circuit limited fee awards to situations "when there has been some material inappropriate conduct,' or when the litigation is both 'brought in subjective bad faith' and 'objectively baseless.'" *Octane Fitness*, 134 S. Ct. at 1752, *quoting* *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005). *See id.* at 1754 (elaborating on the Federal Circuit's standard for exceptional cases).

<sup>154</sup> *Id.* at 1756. "We hold, then, that an 'exceptional' case is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated." *Id.*

<sup>155</sup> *See* *Applied Materials, Inc. v. Multimatrixs, LLC*, No. C06-07372 MHP, 2009 WL 1457979, at \*3–4 (N.D. Cal. May 26, 2009) (finding inequitable conduct before the PTO and litigation misconduct); *Parker W. Int'l, LLC v. Clean Up Am., Inc.*, No. C-08-2810EMC, 2009 WL 2916664, at \*8 (N.D. Cal. Sept. 1, 2009) (finding willful infringement).

<sup>156</sup> *See, e.g.*, *Ocean Innovations, Inc. v. Quarterberth, Inc.*, No. 1:03Civ.0913, 2010 WL 1957486, at \*4–5 (N.D. Ohio May 14, 2010) (finding willful infringement and awarding fees); *Parker West Int'l, LLC v. Clean Up America, Inc.*, No. C-08-2810, 2009 WL 2916664, at \*8 (N.D. Cal. Sept. 1,

On the other hand, there are indications in some cases, albeit anecdotal, that courts may have subjected claims of exceptional conduct under patent law to greater scrutiny than under trademark law. For example, in *Junker v. HDC Corporation*,<sup>157</sup> the complaint alleged willful patent infringement by defendant. Defendant contacted plaintiff to say that he had stopped selling the infringing items and giving information on how many were sold.<sup>158</sup> Despite defendant's default (which arguably admits the allegations of willful infringement), the court refused to find willful infringement, citing defendant's cooperation as noted in plaintiff's motion.

In *Telequip Corporation v. The Change Exchange*,<sup>159</sup> the defendant, a Korean corporation, defaulted in a patent infringement suit. Due to the difficulty of establishing damages,<sup>160</sup> plaintiff sought only an injunction and attorneys' fees. Plaintiff cited defendant's default and defendant's avoidance of service of process as reasons to find the case exceptional. However, the court refused to award fees, stating "that neither willful infringement nor defaults are unusual in patent infringement cases."<sup>161</sup>

In *Deckers Outdoor Corp. v. ShoeScandal.com, LLC*,<sup>162</sup> the court also refused to find a patent case exceptional, despite allegations of willfulness the court deemed admitted by default.<sup>163</sup> The court pointedly stated: "The bare default finding of willful infringement is insufficient evidence of exceptional circumstances to warrant an attorneys'-fees award."<sup>164</sup>

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2009) (same); *Applied Materials, Inc. v. Multimetrix, LLC*, No. C06-07372, 2009 WL 1457979, at \*4 (N.D. Cal. May 26, 2009) (finding inequitable conduct by clear and convincing evidence, but not clearly indicating why); see also *Special Happy, Ltd. v. Lincoln Imports, Ltd.*, No. SA Civ. 09-00074-MLG, 2011 WL 2650184, at \*10 (C.D. Cal. July 6, 2011) (default as sanction for discovery abuse; court finds case exceptional); *Harodite Indus., Inc. v. Astechnologies, Inc.*, No. 02-40114, 2008 WL 544615, at \*2 (E.D. Mich. Feb. 27, 2008) (finding willful infringement and awarding treble damages plus attorneys' fees though not citing the clear and convincing standard or explaining why defendant's conduct was willful).

<sup>157</sup> No. C-07-05094, 2008 WL 3385819 (N.D. Cal. July 28, 2008).

<sup>158</sup> *Id.* at \*1.

<sup>159</sup> 2007 WL 655734 (N.D.N.Y. Feb. 26, 2007).

<sup>160</sup> *Id.* at \*1.

<sup>161</sup> *Id.* at \*2. The court also noted that plaintiff cited just one case (later reversed by the Federal Circuit on other grounds) in which a defaulting defendant had been found liable for attorneys' fees. *Id.*

<sup>162</sup> No. Civ. 12-7382, 2013 WL 6185203 (C.D. Cal. Nov. 25, 2013).

<sup>163</sup> *Id.* at \*5.

<sup>164</sup> *Id.* at \*4. The court did indicate that pleadings deemed admitted by default could be sufficient if there were "some additional extraordinary circumstances plead in the complaint." *Id.*

Though these cases may only be anecdotal evidence, they indicate that attorneys' fees awards in default cases may be somewhat less frequent in patent cases than trademark cases.<sup>165</sup> Whether that will change in light of *Octane Fitness* remains to be seen. It is also noteworthy that the courts rested their decisions on a lack of exceptionality, and did not use the clear and convincing standard as a special barrier to a fee award.<sup>166</sup> Perhaps courts perceive patent cases as more "technical" and are more cautious about imposing penalties such as attorneys' fees where only one side is present.

The same theme exists with respect to enhanced damages. Thus, in *Monsanto Co. v. Slusser*, the court denied treble damages, emphasizing that it was a default (as a reason *not* to award treble damages) and that the record did not contain clear and convincing evidence of willfulness.<sup>167</sup> The court did award attorneys' fees, but did so based on defendant's prior actions related to the litigation, not because of the deemed admissions.<sup>168</sup>

Although it differs from the standards employed in trademark and copyright cases, a clear and convincing standard is not altogether surprising. Courts have stated that the treble damage provision is, in essence, a punitive provision.<sup>169</sup> Requiring a higher standard of proof before implementing a form of punishment is not unreasonable. What is surprising is that patent law appears to stand alone in this regard, at least in the area of intellectual property. Courts acknowledge that the willfulness provisions of statutory damages in copyright

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<sup>165</sup> In 2013, no patent default case could be found in which the defendant completely failed to appear and the court awarded attorneys' fees. (In *Monsanto Co. v. Slusser*, No. 4:10 Civ. 255, 2013 WL 1316367 (E.D. Mo. Mar. 29, 2013), discussed below, the defendant appeared and participated, though he did not actually answer the complaint.)

