

UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

No. 93-8270

DUNKIN'DONUTS INCORPORATED,
a Delaware Corporation
14 Park Drive,
Randolph Massachusetts 02368,

Plaintiff-Appellant,
Cross-Appellee,

versus

MERCANTILE VENTURES, , ET AL.,

Defendants,

MERCANTILE VENTURES, Etc. and
MARIO AGUILAR,

Defendants-Appellees,

and

ARTURO E. AGUILAR,

Defendant-Appellee,
Cross-Appellant.

Appeals from the United States District Court
for the Western District of Texas
(EP-92-CV-154)

(March 7, 1994)

Before POLITZ, Chief Judge, JONES, Circuit Judge and FULLAM*,
District Judge.

* District Judge of the Eastern District of Pennsylvania, sitting by designation.

JOHN P. FULLAM, District Judge:**

I. Background

Through their company Mercantile Ventures, Inc. (MVI), Mario and Arturo Aguilar operated four Dunkin' Donuts shops in El Paso, Texas under franchise agreements with Dunkin' Donuts, Inc. The Aguilars later began operating four "Donkin' Donas" donut shops in Mazatlan, Mexico. However, no franchise agreement linked the American Dunkin' Donuts with the Mazatlan "Donkin' Donas" even though the trade dress and mark of the Mazatlan shops were substantially indistinguishable from the trade dress and mark of the American shops.

Dunkin' Donuts brought suit against Mario and Arturo Aguilar and MVI (hereinafter collectively "the Aguilars"), alleging service mark and trade dress infringement under the Lanham Act, 15 U.S.C. § 1114 and 1125 (1988). Following a bench trial, the district court found in favor of Dunkin' Donuts and against the Aguilars. The district court found that the Aguilars had committed acts of service mark and trade dress infringement, and enjoined the Aguilars from using the "Donkin' Donas" mark and from further use of the Dunkin' Donuts trade dress. Further, the district court ordered an accounting to calculate the Aguilars' profits, and the actual damages suffered by Dunkin' Donuts. However, the district

** Local Rule 47.5 provides: "The publication of opinions that have no precedential value and merely decide particular cases on the basis of well-settled principles of law imposes needless expense on the public and burdens on the legal profession." Pursuant to that Rule, the Court has determined that this opinion should not be published.

court ruled that the case was not "exceptional" under the Lanham Act, thereby precluding recovery of treble damages and attorney fees. Dunkin' Donuts moved to amend the judgment under Rule 59 on the basis that 15 U.S.C. § 1117(b) required the district court to award treble damages and attorney fees, but the motion was denied without explanation.

The district court appointed a special master to conduct the accounting, and he issued a report recommending that the court award \$981,390 in damages to Dunkin' Donuts. Neither party filed objections to the special master's report within the time set forth in Fed. R. Civ. P. 53(e)(2). Several months later, the district court reduced the master's damage award, and entered judgment for Dunkin' Donuts in the amount of \$127,232. Dunkin' Donuts appeals this award, as well as the district court's failure to award treble damages and attorney fees. We affirm in part and remand in part.

II. Discussion

Turning first to the award of monetary damages, the special master calculated the Aguilars' profits by applying a 45% cost of goods sold figure to the gross sales. The district court rejected this profit calculation, and calculated the Aguilars' profits by applying a 1% net profit figure to the gross sales. The 1% net profit figure is based on the Robert Morris Associates 1992 Annual Statement Studies for bakeries. In applying the 1% net profit figure, the district court concluded that the standard of profitability typically applied is that of net, rather than gross, profits. With respect to the lost profits component of Dunkin'

Donuts actual damages, the district court reduced the amount recommended by the special master, essentially disallowing any future lost profits, and basing past lost profits on the gross sales figure used by the master in determining the Aguilars' profits.

In reviewing an award of money damages, we give the district court great latitude, and a judgment should not be set aside unless clearly inadequate. See Holiday Inns, Inc. v. Alberding, 683 F.2d 931, 935 (5th Cir. 1982). The Lanham Act expressly confers upon district judges great discretion in determining the amount of recovery for trademark infringement. Id.; see also Taco Cabana Int'l, Inc. v. Two Pesos, Inc., 932 F.2d 1113, 1127 (5th Cir. 1991) ("We must respect the fact that [§ 1117(a)] endows the district court with considerable discretion in fashioning an appropriate remedy for infringement."), aff'd, 112 S.Ct. 2753 (1992). Section 1117(a) provides in pertinent part:

In assessing damages the court may enter judgment, *according to the circumstances of the case*, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may *in its discretion* enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.

15 U.S.C. § 1117(a) (1988) (emphasis added).

Applying these principles to the facts of this case, it is clear that the district court did not abuse its discretion in awarding compensatory damages. Dunkin' Donuts argues that the district court erred in failing to accept the master's findings as to the Aguilars' profits and lost profits. However, it was within the district court's discretion to reject the special master's profit calculations, substitute its own, and "... enter judgment for such a sum as the court shall find to be just" 15 U.S.C. § 1117(a) (1988). Because the district court calculated the profits and lost profits in a rational way, we cannot find that the district court's total damage award of \$127,232 was clearly inadequate.

Turning now to the issue of treble damages and attorney fees, Dunkin' Donuts maintains that they were entitled to trebled damages and attorney fees under 15 U.S.C. §§ 1117(a) and (b). Section 1117(b) provides in pertinent part:

[T]he court shall, *unless the court finds extenuating circumstances*, enter judgment for three times such profits or damages, whichever is greater, together with a reasonable attorney's fee, in the case of any violation ... that consists of intentionally using a mark or designation, knowing such mark or designation is a counterfeit mark (as defined in section 1116(d) of this title), in connection with the sale, offering for sale, or distribution of goods or services.

15 U.S.C. § 1117(b) (1988) (emphasis added). In addition to this virtually mandatory language, section 1117(a) provides that "[t]he court may in exceptional cases award reasonable attorney fees to the prevailing party." 15 U.S.C. § 1117(a) (1988).

Notwithstanding these statutory directives, the district court refused, without explanation, to award either treble damages or counsel fees. Since the violations in this case were clearly intentional, as the district court found, the denial of these remedies would be proper only if the district court found extenuating circumstances. No such finding has been made, however, and the evidence does not readily lend itself to any such finding. The case will therefore be remanded to the district court, which should either award treble damages and counsel fees, or articulate its reasons for denying such an award. See CJC Holdings, Inc. v. Wright & Lato, Inc., 979 F.2d 60, 65 (5th Cir. 1992).

The award of compensatory damages is affirmed. The case is remanded to the district court for reconsideration of the issues of treble damages and counsel fees.