

Microsoft Corporation vs Ms. K. Mayuri And Ors. on 30 April, 2007

Equivalent citations: MIPR2007(3)27, 2007(35)PTC415(DEL)

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JUDGMENT

Citing Reference:

* Mentioned

*** Discussed

General Tire v. Firestone.	*
Hero Honda Motors Ltd. v. Shree Assuramji Scooters.	*
Livingstone v. Rawyards Coal Co.	*
Mathias v. Accor Economy Lodging, Inc.	***
Meters Ltd. v. Metropolitan Gas Meters Ltd.	***
Microsoft Corporation v. Deepak Raval.	***
Nottinghamshire Healthcare National Health Service Trust v. News Group Newspapers Ltd.	***
Rookes v. Barnard.	***
Sutherland v. Caxton.	***
Time Incorporated v. Lokesh Srivastava.	***

Case Note:

Intellectual Property Rights Copyright Infringement of Piracy Damages Sections 14,

Ratio Decidendi:

Plaintiff entitled to the award of compensatory damage, exemplary/punitive damages as w

A.K. Sikri, J.

Page 2070

1. The plaintiff, Microsoft Corporation, is a company organized and existing under the laws of the State of Washington, USA. It has, however, its presence all over the world. In New Delhi it has marketing subsidiary Microsoft India Pvt. Ltd. The plaintiff is a world famous name for its business software such as Microsoft Windows, Microsoft Office etc. which are installed and used on millions of computers all over the world, including India. It also manufactures a large range of computer peripherals (hardware). The hardware group was established in 1982 and during this period, the plaintiff has built its reputation for technological expertise in hardware by developing and launching a series of successful devices including the ergonomically designed 'Mouse' and Keyboard. It is stated that software developed and marketed by the plaintiff is "computer programme" within the meaning of Section 2 (ffc) of the Copyright Act, 1959 (hereinafter referred to as 'the Act') and included in the definition of a literary work as per Section 2(o) of the said Act. The plaintiff's computer programmes are "works" that were first published in the USA and are also registered in the USA. These programmes have been created by the employees of the plaintiff, for the plaintiff. Under the US Copyright Law, US Code Title 17, Section 201(b), the copyright in a work created by an employee belongs to the employer under the 'Work made for Hire' doctrine. Both, the computer programme, as well as the supplementary User Instructions and Manuals, are 'original literary works' as contemplated under Section 2(o) and Section 13(1)(a) of the Act. The plaintiff is the owner of the said copyright. A complete list of the software programme owned by the plaintiff is filed with the plaint. The rights of authors of member countries of the Berne and Universal Copyright Page 2071 Conventions are protected under Indian copyright law. India and the USA are signatories to both the Universal Copyright Convention as well as the Berne Convention. Plaintiff's works are created by authors of member countries and originate from and are first published in the said member countries. Plaintiff's works are, thus, protected in India under Section 40 of the Act read with the International Copyright Order, 1999. The case of the plaintiff is that the plaintiff being the owner of the copyright in the aforesaid literary works within the meaning of Section 17 of the Act is entitled to all exclusive rights flowing from such ownership as set out in Section 14 of the Act.

2. It is stated that the plaintiff suffers incalculable damage to its intellectual property rights and business on account of various forms of copyright piracy. The common methods of copyright infringement employed in relation to computer software are described in brief as below:

reproducing the plaintiff's software and the packaging of that software, so that purchasers are deliberately misled into believing that the product they are buying is genuine software.

reproducing or "burning" the plaintiff's software onto a blank CD, where no attempt is made to represent that the copy is genuine.

reproducing a number of the plaintiff's programmes on a single CD-ROM, known as a "compilation" CD.

3. Another form of piracy that is assuming great significance in the information age is that of Internet piracy. Internet piracy occurs when software is downloaded from the Internet or distributed via the Internet without the permission of the copyright owner. Common Internet sites used for this infringing activity include online classified advertisements, Auction Houses, newsgroups, personal web sites and Bulletin Board Service (BBS) sites.

4. The plaintiff also enjoys the ownership in the trade mark 'Microsoft' which was adopted in the year 1970 and the plaintiff has used this trade mark continuously and extensively. 'Microsoft' is not only used as trade mark but also as a prominent/key and leading portion of its corporate name. This trademark is registered in India in the name of the plaintiff in classes 9 and 16 and bear the registration numbers 430449B and 430450B respectively.

5. Concerned by the counterfeiting and piracy of the plaintiff's hardware and software, the plaintiff asserts that it had conducted investigation into this aspect. During such investigation it found that wide range of pirated programmes and software of the plaintiff were available. Such pirated software programs are clearly distinguishable from the original software supplied by the plaintiff. The following are the distinguishing features:

(i) the plaintiff's computer software consists of manuals and floppy disks/compact disks which are never sold separately but are packed in a box while the floppy disks/compact disks are covered in a shrink-wrap. Pirated programs are sold in floppy disks/compact disks loosely without a master packing;

(ii) the master packing of Microsoft's programs bears its name, address, trademark, technical details and a bar code with an order number. Pirated programs, on the other hand, do not use a master packing;

Page 2072

(iii) Microsoft's floppies and/or jackets have a code number at their base and a sticker with the trademark, copyright notice and diskette number printed thereon in high quality printing. Pirates, on the other hand, use loose floppies which have no code number and use blank stickers upon which they generally write the name of the program(s) and the diskette number in pen;

(iv) the plaintiff's master packing contains the instruction manual, which is printed on good quality paper with printing of a high resolution and clarity. Pirates only offer manuals for some programs and these manuals generally have poor quality paper and the printing is diffused;

(v) each product of the plaintiff contains a specific software license to use the said product. Pirated copies obviously have no such genuine license.