<sup>166</sup> See *Deckers Outdoor Corp.*, 2013 WL 6185203, at \*4 (denying attorneys' fees without discussing clear and convincing standard); see also *Innovative Office Prods., Inc. v. Amazon.com, Inc.*, 2012 WL 1466512, at \*3, \*5 (E.D. Pa. Apr. 26, 2012) (finding defaulting defendant's "failure to participate in this action as willful and culpable," but without any discussion of damages or attorneys' fees). Cf. *Monsanto Co. v. Slusser*, 2013 WL 1316367 (E.D. Mo. Mar. 29, 2013) (denying treble damages but awarding attorneys' fees for delaying the litigation, although without mentioning the clear and convincing standard for the fee award); *Rhino Associates, L.P. v. Berg Mfg. & Sales Corp.*, 531 F. Supp. 2d 652, 658–59 (M.D. Pa. 2007) (no willful infringement where defendant attempted to design around the patent; denying treble damages and attorneys' fees); *Ingrid & Isabel, LLC v. Carey*, 2011 WL 5983333, at \*3 (N.D. Cal. Nov. 3, 2011) (in a patent and trademark default case, finding no willfulness, citing only the patent attorneys' fees statute).

<sup>167</sup> *Monsanto*, 2013 WL 1316367, at \*1.

<sup>168</sup> *Id.* at \*2. The court found that defendant's prior conduct in the litigation "unreasonably" delayed its progress. The court did not cite the clear and convincing standard when discussing attorneys' fees.

<sup>169</sup> *SDS Korea Co. v. SDS USA, Inc.*, No. 2:10-Civ.-4053 (WJM), 2012 U.S. Dist. LEXIS 107469, at \*5 (D.N.J. July 31, 2012).

and trademark cases serve a punitive function,<sup>170</sup> yet there is little indication of a desire to raise the burden of proof. Although *Octane Fitness* addressed only the standard to be used when awarding attorneys' fees, the absence of any statutory support for a higher burden of proof may lead to the use of a preponderance standard when awarding enhanced damages as well.<sup>171</sup>

Patent cases appear much less aggressive about labeling conduct as "willful," especially outside of the context of bad-faith litigation tactics.<sup>172</sup> It is not obvious whether the clear and convincing burden accounts for this difference, as courts seldom discuss that issue in default judgment cases (though they do usually cite the standard).

#### B. COPYRIGHT CASES

There are, perhaps unsurprisingly, many more copyright default cases than patent defaults.<sup>173</sup> Moreover, as discussed above, many trademark counterfeiting cases use copyright cases as a guide to imposing statutory damages. Copyright (Section 504(c)) and trademark (Sections 35(b) and (c)) have similar statutory damage structures: a very wide range, with a greatly increased maximum for willful infringement. However, attorneys' fees in copyright cases are not limited to exceptional cases; the statute simply gives the court discretion to award fees.<sup>174</sup>

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<sup>170</sup> See, e.g., *Slusser*, 2013 WL 1316367, at \*1; *Lucerne Textiles, Inc. v. H.C.T. Textiles Co.*, 2013 WL 174226, at \*3 (S.D.N.Y. Jan. 17, 2013).

<sup>171</sup> See *Octane Fitness Mfg., Inc. v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1758 (2014) (noting that "patent-infringement litigation has always been governed by a preponderance of the evidence standard").

<sup>172</sup> One patent case did find willful conduct essentially from the fact of default. However, it cited *trademark* cases in support of this proposition, ignoring the possible differences—especially the burden of proof—between the two. *ThermoLife Int'l, LLC v. Sechel Holdings, Inc.*, No. 11-Civ.-01256-PHX-PGR, 2012 U.S. Dist. LEXIS 42419, at \*13–14 (D. Az. Mar. 28, 2012). But this case appears to be an outlier.

<sup>173</sup> A search for 2013 copyright default judgment cases returned eighty-four results, most of which were, in fact, copyright cases (sometimes combined with trademark cases). The same search for 2012 cases yielded 100 results.

<sup>174</sup> 17 U.S.C. § 505 (2012). In practice, fee awards in copyright cases are not routine. They appear more frequently to be awarded in cases where plaintiff has acted willfully or in bad faith. See 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 14.10[D][3][b]. However, some courts maintain that fee awards should be regarded as the norm in copyright cases. E.g., *Micromanipulator Co. v. Bough*, 779 F.2d 255, 259 (5th Cir. 1985) (maintaining that fee awards should be regarded as the norm in copyright cases).

Default judgments in copyright cases appear to be much closer in reasoning to trademark cases than are patent cases. Willfulness<sup>175</sup> is a factor in statutory damages for copyright, which seems to be the measure of choice in copyright defaults, for obvious reasons. It does not require any information from defendant, although courts seem most comfortable when plaintiff supplies some information about its losses, either profits or potential licensing fees—the latter especially with respect to music.<sup>176</sup> Although courts in default cases are very reluctant to give close to maximum statutory damages in either trademark or copyright default cases, willful infringement is a factor in the decision about the amount of damages incurred.<sup>177</sup> Moreover, as in trademark cases, judges in copyright cases appear willing to view allegations of willfulness in the complaint—accepted as true by default—or even the fact of default itself as a basis for finding willful infringement.<sup>178</sup> In fact, a trademark case citing a copyright case even provided an explanation of the latter: the court opined that an innocent infringer would not be likely to default.<sup>179</sup> Moreover, willful conduct is seen as permitting statutory damages to take on a punitive character, increasing the amount awarded.<sup>180</sup> Thus, as in trademark cases, courts tend to treat a defaulting defendant as presumptively acting in bad faith. The problem, of course, is that a defaulting defendant has little ability to rebut that presumption. By contrast, patent cases do not appear to operate with the same presumption.

