

Creative Technology Ltd v Cosmos Trade-Nology Pte Ltd and Another
[2004] SGHC 5

Case Number : Suit 68/2003, NA 84/2003
Decision Date : 08 January 2004
Tribunal/Court : High Court
Coram : Dawn Tan Ly-Ru AR
Counsel Name(s) : Daniel Chia (Wong and Leow LLC) for plaintiff; Defendants not represented
Parties : Creative Technology Ltd — Cosmos Trade-Nology Pte Ltd; Huang Wen-Lei

8 January
2004

Judgment reserved.

Assistant Registrar Dawn Tan Ly-Ru:

1. This was an inquiry as to the damages suffered by the plaintiffs by reason of the defendants' infringement of the plaintiffs' registered trade marks, pursuant to a judgment in this action issued by Belinda Ang J on 26 August 2003 (see [2003] SGHC 188). The inquiry ordered by the learned judge was in the following terms: that an inquiry be taken as to damages or at the plaintiffs' option an account of profits; and an order for the payment of all sums found due upon taking such inquiry or account, together with interest thereon.
2. It will be useful to set out a brief summary of the background facts and the proceedings prior to the inquiry before stating the grounds for the award.

The background

3. The plaintiffs are market leaders in digital entertainment products for personal computers and internet users, best known for their award-winning "Sound Blaster" line of sound cards. They are also well known for other technology products in areas such as graphics interface, communications and video-conferencing. The plaintiffs are the registered proprietors of five trade marks in Class 9 of the trade marks register (hereinafter collectively referred to as "the plaintiffs' marks"), but the instant case concerns only the plaintiffs' "Vibra 128" line of sound cards ("the sound cards") launched in April 1998 and marketed under the name "Vibra."
4. The first defendants are an exempt private limited company incorporated in 1998, while the second defendant is a director and one of two shareholders of the first defendants, holding 1,499,999 of 1,500,000 shares. The second defendant was also described as the alter ego of the first defendants. The other shareholder of the first defendants is related by marriage to the second defendant, and is not involved in the present action.
5. In the plaintiffs' Writ endorsed with a Statement of Claim issued on 21 January 2003, it was alleged that, on no less than three separate occasions, the defendants infringed the plaintiffs' marks by "using in the course of trade in Singapore identical infringing reproductions of the [marks] on sound cards without the licence and/or consent" of the plaintiffs (see Statement of Claim, paragraph 10). In particular, the plaintiffs relied on sales to their private investigator of infringing sound cards, as follows. First, on 17 June 2002, the defendants sold to the investigator one counterfeit sound card at the price of \$9. Second, on 3 July 2002, the defendants sold to the investigator 3,145 counterfeit sound cards for the total price of \$30,388.35. Third, on 20 August 2002, the defendants sold to the

investigator one counterfeit sound card at the price of \$9.

6. It was not in dispute that the sound cards sold by the defendants were counterfeit. The plaintiffs' sound cards came packaged in a box containing an installation CD-ROM and an analog CD-IN cable, whereas those sold by the defendants were packed in foam accompanied by printed instructions but without the CD-ROM and cable. In addition to the difference in the print quality and colour of the packaging, the retail price differed: the plaintiffs' sound cards sold for \$28 each while the defendants' sound cards were sold for only \$9 each.

7. On 3 September 2002, acting upon the complaint of the plaintiffs and pursuant to various search warrants, the Intellectual Property Rights Branch of the police conducted raids on the premises of the defendants. A total of 56 pieces of infringing sound cards and one piece of infringing "Creative" Sound Blaster CD-ROM were seized. The seized items were also counterfeit and in all material aspects identical to the plaintiffs' sound cards, and carried the plaintiffs' marks.

8. As a result of the raids, the plaintiffs obtained from the defendants' computers and files, information on the defendants' trade in similar counterfeit sound cards. This evidence showed that the defendants had for some time been dealing in large quantities of counterfeit sound cards, namely, to the tune of 14,428 sound cards. (See the exhibit marked "SS-3" in the affidavit of Mr Sivananthan Sivagnanaratnam, the plaintiffs' Director of Legal Services, dated 21 October 2003.) This figure is significant for reasons that will become apparent in due course.