From the above features, it becomes quite easy to distinguish the pirated software from the original software of the plaintiff.

The plaintiff's software are also pirated by way of hard-disk loading, which is one of the most damaging form of piracy to the plaintiff. In hard-disk loading, a computer dealer or seller usually loads/installs an unlicensed copy of the plaintiff's software onto the hard drives (HDD) of the computer which are purchased by the customers. The computer dealer in such circumstances usually does not charge any price for the plaintiff software, but occasionally many charge a meagre sum for software installation, thus, making the computer purchase very attractive for the purchasing customers. The customers may or may not realise that the software copy loaded onto his/her computer is an illegal copy, making him/her liable for copyright infringement.

Additionally, such computer dealers also avoid giving the final purchase invoice for a computer unit, but instead adopt the practice of making invoices for computer parts so that they can take the defense that they never sold the computer to the customer with pirated software but instead only sold parts. Such unscrupulous computer dealers do not realise that a normal customer will never buy computer parts so as to assemble the computer himself/herself since it is highly technical and cumbersome in nature. Although, such evasive practices are illegally motivated to put up a farce defense, such an act proves their intentional and blatant participation in these piracy activities.

6. According to the plaintiff, the defendants have also been indulging in such piracy. The defendant No.3 is a business entity engaged in marketing and selling computer hardware, including branded and assembled desktop computers and peripherals. The defendant Nos. 1 & 2 are arraigned as the proprietors/partners of the defendant No. 3, though according to the plaintiff the exact constitution of the defendant No. 3 is not known. It is stated that the defendant Nos. 1 & 2 are managing the affairs of the defendant No. 3. It is alleged that in the month of March 2005, the plaintiff received information that the defendants were doing business of unauthorised hard disk loading of the plaintiff's software on the computers that were assembled and sold by them to their customers. In order to verify Page 2073 this, an independent investigator was sent to the business premises of the defendants to place an order for a computer with the defendants. The said investigator, namely, Mr. Satheesh Kumar, visited the premises of the defendant No. 3 on 26.3.2005 and collected a quotation for two assembled computers for Rs. 24,995/- and Rs. 19,995/- respectively from Mr. Meyyiarie, the service engineer working with the defendants, who additionally offered to supply MS Software program by loading them on the hard drives free of cost. The said investigator visited the defendant's business location again on 15.4.2005 and placed an order for one assembled computer for Rs. 19,995/- by paying the cash advance of Rs. 10,000/-. On 16.10.2005, when the delivery was scheduled to be given, he visited again and was delivered the computer with MS software programs, such as WINDOWS XP and MICROSOFT OFFICE loaded on the computer. He collected the computer and couriered it to the plaintiff's representative and New Delhi for technical examination. On technical examination, the following software programs were found to be present in the computer:

Operating System:

Microsoft Windows XP Professional Version 2002 Registered to : Intel Registration No. : 55274-640-6289953-23868 Application Software:

Microsoft Office 2002
(Word, PowerPoint, Excel, FrontPage, Access & Outlook)
Licensed to : Intel
Product ID No. : 54185-640-0000025-17195

These were found to be unlicensed and/or pirated versions of the plaintiff's software and pirated in view of the following, inter alia, distinguishing features:

- (i) the software supplied by the defendants does not have the accompanying User's Manual and was not shrink wrapped;
- (ii) the software supplied by the defendants does not have Software License Agreements as in the case of the plaintiff's software;
- (iii) the software supplied by the defendants were free of cost and the cost of the computer was not enough to cover the genuine software price; and
- (iv) the software installed by the defendants have "installation break codes" which are used to bypass the requirement of authentic installation product codes during software installation.

7. Legal notice dated 28.4.2005 was, accordingly, sent to the defendants mentioning about the said infringement of the plaintiff's intellectual property rights. The defendants were called upon for a settlement meeting in Chennai with clear warning that failure to attend the meeting would leave the plaintiff with no choice but to resort to suitable legal action. Parties met on 3.5.2005, on which date the defendant No. 2 was present. However, he refused to accept the terms proposed by the plaintiff stating that the defendant No. 3 was the concern of his wife, namely, defendant No. 1. Since the settlement was refused on the aforesaid excuse, the plaintiff filed the present suit. According to the plaintiff, because of the Page 2074 aforesaid action of the defendants, substantial loss is caused to the reputation and goodwill of the plaintiff, which is assessed at Rs. 20 lacs. The suit for permanent injunction, delivery up as well as damages is accordingly filed.

8. Summons were directed to be issued in the suit on 29.7.2005, returnable on 30.9.2005. In the application for interim injunction preferred by the plaintiff, ex-parte ad interim injunction was given restraining the defendants, their employees and agents from copying, reproducing, hard disk loading, offering for sale, distributing, issuing to public, counterfeit/unlicensed versions of the plaintiff's software and infringing the copyright of the plaintiff. The defendants were duly served,

but nobody appeared on their behalf on 30.9.2005. Therefore, they were proceeded ex-parte and the plaintiff was directed to file its ex-parte evidence by way of affidavit. Some time was taken to file the affidavit by the plaintiff and affidavit of the witness was filed. However, thereafter, further time was sought to file an additional affidavit, which was filed, and documents exhibited before the Joint Registrar on 18.11.2006. The matter was argued on 13.3.2007 by learned Counsel for the plaintiff.