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<sup>175</sup> As noted above, the term “willful” is not easily or consistently defined in law. On court, quoting Nimmer, said that “‘willfully’ means with knowledge that the defendant’s conduct constitutes copyright infringement.” See *Fallaci v. New Gazette Literary Corp.*, 568 F. Supp. 1172, 1173 (S.D.N.Y. 1983). But see Pamela Samuelson & Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 WM. & MARY L. REV. 439, 460–63, 480–91 (2009) (suggesting that the cases actually use a less rigorous standard).

<sup>176</sup> E.g., *Broadcast Music, Inc. v. Center Court, LLC*, No. 5:12Civ.1174, 2013 WL 1154189, at \*4 (N.D. Ohio Feb. 26, 2013); *Broadcast Music, Inc. v. Antigua Cantina & Grill, LLC*, No. 2:12-Civ.-1196, 2013 WL 460329, at \*3 (E.D. Cal. Feb. 5, 2013) (citing cases).

<sup>177</sup> *Center Court, LLC*, 2013 WL 1154189, at \*3.

<sup>178</sup> E.g., *Lucerne Textiles, Inc. v. H.C.T. Textiles Co.*, No. 12 Civ. 5456, 2013 WL 174226, at \*3 (S.D.N.Y. Jan. 17, 2013); *CJ Prods. LLC v. Your Store Online, LLC*, No. 11 Civ. 9513, 2012 WL 2856068, at \*3 (S.D.N.Y. July 12, 2012); *Dumas v. Dogi*, No. 88 Civ. 2293, 1990 WL 258343, at \*4 (S.D.N.Y. May 22, 1990).

<sup>179</sup> *Chloe v. Zarafshan*, 2009 WL 2956827, at \*7 (S.D.N.Y. Sept. 15, 2009) (trebling defendant’s profits before awarding this amount to plaintiff for willful counterfeiting). See *Fallaci*, 568 F. Supp. at 1173 (in copyright case, inferring willfulness from default “especially in light of plaintiff’s allegation of willfulness and demand for ‘increased statutory damages applicable to willful infringers’”).

<sup>180</sup> *Lucerne Textiles, Inc.*, 2013 WL 174226, at \*3.

Many copyright default cases appear to operate very much like trademark cases. The major difference is that statutory damages are available in a large percentage of copyright cases,<sup>181</sup> whereas in trademark cases they are limited to counterfeiting and cybersquatting. And attorneys' fees in copyright cases do not require an exceptional case,<sup>182</sup> making it even more likely that they will be awarded in a default case.

## VI. STATUTORY DAMAGES AND DUE PROCESS

Large statutory damage awards, whether or not they result from a finding of willfulness, often imply a punitive function to the award. There are many examples of courts admitting the significant punitive aspect of the damage award in default cases.<sup>183</sup> When the punitive aspect far outweighs any reasonable measure of compensation, a question of due process will arise. In *BMW of North America, Inc. v. Gore*,<sup>184</sup> the Supreme Court held that a punitive damages award that far exceeded the compensatory damages violated due process.<sup>185</sup> The Court cited a lack of "fair notice" to the defendant, especially where civil fines for such conduct would be significantly less than the punitive award, as a basis for its ruling.<sup>186</sup> Thus, one may ask whether a large statutory damages award, particularly one issued after a default, gives "fair notice" as described in *Gore*.

Not surprisingly, in copyright cases, many of the same issues arise. As discussed earlier, the copyright laws contain a statutory damage provision with a wide range of possible damages. Moreover, as prominent scholars have argued, statutory damages in copyright give courts extremely wide latitude as to the amount with few guideposts, and findings of willful infringement (which increase the range of possible awards) appear to be more frequent than

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<sup>181</sup> 17 U.S.C. § 412 (2012) (no statutory damages are available if the infringement began before registration of the copyright, unless, in the case of published works, registration occurs within three months of publication).

<sup>182</sup> *Id.* § 505.

<sup>183</sup> *E.g.*, *Coach, Inc. v. McMeins*, No. Civ. 3574, 2012 WL 1071269, at \*4 (S.D.N.Y. Mar. 9, 2012); *WFTV, Inc. v. Maverik Prod. LLC*, No. 6:11-Civ.-1923, 2013 U.S. Dist. LEXIS 86137, at \*35 (M.D. Fla. Apr. 19, 2013); *Coach, Inc. v. Allen*, No. 11 Civ-3510, 2012 WL 5359579, at \*3 (S.D.N.Y. July 20, 2012). *See* *Capitol Records, Inc. v. Thomas-Rasset*, 692 F.3d 899, 909–10 (8th Cir. 2012) (a non-default copyright case); *Johnson & Johnson v. Azam Int'l Trading*, 07-Civ-4302, 2013 U.S. Dist. LEXIS 112755, at \*40 (E.D.N.Y. July 18, 2013).

<sup>184</sup> 517 U.S. 559 (1996).

<sup>185</sup> *Id.* at 581.

<sup>186</sup> *Id.* at 583–84.