Criminal and civil proceedings

9. The plaintiffs instituted criminal and civil proceedings against the defendants. In Private Summons No 749-750 of 2002 against the first defendants, the second defendant in his capacity as the legal representative of the first defendants pleaded guilty to eight charges and was sentenced to a fine of \$800,000. In respect of Private Summons No 37-40 of 2003 relating to the remainder of offences committed by the defendants but not the subject of Private Summons 749-750, the defendants claimed trial. However, the second defendant failed to attend for a pre-trial conference on 7 July 2003. At the same time, Mr Palaniappan Sundararaj, who was then acting for the defendants, informed the court that he had lost contact with his clients. In the circumstances, a warrant of arrest was issued against the second defendant. Neither the second defendant nor any other representative of the first defendants attended at the adjourned hearing on 11 July 2003, despite numerous attempts to contact them. The plaintiffs thus sought and obtained a discharge not amounting to an acquittal in respect of the remaining charges.

10. In their Writ, the plaintiffs prayed for, inter alia, the following reliefs: an injunction to restrain the defendants from infringing the plaintiffs' marks, an order for the delivery up or destruction of all infringing reproductions, an order for full discovery of all acts of infringement in respect of the infringing sound cards, an inquiry as to damages or at the plaintiffs' option an account of profits and payment of all sums found due upon taking such inquiry or account together with interest thereon, and other ancillary orders. After the defendants had entered an appearance, the plaintiffs applied by way of Summons-in-Chambers No 1244 of 2003 for summary judgment to be entered against the defendants.

11. Neither the ownership, validity and subsistence of the plaintiffs' marks, nor that the defendants' sale of the counterfeit sound cards infringed the said marks, was challenged before the learned judge. It was argued in relation to the second defendant, however, that there were triable issues that necessitated a full trial. In essence, the second defendant had acted innocently in that he had no knowledge of, and did not consent to, the infringement of the plaintiffs' marks. This

argument did not find favour with the learned judge, who found on the evidence that the second defendant had procured or induced the first defendants' infringement of the plaintiffs' marks, and had thereby incurred personal liability as a joint tortfeasor. Her honour was also not persuaded that the innocence of the infringer, if it was such, was of any relevance where injunctive relief and damages are sought in a civil action. In any event, it was trite law that innocent infringement was no defence to a claim for damages.

12. The learned judge therefore entered judgment for the plaintiffs and directed that there be an inquiry in the terms set out above. Upon the plaintiffs' application by way of Summons for Directions (No 3060 of 2003) for directions to be given for the conduct of the inquiry, it was ordered, inter alia, that the parties file and serve their respective lists of documents and affidavits verifying such lists by 6 July 2003. The plaintiffs duly did so on 7 July 2003, but the defendants have to date not complied. Consequently, the plaintiffs have not in this inquiry had the benefit of discovery – a point which will be revisited later. Meanwhile, the second defendant lodged an appeal against the decision of the learned judge, and Mr Sundararaj by orders for withdrawal dated 25 and 28 July 2003 ceased to be the solicitor on record for the defendants. The second defendant's appeal was subsequently deemed withdrawn for failure to lodge the requisite papers. Neither the first defendants nor the second defendant was present at the hearing of the inquiry, and the warrant of arrest issued against the latter is still outstanding.

The award

13. It is well established that damages are awarded for infringement of a trade mark on the same basis as for passing off; indeed, it was said in *Dormeuil Frères v Feraglow* [1900] RPC 449 that the damages were the same in the two causes of action. It is also axiomatic that the principal head of damage is the loss of business profits caused by the diversion of the plaintiff's customers to the defendant as a result of the defendant's misrepresentation. Additionally, damages may be awarded for the plaintiff's loss of business reputation and goodwill resulting from the infringement or passing off.

14. On the question of proof of damage, the onus appears to lie on the plaintiff to show what loss he has actually sustained by reason of the defendant's conduct. This proposition is conceptually consistent with the proposition, for which no authority is needed, that damages are compensatory only, to put the plaintiff in the same position he would have been in had the wrong not been sustained. (See *Kerly's Law of Trade Marks and Trade Names*, 13th ed, at paragraph 18-144.) It has therefore been held that it cannot be presumed, in the absence of evidence, that the amount of goods sold by the defendant under an infringing trade mark would, but for the defendant's unlawful use of the mark, have been sold by the plaintiff. (*Ibid*, at paragraph 18-143.) See also, eg, *Leather Cloth v Hirschfeld* (1865) LR 1 Eq 299. However, although the burden of proof lies on the plaintiff, damages are to be assessed liberally (see, eg, *General Tire v Firestone* [1976] RPC 197).