9. Evidence of Mr. Anand Banerjee, constituted attorney of the plaintiff, is filed vide affidavit dated 21.11.2005. The second affidavit is of Mr. Sanjeev Sharma, which is dated 17.11.2006. Mr. Banerjee has produced notarised copy of Letter of Authority issued in his favor by the plaintiff to file the present proceedings as Ex.P-1. He has generally stated on oath the averments made in the plaint. He has also stated that the computer software of the plaintiff is protected under various laws as under:

5. I affirm that the software developed and marketed by the Plaintiff is a "computer programme" within the meaning of Section 2 (ffc) of the Copyright Act, 1957 and included in the definition of a literary work as per Section 2(o) of the Act.

6. I affirm that the Plaintiff's computer programmes are "works" that have been first published in the USA and are also registered in the USA. These programs have been created by employees of the Plaintiff, for the Plaintiff. Under the US Copyright Law, US Code Title 17, Section 201(b), the copyright in a work created by an employee belongs to the employer under the 'Work made for Hire' doctrine. Both the computer programme, as well as the supplementary User Instructions and Manuals, are 'original literary works' as contemplated under Section 2 (o) and Section 13(1)(a) of the Copyright Act, 1957. The Plaintiff is the owner of the said copyrights.

7. I affirm that the rights of authors of member countries of the Berne and Universal Copyright Conventions are protected under Indian copyright law. India and the USA are signatories to both the Universal Copyright Convention as well as the Berne Convention. The Plaintiff's works are created by authors of member countries and originate from and are first published in the said member countries. The Plaintiff's works are, thus, protected in India under Section 40 of the Copyright Act, 1957 read with the International Copyright Order, 1999.

Page 2075

8. I affirm that the Plaintiff being the owner of the copyright in the aforesaid literary works within the meaning of Section 17 of the Copyright Act, 1957 is entitled to all the exclusive rights flowing from such ownership as set out in Section 14 of the Copyright Act, inter alia,:

(a) the right to reproduce the work in any material form, including storing it in any medium by electronic means;

(b) to issue copies of the work;

(c) to make an adaptation or translation of the work;

(d) for a computer programme, the additional right to sell or give on commercial rental, or offer for sale or commercial rental, any copy of the computer programme;

(e) the right to authorise the doing of any of the aforesaid acts.

9. I affirm that under Section 51(a)(i) of the Copyright Act, copyright in a work shall be deemed to be infringed, when any person, without a license from the owner of copyright, does anything, the exclusive rights of which are granted to the owner of copyright, such as the ones enumerated in paragraph 7 above (the primary acts of infringement).

10. I affirm that under Section 51(b) of the Act, copyright in a work shall be deemed to be infringed, when any person, without a license from the owner of copyright,

(i) makes for sale or hire, or sells or lets for hire, or by way of trade, displays or offers for sale or hire any infringing copies of the work; or

(ii) permits for profit, any place to be used for the communication of the work to the public where such communication constitutes an infringement of copyright in the work; or

(iii) distributes, either for the purpose of trade or to such an extent as to affect prejudicially the owner of copyright, any infringing copies of the work; or

(iv) by way of trade exhibits in public; or

(v) imports into India, any infringing copies of the work.

The aforesaid acts are also termed as secondary acts of infringement."

Various copyright registration certificates of its different programmes are proved as Ex.P-2 to P-9. The trademark registrations are proved as Ex.P-10 & P-11. Other averments are the same as stated in the petition and traversed above. He has also produced copy of the affidavit of Mr. R. Satheesh Kumar as Ex.P-12, who was sent as the independent investigator. Affidavit of Mr. Gurjot Singh, Technical Expert, who undertook the detailed technical examination of the computer purchased from the defendants is filed as Ex.P-13.

10. In the affidavit of Mr. Sanjeev Sharma, who is a Chartered Accountant and claims 18 years of experience in this profession, he has mainly mentioned about the computation of damages worked out by him as per which total loss is assessed at Rs. 26,72,000/-. He has applied the following principle while assessing these damages:

a) No accounts of the Defendants are available.

b) The Defendants have been in the business of selling computers Page 2076 since 2003 and at least until when the continuing piracy activities of the Defendants were detected and confirmed on 16th April 2005 as is evident from the Affidavit of the independent investigator, Mr. R. Satheesh Kumar, which has been filed in the present proceedings and may be kindly referred to.

c) The approximate average market price of licensed Microsoft products of which pirated/unlicensed copies were distributed illegally by the Defendants by way of hard disk loading on a continuous and repeated basis, are as follows:

a. Microsoft Office 2002	-	Rs. 10,500/- per unit.
b. Windows XP Professional Version 2002	-	Rs. 6,200/- per unit.