Congress intended.<sup>187</sup> Consequently, it has been argued that large statutory damages in copyright should be measured against *Gore*'s standards.<sup>188</sup> However, the due process argument against statutory damages in copyright has not fared well in the courts, leading one to believe that a similar fate would await any attempt to make the same argument in trademark cases. The major impediment is the Supreme Court's decision in *St. Louis I. Mt. & S. Ry. Co. v. Williams*.<sup>189</sup> In *Williams*, a railroad challenged a statutory damage award of \$75—the allowable range was \$50–\$300—for an overcharge of sixty-six cents on a train fare.<sup>190</sup> The Court rejected the challenge, citing the “due regard for the public, the numberless opportunities for committing the offense, and the need for securing uniform adherence to established passenger rates.”<sup>191</sup> Courts addressing challenges to copyright statutory damages have cited *Williams* as the controlling authority, rather than *Gore*.<sup>192</sup> Appellate courts have been “extraordinarily deferential” to lower courts, “even more so than in cases applying abuse-of-discretion review,”<sup>193</sup> despite the fact that the available statutory range in copyright far exceeds the range in *Williams*, and despite the fact that there is no extrinsic regulatory scheme (such as for train fares) at the heart of the statutory damage system. Courts appear to assume that since the ranges of statutory damages are knowable in advance, unlike punitive damages, the notice issues discussed in *Gore* are not as relevant to statutory damages.<sup>194</sup>

However, those copyright cases rejecting *Gore* were actively litigated by the parties; the cases on which we are focusing are defaults. Although the complaints appear to allege willful infringement in many cases and the damages

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<sup>187</sup> Samuelson & Wheatland, *supra* note 175, at 457–60.

<sup>188</sup> *Id.* at 464–97. See Ryan M. Hrobak, *Is Your iTunes Playlist Worth Six Figures? Due Process, Statutory Damages, and Peer-to-Peer Copyright Infringement*, 70 WASH. & LEE L. REV. 1941 (2013); see also Pamela Samuelson & Ben Shaffer, *Unconstitutionally Excessive Statutory Damage Awards in Copyright Cases*, 158 U. PA. L. REV. PENNUMBRA 53 (2009). But see Christopher K. Bader, *Peer-to-Peer File-Sharing, Due Process, and the Judicial Role*, 57 ST. LOUIS U. L.J. 805 (2013) (arguing that copyright statutory damages should not be cabined by due process).

<sup>189</sup> 251 U.S. 63 (1919).

<sup>190</sup> *Id.* at 63–64.

<sup>191</sup> *Id.* at 67. The Court did allow that an award “so severe and oppressive as to be wholly disproportionate to the offense and obviously unreasonable” would violate due process. *Id.* at 66–67.

<sup>192</sup> E.g., *Sony BMG Music Entm't v. Tenenbaum*, 719 F.3d 67, 71 (1st Cir. 2013) (*Williams* is the applicable standard); *Capitol Records, Inc. v. Thomas-Rasset*, 692 F.3d 899, 907–10 (8th Cir. 2012) (same), *cert. denied*, 133 S. Ct. 1584 (2013); *Zomba Enters., Inc. v. Panorama Records, Inc.*, 491 F.3d 574, 587 (6th Cir. 2007) (same).

<sup>193</sup> *Zomba*, 491 F.3d at 587.

<sup>194</sup> *Sony*, 719 F.3d at 70; *Thomas-Rasset*, 692 F.3d at 907. Cf. *Gore*, 517 U.S. at 574 (“BMW did not receive adequate notice of the magnitude of the sanction that Alabama might impose.”).

presumably were requested in the complaint,<sup>195</sup> it would not be obvious to an untrained observer on the face of the complaint that the court's damage award may bear little relationship to any actual damages. Thus, one might assume that the actual damages—which may be small—would be far less than the request, and that default might be the better course of action. That the complaint states the outer limit of what *could* happen does not necessarily constitute “fair notice” of what is reasonably likely to happen. Moreover, the complaint would not notify a defendant that *the act of default* would be a basis for finding willful infringement and issuing punitive sanctions.<sup>196</sup> In the copyright arena, it has been suggested that courts should not find willful infringement in default situations.<sup>197</sup>

One can readily find default cases in which the basis for statutory damages is very thin. For example, in *PetMed Express, Inc. v. MedPets.com, Inc.*, the court awarded \$800,000 in statutory damages for trademark counterfeiting.<sup>198</sup> However, the court never explained why the defendant's MedPets domain names would be considered “counterfeits” of (instead of merely confusingly similar to) plaintiff's PetMeds mark. There was no indication in the opinion that the complaint alleged counterfeiting.<sup>199</sup> Indeed, the court conceded that defendant was not selling counterfeit products.<sup>200</sup> Thus, the use of the counterfeiting statute appears misplaced. Although plaintiff presented some evidence of willful infringement,<sup>201</sup> the court specifically stated that it could

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<sup>195</sup> FED. R. CIV. P. 54(c), precludes granting a remedy in a default judgment that is different in kind or amount from that requested in the complaint.

<sup>196</sup> Here I am specifically referring to the cases discussed above where the act of default itself is used as evidence of willful infringement. But the many courts that find willful infringement based on defendant's deemed admission of such allegations in a complaint should not escape due process scrutiny. Even a more savvy observer of the complaint might assume that the predicate act for punitive damages would have to be demonstrated by more than constructive admission of allegations by default.

<sup>197</sup> Samuelson & Wheatland, *supra* note 175, at 506.

<sup>198</sup> *Petmed Express, Inc. v. MedPets.com, Inc.*, 336 F. Supp. 2d 1213, 1220–21 (S.D. Fla. 2009). This represented \$400,000 per infringing mark. The court also awarded \$100,000 for cybersquatting (\$50,000 per offending domain name).

<sup>199</sup> *See id.* at 1217–18 (discussing allegations of trademark infringement); *id.* at 1219–21 (discussing statutory damages).

<sup>200</sup> *Id.* at 1222 n.4. The court went on to state that “Plaintiff has established liability for federal trademark infringement pursuant to 15 U.S.C. § 1114(1)(a) and thus, has demonstrated that Defendant's domain names are counterfeit marks. . . .” *Id.* at 1220 (emphasis added). Of course, merely showing infringement does not demonstrate that defendant used a “counterfeit” mark.