15. At the outset, it was clear that the plaintiffs had elected for an inquiry as to damages rather than the alternative equitable remedy of an account of profits. Hence, the profits actually made by the defendants, if any, and caused (in the legal sense) by the defendants' infringement, cannot be included in the award of damages.

16. The main difficulty faced by the plaintiffs in the instant case was discharging their burden as to proof of damage. The evidence on the total number of lost sales properly attributable to the defendants' infringement was, to say the least, not entirely satisfactory. It was contended that, "at least in part" because of the defendants' actions, the plaintiffs suffered a substantial decline in the sales of the sound cards. Specifically, the plaintiffs allege, they noted a marked decline in the number of orders placed during the period the defendants were actively dealing in the counterfeit sound

cards. From approximately 6,000 to 7,000 sound cards per month, sales fell to zero from April to August 2002, the period in question. But from the exhibit marked "SS-2" in Mr Sivagnanaratnam's affidavit (at pages 23-25), it is plain that in reality, sales of the sound cards varied widely from month to month. The figures fluctuated from as many as 8,500 sound cards in September 2001 to 200 and 500 in January and February 2002 respectively, before climbing to 6,700 in March 2002. Sales figures thereafter improved to 1,000 in September and October 2002, and 2,000 in November 2002, but declined continuously up to May 2003. I would only observe that it was not entirely plausible for sales of the plaintiffs' sound cards to have dwindled to nothing merely because of the defendants' activities. More pertinently, it was conceded in the course of oral submissions that the decline could have been the result of the inherent nature of the business and as a consequence, the rate at which the sound cards became obsolete. In any event, the figures did not represent actual sales to the public, but the number of sound cards distributed through the plaintiffs' authorised distribution network.

17. Counsel for the plaintiffs, Mr Daniel Chia, conceded all of this but submitted that these considerations must be mitigated by the failure of the defendants to provide full disclosure of the infringing sales. That the defendants had not complied with their discovery obligations was not in dispute. However, this did not answer or explain the plaintiffs' inability to furnish cogent evidence on their own sales, in order to assist the court in arriving at a fair estimate of the number of lost sales and thus the damages to be awarded. In this regard, *Draper v Trist* [1939] 3 All ER 513, where the defendant had passed off goods by selling them to middlemen but there was no evidence that the middlemen had resold, was clearly distinguishable from the facts of the present case, where the *plaintiffs* themselves were unable to adduce evidence of the relevant sales.

18. Such evidence is crucial especially when, in assessing damages on a compensatory basis, the court must determine what proportion of the defendant's customers have been confused; the plaintiff is not entitled to damages for sales to persons who have not been misled, since it has suffered no loss in respect of them and arguably, no actionable wrong has been committed in respect of sales to them. If the plaintiff were to recover damages in relation to such persons, it would be over-compensated. This is the distinguishing feature of trade mark infringement (or passing off) as compared to other kinds of intellectual property proceedings for infringement, for example patent infringement, where all the defendant's activities of a given kind infringe. (See *Kerly's* at paragraph 18-146.) Again, the evidence adduced did not address this particular issue.

19. Nonetheless, a finding of infringement or passing off almost necessarily means that some damage will have been caused, and the court may so assume. Thus, *Draper v Trist* does stand for the proposition that even though technically, damage must be proved, there is a presumption in law that the presence on the market of a quantity of deceptive goods will have an adverse effect on the plaintiff's business. The presumption of substantial damage, say the authors of *McGregor on Damages* (16th ed, at paragraph 1947), makes passing off from a practical standpoint actionable per se but puts the plaintiff into an even better position than in relation to torts technically actionable per se in which the presumption of damage need only extend to an award of nominal damages.

20. It stands to reason that the question to be addressed by this inquiry is, what damage have the plaintiffs suffered by reason of the defendants' infringing acts, that is, acts which caused the diversion of the plaintiffs' customers (existing or potential) to the defendants. With regard to the principal head of damage, loss of business profits, it would be arbitrary – and erroneous, to apply in the computation the figure of 14,428, the number of sound cards the plaintiffs say the defendants were dealing in, multiplied by USD7, the average profit per sound card the plaintiffs say they would have made. In a nutshell, it could not be assumed that the number of infringing sound cards sold by the defendants would otherwise have been sold by the plaintiffs. Nor could it be said that this was a

proper inference on the facts and the evidence, in spite of the absence of evidence to show that the plaintiffs suffered little or no damage. I was therefore unable to award damages under this head in the sum of USD100,996, as prayed for by Mr Chia.