11. Keeping in view the conduct of the defendants, who did not put in appearance in this case, he has opined that it would be fair and justified to assume that the defendants were indulging into this piracy at least for the last three years since the registration of their business with the Sales-Tax Authorities in the year 2003. It is also presumed that the defendants would have sales of at least a minimum of 5 computers a month and 60 computers a year, pre-loaded with pirated copies of the plaintiff's software. This would amount to sale of 180 computers in three years. On the basis of these assumptions, loss is quantified as under:

Name of the Software	Approx. cost of licensed software	Computers sold by the Defendants	Approx. revenue of the defendants
Microsoft Windows XP Professional Version	Rs. 6,200/- per unit	180 (in 3 years)	Rs. 11,60,000/-
Microsoft Windows Office 2002	Rs. 10,500/- per unit	144 (in 3 years)	Rs. 15,12,000/-

12. I had the occasion to deal with a similar, rather almost identical, case of this plaintiff alleging violation of its copyright and trademark in the software by some other infringer, who was also indulging into piracy in the same manner. I held that the plaintiff had satisfactorily proved that it has copyright in its software and hardware as well as trademark rights in Microsoft. Section 7 of the Act gives exclusive right to the plaintiff only to explore all such rights flowing from ownership, which are set out in Section 14 of the Act. Section 51(1)(ii) of the Act stipulates that copyright in a work shall be deemed to be infringed, when any person, without a license from the owner of copyright, does anything, the exclusive rights of which are granted to the owner of copyright. Such rights having been already established in favor of the plaintiff, it is not necessary to elaborate this aspect any further. Suffice it to state that

even in the instant case various averments made in the plaint have gone unrebutted as the defendants have chosen to remain away from the court proceedings. Likewise, there is no cross-examination of the plaintiff's witnesses either. The plaintiff has, Page 2077 therefore, been able to prove that the defendants have been infringing the copyright of the plaintiff in the aforesaid works, namely, MS DOS and MS Windows as there was no license granted by the plaintiff to the defendants. By copying the trademark 'Microsoft' there is an infringement of the plaintiff's trademark as well. The decree of permanent injunction, as prayed for by the plaintiff, i.e. in terms of sub-para (a), (b) & (c) of para 14 is hereby passed.

13. This brings us to the pivotal issue which needs to be addressed now, namely, award of damages. The general rule in this behalf is that the party coming to the court alleging wrong done to it by the defendant has to prove the actual loss suffered as a result of the infringing act of the wrong-doer. Therefore, as per this normal rule for award of damages, the plaintiff is to either prove the extent of loss suffered or, conversely, the advantage gained by the defendant by his wrongful act at the cost of the plaintiff. Thus, in relation to 'economic' torts, the general rule is that the measure of the damages is to be, as far as possible, that sum of money which will put the injured party in the same position as he would have been in if he had not sustained the wrong. This principle was laid down by Lord Blackburn as far back in the year 1880 in the case of *Livingstone v. Rawyards Coal Co.* (1880) 4 App.Cas.25 and has been applied in awarding damages in the cases relating to infringement of intellectual property {See - *General Tire v. Firestone* (1975) 1 WLR 819}.

14. The true principle, which is to be applied for assessing the damages in such a case, is stated by Fletcher Moulton L.J. in *Meters Ltd. v. Metropolitan Gas Meters Ltd.* (1911) 28 R.P.C. 157 in the following words:

There is one case in which I think the manner of assessing damages in the case of sales of infringing articles has almost become a rule of law, and that is where the patentee grants permission to make the infringing article at a fixed price - in other words, where he grants licenses at a certain figure. Every one of the infringing articles might then have been rendered a non-infringing article by applying for and getting that permission. The court then takes the number of infringing articles, and multiplies that by the sum that would have had to be paid in order to make the manufacture of that article lawful, and that is the measure of the damage that has been done by the infringement. The existence of such a rule shows that the courts consider that every single one of the infringements was a wrong, and that it is fair - where the facts of the case allow the court to get at the damages in that way - to allow pecuniary damages in respect of every one of them. I am inclined to think that the court might in some cases, where there did not exist a quoted figure for a license, estimate the damages in a way closely analogous to this. It is the duty of the defendant to respect the monopoly rights of the plaintiff. The reward to a patentee for his invention is that he shall have the exclusive right to use the invention, and if you

want to use it your duty is to obtain his permission. I am inclined to think that it would be right for the court to consider what would have been the price which - although no price was actually quoted - could have reasonably been charged for that permission, Page 2078 and estimate the damage in that way. Indeed, I think that in many cases that would be the safest and best way to arrive at a sound conclusion as to the proper figure. But I am not going to say a word which will tie down future judges and prevent them from exercising their judgment, as best they can in all the circumstances of the case, so as to arrive at that which the plaintiff has lost by reason of the defendant doing certain acts wrongfully instead of either abstaining from doing them, or getting permission to do them rightly.

Thus, almost 100 years ago, in the aforesaid judgment Fletcher Moulton L.J., in a case which related to infringement of a patent, laid down the yardstick for measuring the damages thus:

(no. of infringing articles)	X	(the sum that would have had to be paid in order to make the manufacture of that article lawful)
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For example, if the person committing infringement has sold 1000 articles and the royalty/license fee payable is Rs. 100/- per article, the infringer would have to pay damages to the tune of Rs. 1,00,000/-.