<sup>201</sup> The most damaging evidence was that defendant used 1888MedPets.com as a domain name, and it did not correspond to a telephone number for MedPets. *Id.* at 1220.

“infer willfulness from Defendants’ default.”<sup>202</sup> When assessing damages, the court asserted, with no apparent evidence, that “the fact that [the infringing] marks appeared on the Internet, [means that they] reach[ed] a substantial number of customers.”<sup>203</sup> It would be particularly difficult to say that a defendant has fair notice when a critical factor—the default itself—is not part of the complaint, and does not obviously lead to a conclusion of willful infringement.

By contrast, where courts find that defendant operated small stores, they are sometimes less inclined to award substantial statutory damages, even when the store sells counterfeit products.<sup>204</sup>

Given the large discretion and very deferential review allotted to trial courts when granting statutory damages, Justice Breyer’s concurring opinion in *Gore* may provide an additional basis for questioning statutory damages, especially in default cases. Justice Breyer noted that in *Pacific Mutual Life Ins. Co. v. Haslip*,<sup>205</sup> the Court stressed

the constitutional importance of legal standards that provide “reasonable constraints” within which “discretion is exercised,” that assure “meaningful and adequate review by the trial court whenever a jury has fixed the punitive damages,” and permit “appellate review [that] makes certain that punitive damages are reasonable in their amount and rational in light of their purpose to punish what has occurred and to deter its repetition.”<sup>206</sup>

Although the constraints “need not be precise in order to satisfy this constitutional concern,”<sup>207</sup> the range of statutory damages, especially for counterfeiting, is enormous and, by the courts’ own admissions, the constraints on their discretion within that range are almost non-existent.<sup>208</sup> Thus, although

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<sup>202</sup> *Id.*

<sup>203</sup> *Id.*

<sup>204</sup> See, e.g., *Coach, Inc. v. Tom’s Treasure Chest*, No. 2:10-Civ.-00243, 2011 WL 4399355, at \*3–4 (N.D. Ind. Sept. 21, 2011) (awarding \$5,000 per mark, for a total of \$30,000). But see *Coach Services, Inc. v. Wireless Star, Inc.*, No. 12-1123, 2013 U.S. Dist. LEXIS 40361, at \*3–4 (E.D. Mich. Feb. 11, 2013) (finding Coach’s request for \$2 million “reasonable” because a search warrant turned up “seventeen counterfeit ‘Coach’ items” at defendant’s store, which could have resulted in a maximum award (assuming no willfulness) of \$3.4 million).

<sup>205</sup> 499 U.S. 1 (1991).

<sup>206</sup> *Gore*, 517 U.S. at 587 (Breyer, J., concurring) (quoting *Haslip*, 499 U.S. at 20–21).

<sup>207</sup> *Id.* at 588.

<sup>208</sup> *Zomba Enters., Inc. v. Panorama Records, Inc.*, 491 F.3d 574, 588 (6th Cir. 2007).

the parameters of possible statutory damages are knowable in advance, it would be difficult to predict where within those parameters a particular actor's conduct might fall.<sup>209</sup> This is particularly true for a defendant who is deciding whether to retain an attorney and contest the claim based on the allegations in the complaint. Thus, one can argue that the complete lack of parameters gives trial courts unconstitutionally large discretion, unfettered by any realistic appellate review, especially in default cases where there effectively is no review. However, given the obvious reluctance of courts to impose constitutional restrictions on statutory damages, such an argument is not likely to find a receptive audience in the courts of appeals.

#### VII. IS IT A PROBLEM TO BE SOLVED—AND HOW?

At one level, the issue of willfulness in default judgments is certainly a legal problem. A level of malevolence is being imputed to defaulting defendants largely, and sometimes entirely, without any evidence, whether by inference from the fact of default or by accepting allegations in a complaint as true. In a number of cases, however, there is more than just the act of default or allegation of willful conduct. For example, in *Rutt's Hut, Inc. v. Mutt's Hut International*, the court cited defendant's failure to respond to a cease-and-desist letter as "culpable conduct,"<sup>210</sup> and held that attorneys' fees were warranted in light of this culpability and the fact that by ignoring the letter, the plaintiff was forced to incur legal fees.<sup>211</sup> Analogous sentiments can be found in other cases, where courts cite defendant's refusal to abide by or even acknowledge plaintiff's pre-litigation contacts as a basis for finding willful infringement.<sup>212</sup> That leads

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<sup>209</sup> This is not to say that courts impose statutory damages wholly arbitrarily. Many courts attempt to compare the case before them with previous cases. *See, e.g.*, *Facebook, Inc. v. Banana Ads LLC*, 2013 WL 1873289, at \*14–16 (N.D. Cal. Apr. 30, 2013); *All-Star Mktg. Grp., LLC v. Media Brands Co.*, No. Civ.11-03619, 775 F. Supp. 2d 613, 616–17 (S.D.N.Y. 2011); *Rodgers v. Anderson*, No. 04 Civ. 1149, 2005 WL 950021, at \*2–3 (S.D.N.Y. Apr. 26, 2005). But there are few real guidelines for courts to follow apart from their own estimation of how the current case compares with other cases. Courts sometimes fall back on guidelines used by courts in copyright cases. *E.g., id.* at \*2.

<sup>210</sup> No. 11-1350, 2011 WL 2923697 (D.N.J. July 18, 2011).

<sup>211</sup> *Id.* at \*2. The plaintiff sought no damages and the nature of the infringement is not clear from the court's opinion.