21. The plaintiffs perhaps recognised the difficulties posed by this method of calculation, because they submitted in the alternative (and “at the end of the day”) that damages were “at large.” The meaning of the expression “damages at large” has been judicially considered, and it will suffice in this regard to cite the decision of GP Selvam J (as he then was) in *Dootson Investment Corporation & Anor v Highway Video Pte Ltd* [1998] 1 SLR 497, 499, 501. Quoting the learned authors of *McGregor on Damages*, the learned judge said:

In certain cases general damages may be awarded in the sense of damages “such as the jury may give when the judge cannot point out any measure by which they are to be assessed, except the opinion and judgment of a reasonable man.” The damages are said to be at large.

The following instructive passage from the judgment of Lord Hailsham in the oft-cited case of *Cassell v Broome* [1972] AC 1027 was also quoted:

The expression “at large” should be used in general to cover all cases where awards of damages may include elements for loss of reputation, injured feelings, bad or good conduct by either party, or punishment, and where in consequence no precise limit can be set in extent.

Hence, the learned judge considered that all the facts and circumstances of the case, of which loss of profits was but one matter, were to be reckoned with in assessing damages.

22. In the premises, I assessed the damages for loss of business profits or damages at large (the two can be fused together in an appropriate case; see, eg, *Ong Seow Pheng v Lotus Development Corp* [1997] 3 SLR 137) in the following manner. To begin with, I took the plaintiffs’ figures of average “sales” of sound cards on a monthly basis, multiplied these by the number of months the defendants carried out their infringing sales, then in turn multiplied this figure by the plaintiffs’ profit per unit of sound card. In the process, I was mindful of the various factors that may have adversely affected the plaintiffs’ sales, for instance, the fast-paced nature of the business (there could have been newer and better sound cards entering the market) and the fact that the figures supplied by the plaintiffs did not reflect actual sales to the public. I also took the view, as did the learned judge in *Dootson* (supra), that for the above reasons it would be wrong to hold the defendants liable for the loss of the entire market, although I could and did take into account the defendants’ conduct and intentions as aggravating factors. Accordingly, I awarded the plaintiffs the sum of USD80,000 for loss of profits and/or damages at large.

23. Turning to the damages for the plaintiffs’ loss of business reputation and goodwill, I was satisfied that on a balance of probabilities, the defendants’ infringement injured the plaintiffs’ trade reputation and goodwill in connection with the sound cards and the associated marks. It was not in doubt that further damages could be awarded in this respect: see, eg, *Alexander v Henry* (1895) 12 RPC 360. On the evidence, the counterfeit sound cards were clearly inferior to the genuine articles, and would have damaged the plaintiffs’ reputation and goodwill. By way of illustration, unlike the plaintiffs’ sound cards, the infringing sound cards were sold without any warranty, and the plaintiffs allege – and this was admitted by the second defendant – that there were numerous problems with and complaints about the counterfeit sound cards.

24. I accepted that the plaintiffs’ business, products, name and marks were promoted via advertisements in various media and through brand-building efforts, as stated by Mr Chia in his

written submissions, but could not go so far as to agree that the matter admitted of a simple arithmetical calculation as was urged. Thus, for instance, I was unable to award the plaintiffs the sum of \$300,000 spent on research and development for the Vibra 128 sound card. After all, and in line with common sense, Mr Chia conceded that this sum would have gone toward the development and sale of the plaintiffs' sound cards. Accordingly, forming a "rough estimate" (see, eg, *Aktiebolaget Manus v Fullwood* (1954) 71 RPC 243, 250) of a "fair and temperate sum" that would compensate the plaintiffs for the injury which they have suffered in this regard, and after reviewing all the circumstances and the evidence, I awarded the plaintiffs the sum of \$70,000 for loss of business reputation and goodwill.

25. The total amount of damages awarded is therefore USD80,000 plus \$70,000, together with interest thereon at the usual rate.

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