15. While laying down this test in the early 20th Century, the learned Lord Justice was wise to remark at the same time that he was avoiding to lay down the aforesaid test as the only test, though that could be treated as the safest and best way to arrive at a sound conclusion as to the proper figure. He did not want to tie down future judges and prevent them from exercising their judgment. That was the intelligent and farsighted statement. The change and development in the technology, nature of infringements and experience of future cases may pave way for laying down new norms and principles for assessment of damages. That is how the growth in law is achieved as the law is not static. It is a matter of common knowledge that law of torts was developed, over a period of time, by Judges and, therefore, most of this law is Judge made law, although over a period of time certain principles evolved by the Judges got recognition from the Parliament in the form of statutory provisions. By evolving the law of torts, courts protected fundamental human interests by recognising these fundamental interests and laying down the principles that whosoever causes or threatens to cause harm to these human interests would be liable for such damage caused. Even when a particular field is covered by a statute, it is the Judge who interprets the provisions of that statute. In the process of interpreting the statutory law, the Judge attempts to find out the intention of the legislature.

In the cases relating to violation of intellectual property rights, new and further principles have been laid down realizing that in many cases it may not be possible to prove the actual damages. The courts have, therefore, started granting damages under two additional heads, namely, punitive and exemplary.

16. In *Microsoft Corporation v. Deepak Raval* reported as 2006 VIII AD (Del) 815, I had the occasion to discuss this jurisprudential growth in law in various countries including India. Scrutiny of the judgments of this Court granting damages in such circumstances was also undertaken. Therefore, it is not necessary for me to extensively re-do the same exercise. Instead, it would be apt to reproduce the relevant extracts from the said judgment:

Page 2079

19. Reading of the judgments in the aforesaid cases would manifest that the the courts have frowned upon the conduct of the defendants "willfully calculated to exploit the advantage of an established mark" and held that in such circumstances, the plaintiff would be entitled to compensation. It was also found that the defendants were enough business savvy to engage in a successful, albeit illegal business venture. Even assuming, *arguendo*, that they had no knowledge of Microsoft licensing products, knowledge is not an element of copyright infringement. The Courts came heavily upon the defendants where it was found that irrefutable evidence give rise to an influence of the defendants' intentional, knowing and willful infringement.

20. In U.S., the Courts applying the aforesaid yardsticks and the provisions of Lanham Act in US, which permits the Court to award Treble profits in cases of willful infringement, have imposed the maximum penalty authorised by the statute. In *Microsoft Corp. v. G.D. Systems America Inc.* (*supra*), US \$ 3 lacs in damages for infringement of copyright were awarded. In addition, the Court also awarded damages for trademark infringement under the Lanham Act holding that "willful blindness" could be a basis for award of Treble profits and unhesitatingly the Court trebled the Microsoft's lost profits by issuing an order awarding US \$,3889,565.16.

21. The Australian Courts, on the other hand, found that the appropriate approach to measure the compensatory damages in this case would be "license free approach", which had the attraction of precision. In a case where the Court may infer that, presented with a choice between paying license fee and not using the work, the infringer would have paid the license fee, the approach is also a logical one. *Ex hypothesi*, the copyright owner has been deprived of a license fee. On this basis in *Microsoft Corp. v. TYN Electronics Pty. Ltd.* (*supra*) compensatory damages to the tune of \$ 386,000 were awarded. The Court, however, in addition to compensating the plaintiff for the loss of license fee also awarded additional damages in view of the conduct of infringing parties in committing willful and intentional violation of the plaintiff's copyright and trade mark. The flagrancy of the infringement is treated as an important but not an essential factor. The Court observed that the defendant's

conduct had been such that it was undeniable that they would have been acutely aware of the implications of their conduct and concluded that the Court was satisfied by the flagrancy of the defendant's conduct, the benefit that must have been accrued to them (given the commercial context in which the infringements occurred), and the need to deter such a conduct in future. For this purpose substantial additional damages were warranted and \$ 3 lacs were awarded in favor of Microsoft on this account as well.

22. Likewise, in *Microsoft Corporation v. Glostar Pty Limited* (supra), the Australian Court, having regard to the provisions of Section 116(4) of the Copyright Act, which provides that where an infringement of copyright is established, the Court may award additional damages if it is satisfied that it is proper to do so, took into consideration the following factors:

- a) flagrancy of the infringement;
- b) any benefit shown to have accrued to the defendant by using of the infringement; and
- c) all other relevant factors.

23. The English Courts have adopted the same approach and in *Microsoft Corn. v. Plato Technology Ltd.* (supra) the Court opined that the crucial distinction in such a case is between the honest and the dishonest trader. What essentially distinguishes the two is the trader's degree of knowledge of infringement. It would be apt to quote the relevant portion from this judgment:

I should say at the outset that in principle and in the absence of authority to the contrary I would have thought the narrower sort of relief would be more appropriate in this type of case. The crucial distinction in this sort of case is, it seems to me, between the honest and the dishonest trader. What essentially distinguishes the two is the trader's degree of knowledge of the infringement. Mr. Tappin forcefully submitted to me that knowledge that the facts complained of were an infringement is irrelevant both to a claim for infringement of trade mark and (save for so called secondary infringement) breach of copyright. This I entirely accept. Indeed so does the defendant by its acceptance that it is liable for damages or an account of profits in respect of all 45 copies of Windows 95 which it accepts for the purposes of this application can be taken to be counterfeit even though it was unaware of that fact when it dealt with them. But that does not, it seems to me, in any way go to the question of what further relief to grant to a plaintiff going beyond a mere inquiry as to damages or an account of profits limited to the specific acts of infringement established at the date of the hearing. The trader who deals in products knowing that they are counterfeit or recklessly indifferent as to whether or not they are, is a dishonest trader. As such the Court can normally assume the likelihood that (a) he has in the past been extensively dealing in counterfeit copies of the plaintiff's

products and (b) unless restrained by a far reaching injunction he will continue to do so in the future. In such a case relief in the very wide terms sought by Microsoft in this action may, and in most case would, be appropriate. In the case, however, of an honest trader, that is to say of a person, such as the defendant in the present case, who has supplied counterfeit copies of the plaintiff's products, neither knowing that they are counterfeit nor being recklessly indifferent as to whether or not they are counterfeit, the Court can, it seems to me make no such assumptions. In those circumstances the relief which should properly be granted against him ought, so it seems to me, in principle to be very much narrower.