<sup>212</sup> *E.g.*, *World Entm't, Inc. v. Brown*, No. 09-5365, 2011 U.S. Dist. LEXIS 55182, at \*10 (E.D. Pa. May 2, 2011) (citing defendant's continued infringement after receiving cease and desist letters); *Coach, Inc. v. Melendez*, No. 10 Civ. 6178, 2011 U.S. Dist. LEXIS 116842, at \*9 (S.D.N.Y. Sept. 2, 2011); *WFTV, Inc. v. Maverik Prod. Liab. Co.*, 2013 U.S. Dist. LEXIS 86137, at \*47 (M.D. Fla. Apr. 19, 2013).

to a subsidiary question: To what degree *should* we expect recipients to respond to cease and desist letters?<sup>213</sup> To someone without an attorney, but who believes that he or she is not infringing, a cease and desist letter may be intimidating. Moreover, a cease and desist letter may be overreaching beyond the actual legal authority it cites.<sup>214</sup> On the other hand, it may be reasonable to expect *some* sort of response to such a letter, even if just a denial. But even a denial is difficult to formulate without an attorney, especially in the face of what may be complicated-sounding threats of dire consequences. Moreover, courts that assert that a timely response to plaintiff's entreaties would have obviated the need for plaintiff to sue are assuming the accuracy of the letter in the absence of actual evidence. On the other hand, there certainly are default cases where large damages appear warranted and where defendant appears to be a bad actor.<sup>215</sup>

Nevertheless, these assertions of willfulness go to the larger issue raised by default judgments—to what extent should we accept allegations in a complaint as true upon default?

In this section, I suggest some added procedures. They do not directly address the substantive problems of the proper definition of and redress for willful conduct, nor, at least directly, do they address the propriety of assuming that defaulters are acting badly. However, they may indirectly ameliorate some of the difficulties created by those substantive issues.

#### A. A REQUIREMENT OF NOTICE

As described by a leading treatise on practice and procedure, the main purpose of the default judgment rule is to prevent an unresponsive party from unreasonably delaying the diligent party's entitlement to its claim.<sup>216</sup> But that does not explain the rule's limited right to notice of a hearing after a default is

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<sup>213</sup> This question is probably most relevant with respect to relatively innocent or small-time infringers. Knowing counterfeiters who operate on a larger scale are more likely to respond disingenuously if they respond at all.

<sup>214</sup> Coach was sued in 2011 over letters it sent to online retailers claiming that the goods those retailers sold were counterfeit. The case was *Kim v. Coach, Inc.*, brought in the Western District of Washington. The complaint is at <http://www.scribd.com/doc/48651879/Kim-v-Coach-Complaint> (last visited July 11, 2013). See Grinvald, *supra* note 110, at 11–16 (listing characteristics of abusive cease and desist letters); Kenneth L. Port, *Trademark Extortion: The End of Trademark Law*, 65 WASH. & LEE L. REV. 585, 589 (2008).

<sup>215</sup> *E.g.*, *Coach, Inc. v. Pure MLK Last Stop, Inc.*, No. 12-Civ.-2254, 2013 WL 5888139 (C.D. Ill. Nov. 4, 2013).

<sup>216</sup> See WRIGHT & MILLER, *supra* note 96, § 2682.

entered. Only a party that has “appeared” has a right to receive notice of a motion for a default judgment.<sup>217</sup> Presumably, the drafters felt that a party who has not bothered to indicate any interest in the case would not show up to a hearing.<sup>218</sup> However, the provision for notice is a very meaningful one. Before a judgment is entered, the Rules permit the court to “set aside an entry of default for good cause.”<sup>219</sup> Once a judgment is entered, one must use Rule 60(b) to set aside the judgment.<sup>220</sup> The specific grounds in Rule 60(b) for setting aside a judgment are relatively limited; the most likely ones for a default judgment would be “mistake, inadvertence, surprise, or excusable neglect.”<sup>221</sup> But one would not expect a court to readily give relief in default judgment cases unless a very serious breach of propriety occurred.<sup>222</sup> “Good cause,” on the other hand, is potentially more lenient.<sup>223</sup> Moreover, because a judgment has not yet been entered, and because the default probably occurs relatively soon after the action has begun, the prejudice to the plaintiff is normally small.<sup>224</sup> Of course, one must know about the default before a judgment is entered in order to avail oneself of Rule 55(c).

One possible solution is for all defaults to trigger a notice requirement. Whether this would lead to anything productive, rather than act as a delaying tactic that increases plaintiff’s costs, is unclear. A less drastic alternative, at least for intellectual property cases, would be to require notice of default sent to defendants in situations where the complaint alleges willful conduct. This would notify the defendant of the seriousness of the situation and give the defendant an opportunity to defend, or at least contest damages, if it cannot justify trying to set aside the default. A court could order this in its discretion, but that is unlikely, since a default is entered by the clerk, not a judge, and the judge has no reason to know about the default until after a motion for entry of a judgment is made. There would have to be a standing local or judge-made

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<sup>217</sup> FED. R. CIV. P. 55(b)(2) (seven day notice required if a party appears).

<sup>218</sup> The Advisory Committee Notes in 1937 referred to the procedures of several states without comment. There are no other comments on this procedure.

<sup>219</sup> FED. R. CIV. P. 55(c).

<sup>220</sup> *Id.*

<sup>221</sup> FED. R. CIV. P. 60(b)(1). Rule 60(b)(6) has a catchall, but its use would be unusual here. MOORE’S FEDERAL PRACTICE, *supra* note 115, § 55.80[1], at n.3.

<sup>222</sup> See MOORE’S FEDERAL PRACTICE, *supra* note 115, § 55.82[2] (describing Rule 60(b)(1) more stringent than Rule 55(c)).

<sup>223</sup> See *id.* § 55.70[4], and accompanying cases.

<sup>224</sup> See *id.* § 55.70[5].

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rule for this to be implemented under the current rule.<sup>225</sup> A third alternative would be a notice sent after the hearing but before the formal entry of judgment, which would notify the defendant of the amount of imminent liability.<sup>226</sup>

These notice procedures are not without risks. An unscrupulous defendant could use the notice to seek ways to avoid the impending judgment (moving money, reorganizing or going bankrupt, etc.). However, one would imagine that service of a complaint would be almost as likely to trigger those same reactions.<sup>227</sup>

Pre-judgment notice at least gives defendants an opportunity to contest the issues of willfulness and damages. The risks of additional notice are small. In most cases, the cost of additional notice should not be large. Mail service ought to suffice in most cases and the court could make appropriate orders in more difficult cases. But notice would not necessarily solve the problem. If the defendant does not contest liability (by moving to set aside the default), it may be deemed to have admitted willfulness. And if a defendant does not or cannot contest damages, then the underlying issue will be the same—should a default be sufficient reason to infer willfulness.

#### B. DEMANDING FURTHER PROOF

Another—or perhaps an additional—procedure is suggested by the default rule in New York, which requires proof of facts by sworn affidavit.<sup>228</sup> Since willfulness is related to damages, and damages have to be proven, it would make sense to require proof of willfulness independent of the allegations of the complaint. As indicated above, some courts have looked at the evidence outside the complaint—cease and desist letters, purchasers of goods (in the case

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<sup>225</sup> Such a rule would be possible, but would have to be consistent with the Federal Rules. *See* FED. R. CIV. P. 83(a).

<sup>226</sup> Pennsylvania requires that all defendants receive ten days' notice before a hearing on a default judgment. PA. R. CIV. P. 237.1(a)(2) It also requires that the notice have specific content that informs the defendant that he or she is in default for failure to answer, that a judgment may be entered, causing loss of property or rights, and that defendant should consult a lawyer. *Id.* § 237.5. New York's default rule is similar to the federal, *see* N.Y. C.P.L.R. § 3215(a) (Consol. 2014), but it requires plaintiff to prove the facts by affidavit of the party. *Id.* § 3215(f).

<sup>227</sup> If it does not, having a judgment may allow a plaintiff to put liens on property before defendant can sequester the property in some way.

<sup>228</sup> N.Y. C.P.L.R. § 3215(f).

of counterfeits), and continued sales after receipt of the cease and desist letter.<sup>229</sup>

Requiring further proof would replace the presumption or inference of willful conduct from the default (or from deemed admissions of willful conduct). Moreover, it would require a better definition of “willful” conduct.

Other possible procedures may be suggested by further examination of defaults under copyright and patent law.<sup>230</sup> At least some patent cases suggest that deeming willful infringement from admission by default should require more than a conclusory allegation of willfulness, for example.<sup>231</sup>

### VIII. OBSERVATIONS, SUGGESTIONS, AND CONCLUSIONS

The prevalence of willfulness findings in trademark and copyright cases suggests that courts are operating on the assumption that people of goodwill do not ignore cease-and-desist letters, and, especially, do not ignore complaints formally served on them. But it is worth remembering that the Federal Rules giving notice of the complaint by mail.<sup>232</sup> Even though the complaint comes with official sounding forms to fill out a waiver of service, it is far from implausible that some defendants will believe that the entire process is a scam designed to obtain information.<sup>233</sup> Thus, as indicated earlier, we may wish to re-examine the presumptions and provide extra process and even a higher burden of proof; say, the clear and convincing standard used in patent cases, in order to find willful infringement.

A second observation is that courts are not rubber stamps, automatically granting default judgments. Courts (which includes both district judges and magistrate judges, to whom the task of hearing damage requests is frequently delegated) do seem to take the matter seriously. They examine the complaint and not infrequently deny all or part of a default judgment motion for failure to

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<sup>229</sup> See *supra* notes 109, 210–12.

<sup>230</sup> See *supra* Part V.A, discussing the clear and convincing evidence requirement in patent cases for showing willful conduct to obtain treble damages and attorneys’ fees (with the caveat that it may no longer be the proper standard).

<sup>231</sup> See, e.g., *Deckers Outdoor Corp. v. ShoeScandal.com, LLC*, No. CC 12-7382, 2013 WL 6185203, at \*4 (C.D. Cal. Nov. 25, 2013).

<sup>232</sup> Technically, the rules encourage a *waiver* of service, with the waiver process accomplished by mail. FED. R. CIV. P. 4(d)(1)(G).

<sup>233</sup> If service is made by e-mail, or if a waiver of service is requested by e-mail, such a belief is even more plausible, given the prevalence of phishing.

plead a cognizable claim.<sup>234</sup> They examine personal jurisdiction<sup>235</sup> and sometimes deny default judgments for lack of it.<sup>236</sup> They do not automatically grant plaintiffs the amount of damages they seek, especially statutory damages, and especially when plaintiffs seek very large amounts.<sup>237</sup> Nor do they automatically grant the amount of attorneys' fees requested.<sup>238</sup>

This leads to a third observation. The issues discussed here are not easily separable from the larger issue of statutory damages. The majority of reported trademark default judgments involving damages are in cybersquatting and counterfeiting cases, where statutory damages are available. In trademark, as in copyright, the available range of such damages is very large (especially if the action is deemed willful) and the limits on the court's discretion are very small.<sup>239</sup> Courts are understandably frustrated by defaults, which deprive them of information that may be relevant to the exercise of their discretion.<sup>240</sup> Moreover, if the perception is that defaulters are almost always bad people, then it is likely that significant damage awards will be forthcoming. This suggests that adding a few layers of procedure—prejudgment notice, greater proof of

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<sup>234</sup> *E.g.*, *Suzuki Motor Corp. v. Juijiang Hison Motor Boat Mfg. Co.*, No. 1:12-Civ.-20626, 2012 WL 2873733, at \*7–11 (S.D. Fla. June 29, 2012) (examining elements of confusion and false advertising); *eAdGear, Inc. v. Liu*, No. Civ.-11-05398, 2012 WL 2367805, at \*12 (N.D. Cal. June 21, 2012) (denying default judgment on copyright claim, while granting judgment on other claims).