Page 2081

24. Coming to the legal position in India, a positive trend has started. Here also as Courts are becoming sensitive to the growing menace of piracy and have started granting punitive damages even in cases where due to absence of the defendant's exact figures of sales by the defendants under the infringing copyright and/or trade mark, exact damages are not available.

{Also see : Time Incorporated v. Lokesh Srivastava 2005 (30) PTC 3 Hero Honda Motors Ltd. v. Shree Assuramji Scooters 2006 (32) PTC 117 (Delhi)}

17. It hardly needs to be emphasised that the courts in India have started granting punitive as well as compensatory damages. The justification for award of compensatory damages is to make up the loss suffered by the plaintiff and the rationale behind granting punitive damages is to deter the wrong-doer and the like-minded from indulging in such unlawful activities. This is more so when an action has criminal propensity. While awarding punitive damages, the court will take into consideration the conduct of the defendants which has "willfully calculated to exploit the advantage of an established mark" (expression used by the courts in US), which may also be termed as "flagrancy of the defendant's conduct" (the test adopted by the Australian Courts). The English Courts have, adopting the same nature of test, used the test of "dishonest trader", who deals in products knowing that they are counterfeit or "recklessly indifferent" as to whether or not they are.

18. The rational behind awarding compensatory as well as punitive damages can also be found in the judgment of Royal Courts of Justice, UK in the case of Nottinghamshire Healthcare National Health Service Trust v. News Group Newspapers Ltd. (2002) EWHC 409 (ch). Following passage of the said judgment, in the words of Justice Pumfrey, succinctly brings out the justification for awarding such damages:

When I refer to 'exemplary' damages, I am referring to damages of the kind discussed by Lord Devlin in *Rookes v. Barnard* (1964) AC 1129 to which I refer in more detail below. This includes an award of damages intended both to compensate the claimant for his loss and (in Lord Devlin's words) to teach the defendant that tort does not pay. I use 'aggravated' damages to refer to an award of damages which, while awarded with a view to compensating the claimant for his loss, has regard to the injury to the plaintiff's proper feelings of pride and dignity, humiliation, distress, insult, or pain

caused by the circumstances of the defendant's conduct.

The practice of grant of exemplary damages needs to be strengthened particularly in those cases where flagrant infringement is found. Such an exercise of power is not to be fettered by any requirement that the plaintiff must show some particular benefit which has accrued to the defendant or that the plaintiff must satisfy the court by leading evidence that he has Page 2082 suffered actual loss. In a case where the plaintiff proves such actual loss, he would be entitled to the same. However, even without such a proof, in case of flagrant infringement, the court has the complete discretion to make such award of damages as may seem appropriate to the circumstances, so that it acts as deterrent. In some cases, it is not possible to prove the actual damages, namely, that there is a normal rate of profit or that there is a normal or establish licensed royalty. Yet, clearly, the damages have to be assessed.

19. In Nottinghamshire Healthcare (supra), while discussing the issue of award of damages, the Court referred to Sections 96 and 97 of Copyright, Designs and Patents Act, 1988 (for short, 'CDPA'). As per Section 96 of the said Act, an infringement of copyright is actionable by the copyright owner, which is the position in Indian law as well. Section 97 deals with damages and needs to be reproduced:

97. - (1) Where in an action for infringement of copyright it is shown that at the time of the infringement the defendant did not know, and had no reason to believe, that copyright subsisted in the work to which the action relates, the plaintiff is not entitled to damages against him, but without prejudice to any other remedy.

(2) The court may in an action for infringement of copyright having regard to all the circumstances, in particular to -

a) the flagrancy of the infringement, and

b) any benefit accruing to the defendant by reason of the infringement, award such additional damages as the justice of the case may require.

20. The legislative provision for award of damages, insofar as India is concerned, is Section 135 of the Trade Marks Act, 1999, which inter alia stipulates that apart from injunction, at the option of the plaintiff, court may grant either damages or an account of profits, together with or without any order for delivery-up of the infringing labels and marks for destruction or erasure. Likewise, Section 55 of the Copyright Act, 1957 deals with civil remedies for infringement of copyright and as per this provision, where copyright in any work has been infringed, the owner of the copyright is "entitled to all such remedies by way of injunction, damages, accounts and otherwise as are or may be conferred by the law for the infringement of a right". The only circumstances in which damages are not to be awarded is where the defendant is able to show that he had no reasonable ground for believing that the copyright subsisted in the work. Obviously, therefore, in case of flagrant violation, as per this provision damages can be awarded. The aforesaid provisions in the Trade Marks Act as well as the

Copyright Act empower the court to award damages, but no specific yardstick is provided in these statutory provisions. No doubt, we do not have parallel provision or the yardsticks which are mentioned in Sub-section (2) of Section 97 of the CDPA, namely, taking into consideration the flagrancy of infringement and any benefit accruing to the defendant by reason of the infringement can be traced to the Common Law principles for award of damages. This yardstick can be applied by the courts in India having regard Page 2083 to the expression "either damages or an account of profits" as contained in the Trade Marks Act, 1999 and "...damages, accounts and otherwise as are or may be conferred by law for infringement of a right" in the Copyright Act, 1957. Even in the aforesaid judgment, the English Court observed that the aforesaid two provisions, authorising the award of damages, flow naturally and directly from the tortious act. In copyright cases, the measure of damage has been said to be the 'depreciation caused by the infringement to the value of the copyright as a chose in action' {Lord Wright MR in *Sutherland v. Caxton* (1936) Ch 323}.