<sup>235</sup> *See eAdGear, Inc.*, 2012 WL 2367805, at \*5–9 (examining personal jurisdiction and finding that it did exist).

<sup>236</sup> *E.g.*, *Facebook, Inc. v. Pedersen*, 868 F. Supp. 2d 953 (N.D. Cal. Mar. 2, 2012).

<sup>237</sup> *E.g.*, *Coach, Inc. v. Bags & Accessories*, No. 10-2555, 2011 WL 1882403, at \*7 (D.N.J. May 17, 2011) (granting statutory damages ten times the minimum, but denying request for 100 times the minimum). *But cf.* *Lucerne Textiles, Inc. v. H.C.T. Textiles Co.*, No. 12 CW 5456, 2013 WL 174226, at \*3–4 (S.D.N.Y. Jan. 17, 2013) (granting request for maximum allowable for non-willful conduct, using willfulness to justify it and citing cases).

<sup>238</sup> *E.g.*, *Mister Softee of Brooklyn, Inc. v. Boula Vending Inc.*, No. 10-Civ.-02390(ARR) (JMA), 2011 WL 705139, at \*1–2 (E.D.N.Y. Feb. 17, 2011) (default cases are not per se exceptional, even where willful conduct is found, where mitigating factors exist), *aff'd*, 484 F. App'x 623, 624 (2d Cir. 2012) (bad faith does not automatically entitle the opposing party to attorneys' fees).

<sup>239</sup> *E.g.*, *eAdGear, Inc.*, 2012 WL 2367805, at \*12 (citing “wide discretion” of the court in this matter).

<sup>240</sup> A larger question is whether default judgments, especially in counterfeiting cases, with barely cabined statutory damages, are an appropriate mechanism to deal with the defendants against whom enforcement is most justified. Perhaps a better mechanism is criminal enforcement, which is provided by federal and state law. *See, e.g.*, 18 U.S.C. §§ 2320, 2323 (providing for criminal penalties, forfeiture, and restitution); CAL. PENAL CODE § 350; N.Y. PENAL L. §§ 165.70–.74. Perhaps some potential defendants would flee the jurisdiction. But, in that event, a default judgment may also be an exercise in futility.

facts, especially willfulness, and higher burdens of proof—could be helpful in ensuring fairness for those defaulters who are not bad people.<sup>241</sup> There is also a spillover effect in the area of attorneys’ fees, at least with regard to trademark cases. Unless they believe that significant statutory damages are sufficient to cover attorneys’ fees<sup>242</sup> courts usually award attorneys’ fees in cases where they find willful infringement.

A fourth observation: my suggestions and my observations are tentative and, at the moment, based on somewhat anecdotal impressions from the case law. I have reviewed a substantial number of the cases from 2012 and 2013, but just a relative handful from other years. Although I believe that these observations will be borne out by a more systematic examination, I cannot claim real “data” supports my impressions.

And a fifth observation. Perhaps the default cases can be a window into trademark law more generally. Have we drawn the lines that separate “willful” from “non-willful” sensibly? Are statutory damages being meted out appropriately?<sup>243</sup> How “exceptional” should cases be before we award attorneys’ fees, especially in symbolically charged cases like cybersquatting (whose elements include “bad faith”) and counterfeiting? There has been very little thoughtful discuss by courts of these issues.

Finally, a conclusion. More process is useful, but only helps at the periphery. A further step would involve pleading. To find willfulness, at a minimum there should be sufficient factual allegations, beyond conclusory ones, showing willful infringement. A better idea would be to require some actual evidence of willful infringement. In any event, default by itself should not be sufficient evidence of willful conduct.

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<sup>241</sup> Of course, in patent cases courts do not always cite or discuss the higher burden of proof. See discussion of patent cases *supra* Part V.A. However, its existence (which is in doubt following the Supreme Court’s *Octane Fitness* decision) may explain some of the reluctance of courts to give enhanced damages in patent default cases.

<sup>242</sup> One should remember that attorneys’ fees in a defaulted case are generally far less than a litigated case, so that a significant statutory damage award, untethered to much evidence of real damages, may well compensate for attorneys’ fees.

<sup>243</sup> In the copyright realm, Professor Wendy Gordon’s commentary critiquing certain large statutory damage awards and noting (somewhat in passing) that Canada limits such damages far more severely, may provide a useful point of departure. See Wendy J. Gordon, *The Lost Logic of Deterrence: When ‘Sending a Message’ To The Masses: Outstrips Fairness*, COGNOSCENTI, July 11, 2013, <http://cognoscenti.wbur.org/2013/07/11/joel-tenenbaum-wendy-gordon>; see also Samuelson & Wheatland, *supra* note 175 (another useful critique of statutory damages in copyright).

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There are questions left unanswered: What, precisely, do we mean by willful infringement? Courts have not adequately answered this question.<sup>244</sup> How should courts go about awarding statutory damages in default cases? Where there is no opposition to the request, there is a real danger of an improper award, given the enormous range and discretion accorded courts in this area. Because these are default cases, few appellate decisions exist to give guidance to district courts. Here, at least, many courts appear to make an effort to be careful. Nevertheless, district courts, and scholars, should attempt to create better guidelines for default awards.

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<sup>244</sup> Although that question is beyond the scope of this Article, I intend to return to that matter in the near future.

APPENDIX

Year	# of results	Willful found	Willful not found	No discussion or deferred	Non-trademark or non-default
2013	115	33	4	29*	45
2012	120	33	5	43**	38

\* In 2 cases there was an award of attorneys' fees without a discussion of willfulness.

\*\* In 9 cases there was an award of attorneys' fees without a discussion of willfulness.