21. The expression "either damages or an account of profits" occurring in Section 135 of the Trade Marks Act, 1999 is to be given its fullest meaning to give effect to the purpose for which such a provision is introduced burdening the violators with 'damages' of the kinds available under the law. Law recognizes, and it has its roots in tort law, award of punitive and exemplary damages. Rational for award of such damages is already outlined above. By the process of interpretation of the aforesaid provision, this dimension of 'damages' needs to be incorporated. Interpretation has now become one of the main intellectual paradigm of legal scholarship. Dworkin promulgated interpretative theory of law in 1980s. Accounting for the concept of law, he claims, is inevitably tied up with the considerations about what the law is there to settle. Cardozo acknowledges in his classic "The Nature of the Judicial Process" - "I take judge-made law as one of the existing realities of life", and that - "no system of *jus scriptum* has been able to escape the need of it" and he elaborates: "It is true that codes and statutes do not render the judge superfluous, nor his work perfunctory and mechanical. There are gaps to be filled. There are hardships and wrongs to be mitigated if not avoided." Interpretation is often spoken of as if it were nothing but the search and the discovery of a meaning which, however, obscure and latent, had nonetheless a real and ascertainable pre-existence in the legislator's mind.

22. As pointed out above, courts in India have also started awarding punitive as well as exemplary damages. *Time Incorporated v. Lokesh Srivastava* 2005 (30) PTC 3, was also a case where the defendants chose to remain *ex-parte*. While refusing to grant damages on the ground that nothing was proved on record as to how these damages were calculated, the Court still granted punitive and exemplary damages of Rs. 5 lacs. It would be apposite to reproduce discussion on this aspect contained in paras 6 to 8 of the judgment:

6. The plaintiff has claimed a decree of Rs. 12.5 lacs on account of damages suffered by the plaintiff or an order of rendition of accounts of the profits illegally earned by the defendants by use of the impugned trade mark. In view of the fact that the defendants have not chosen to turn up and face these proceedings, this Court is of the considered view that an order of rendition of accounts is fully warranted and called for. Damages in the sum of Rs. 12.5 lacs as claimed cannot be awarded on account of the fact that the plaintiff has not succeeded in Page 2084 proving on record as to how

and on what basis these damages have been calculated. Damages of Rs. 5 lacs are claimed on account of loss of reputation of the plaintiff. These can be awarded inasmuch as the readers who might have read the defendants' TIME ASIA SANSKARAN, must have formed a very poor opinion about the plaintiff's Magazine and as such, the reputation and goodwill of the plaintiff has suffered.

7. Coming to the claim of Rs. 5 lacs as punitive and exemplary damages for the flagrant infringement of the plaintiff's trade mark, this Court is of the considered view that a distinction has to be drawn between compensatory damages and punitive damages. The award of compensatory damages to a plaintiff is aimed at compensating him for the loss suffered by him whereas punitive damages are aimed at deterring a wrong doer and the like minded from indulging in such unlawful activities. Whenever an action has criminal propensity also the punitive damages are clearly called for so that the tendency to violate the laws and infringe the rights of others with a view to make money is curbed. The punitive damages are founded on the philosophy of corrective justice and as such, in appropriate cases these must be awarded to give a signal to the wrong doers that law does not take a breach merely as a matter between rival parties but feels concerned about those also who are not party to the lis but suffer on account of the breach. In the case in hand itself, it is not only the plaintiff, who has suffered on account of the infringement of its trade mark and Magazine design but a large number of readers of the defendants' Magazine 'TIME ASIA SANSKARAN' also have suffered by purchasing the defendants' Magazines under an impression that the same are from the reputed publishing house of the plaintiff company.

8. This Court has no hesitation in saying that the time has come when the Courts dealing actions for infringement of trade marks, copy rights, patents etc. should not only grant compensatory damages but award punitive damages also with a view to discourage and dishearten law breakers who indulge in violations with impunity out of lust for money so that they realize that in case they are caught, they would be liable not only to reimburse the aggrieved party but would be liable to pay punitive damages also, which may spell financial disaster for them. In *Mathias v. Accor Economy Lodging, Inc.* 347 F.3d 672 (7th Cir.2003) the factors underlying the grant of punitive damages were discussed and it was observed that one function of punitive damages is to relieve the pressure on an overloaded system of criminal justice by providing a civil alternative to criminal prosecution of minor crimes. It was further observed that the award of punitive damages serves the additional purpose of limiting the defendant's ability to profit from its fraud by escaping detection and prosecution. If a tortfeasor is caught only half the time he commits torts, then when he is caught he should be punished twice as heavily in order to make up for the times he gets away. This Court feels that this approach is necessitated further for the reason that it is very difficult for a plaintiff to give proof of actual damages suffered by him as the defendants who indulge in such Page 2085 activities never maintain proper accounts of their transactions since they know that the same are objectionable and

unlawful. In the present case, the claim of punitive damages if of Rs. 5 lacs only which can be safely awarded. Had it been higher even, this Court would not have hesitated in awarding the same. This Court is of the view that the punitive damages should be really punitive and not flee bite and quantum thereof should depend upon the flagrancy of infringement.

23. In *Hero Honda Motors Ltd. v. Shree Assuramji Scooters* 2006 (32) PTC 117 (Delhi), the Court granted punitive damages of Rs. 5 lacs after taking note of its earlier judgment in *Time Incorporated* (supra) as is clear from the following passages:

18. I am in agreement with the aforesaid submission of learned Counsel for the plaintiff that damages in such cases must be awarded and a defendant, who chooses to stay away from the proceedings of the Court, should not be permitted to enjoy the benefits of evasion of court proceedings. Any view to the contrary would result in a situation where the defendant who appears in Court and submits its account books would be liable for damages, while a party which chooses to stay away from court proceedings would escape the liability on account failure of the availability of account books. A party who chooses to not participate in court proceedings and stay away must, thus, suffer the consequences of damages as stated and set out by the plaintiff. Of course, this would not imply that the plaintiff would be entitled to any figure quoted by it which may be astronomical. The figure of Rs. 5 lacs as damages can hardly be said to be astronomical keeping in mind the nature of deception alleged by the plaintiff which not only causes direct loss to the plaintiff, but also affects the reputation of the plaintiff by selling sub-standard goods in the market where the public may be deceived in buying the goods thinking the same to be that of the plaintiff. There is a larger public purpose involved to discourage such parties from indulging in such acts of deception and, thus, even if the same has a punitive element, it must be granted. R.C. Chopra, J. has very succinctly set out in *Time Incorporated's* case (supra) that punitive damages are founded on the philosophy of corrective justice. That was the case where the publishers of *Time Magazine* had come to Court and one of the factors which weighed while awarding punitive damages was that the readers had been sufferers of the infringement of the mark of the plaintiff. The only difference is that in the present case it is the consumer of the products of the plaintiff, who have suffered as a consequence of the infringement of the mark and logo of the plaintiff by the defendant.

19. The second aspect emphasized in *Times Incorporated's* case (supra) has also material bearing as the object is to relive the pressure on over-loaded system of criminal justice by providing civil alternative to criminal prosecution of minor crimes. The defendant could have been prosecuted for such counterfeiting, but the plaintiff has considered appropriate to confine the relief to civil proceedings.

20. Learned Counsel for the plaintiff also rightly points out that instead of plaintiff utilising its energy for expansion of its business and sale of its products, the resources have to be spread over a number of such litigations to bring to book the offending traders in the market. In such a case, both compensatory and punitive damages ought to be granted apart from the costs incurred by the plaintiff in such litigation.

24. To summarize the legal position, damages, in cases where blatant infringing activities of the defendant are found, can be awarded under the following three heads:

1. Compensatory/Actual damages The damages actually suffered by the plaintiff because of infringement of the plaintiff's intellectual property rights by the defendant.
2. Damages to Goodwill and Reputation On account of undermining the plaintiff's reputation and Goodwill in the market as a result of unauthorised counterfeiting by the defendants of the plaintiff's product.
3. Exemplary/punitive damages To deter the wrong-doer and the like-minded from indulging in such unlawful activities.

25. Reverting to the case at hand, in the evidence led by the plaintiff, it is averred by the plaintiff that on account of the defendant's copying and illegally dispatching copies of the plaintiff's computer programme, loss and damages incurred by the plaintiff runs into lacs and lacs of rupees and the damages are limited to Rs. 20 lacs in the suit, which includes loss of business as well as loss of reputation and goodwill in the market. There is a specific averment made that the defendants are blatantly and illegally capitalizing on the strength of the world famous words 'Microsoft' and world famous desktop software programmes by their use. In the affidavit of Shri Sanjiv Sharma, by way of evidence, the plaintiff has assessed the compensatory/actual damages. At the risk of repetition, the same are reproduced below:

Name of the Software	Approx. cost of licensed software	Computers sold by the Defendants	Approx. revenue of the defendants
Microsoft Windows XP Professional Version	Rs. 6,200/- per unit	180 (in 3 years)	Rs. 11,60,000/-
Microsoft Windows Office 2002	Rs. 10,500/- per unit	144 (in 3 years)	Rs. 15,12,000/-

Though this is an un rebutted evidence, fact remains that it is based on assessments arrived at by the Chartered Accountant, who appeared as a witness. Therefore, instead of awarding the amount claimed, I am of the view that the amount claimed has to be scaled down and Rs. 5,00,000/- be awarded as compensatory damages as it can be reasonably inferred that Page 2087 this much damages the plaintiff would have suffered in any case. Further, in view of the aforesaid discussion, the plaintiff is also entitled to the award of exemplary/punitive damages as well as damages on

account of loss of reputation and damage to the goodwill because of sale of spurious and pirated goods sold by the defendants in the name of the plaintiff's company and I deem it proper to award a sum of Rs. 5,00,000/- under these two heads. Total damages, when computed in this manner, would be Rs. 10,00,000/-. The plaintiff shall also be entitled to costs.