TRADEMARKS AND FINANCIAL REMEDIES: STANDARDS IN THE COMMON LAW

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1. INTRODUCTION

From the vantage of an expert economist active in valuation of intellectual property, this paper analyzes monetary remediation in U.S. trademark law. This is a daunting task. A leading expert, Prof. Thomas McCarthy of the University of San Francisco, would come to characterize the relevant case law that I now seek to scale as "a confusing mélange of common law and equity principles, sometimes guided (and misguided) by analogies to patent and copyright law, and finding little statutory guidance in the Lanham Act.[1] One can only hope.

The Lanham Act establishes two remedies available for trademark infringement –

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injunction and *monetary relief*. Injunctive relief is an outcome in liability that predictably follows when the mark owner can identify a *likelihood of confusion* from misuse of its mark. A less certain outcome, monetary remedy may be used to compensate mark owners for actual damages arising from infringement and may further disgorge defendant profits in order to restore equity.

Although both injunctive relief and monetary remedy have statutory provision, the terms of implementation of the latter remedy are more in the domain of common law. Considerable factors in a judgment for remediation may include, *inter alia*, degree of infringer willfulness, the presence of actual plaintiff loss, proof of actual buyer confusion, and possible defendant enrichment.[2] . However, James M. Koelemay would explicitly note the complexity of the process; "efforts by legislators of the Lanham Act to clarify the conditions for monetary relief did not survive the legislative process, leaving the job to the courts, which have not devised a satisfactory system."[3]

I shall now argue that economic analysis can play a key role in defining the parameters for monetary relief. While trademark now enjoy a statutory mandate for buyer clarity and the fairness of just desserts, trademarks should be appreciated formally for their

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[1]J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 30:57 (5th ed. 2012). *See also* Thurmon, "Confusion Codified: Why Trademark Remedies Make no Sense", 17 J. Intell. Prop. L. 245 (2010).

[2] McCarthy, op. cit.

[3]James M. Koelemay, "Monetary Relief for Trademark Infringement under the Lanham Act," 72 Trademark Rep. 458, 495.

capacity of trademarks to encourage competitive producer behavior through stimulated entrepreneurship, research and invention, geographic expansion, and migration among marketing channels and distribution platforms. All of these can have some explicit recognition in common law resolutions to award remedies to protect trademarks. This article seeks to set forth some consideration.

2. TRADEMARK PROTECTION AND BUYER CONFUSION

Trademark law is now governed by state and federal law; the most recent federal statute is the Lanham Act of 1946, as amended in 1996. 15. U.S.C. 1051 et seq. A trademark is "any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others." 15 U.S.C. 1127. Identically protected by the Lanham Act is a service mark – "'a mark used in the sale or advertising of services to identify the services of one person and distinguish them from the services of others." Id. The Lanham Act also protects non-functional apparel or packaging – i.e., trade dress. 15 U.S.C. 1125

Trademark owners can acquire rights to a mark in one of two ways – (1) being the first to use in commerce and (2) being the first to register the mark with the U.S. Patent and Trademark Office.[4] Protection in the first instance applies only in the region in which the mark is used in commerce. Federal protection in the second instance extends to the national

[4]http://smallbusiness.findlaw.com/intellectual-property/protect-your-trademark-from-infringement.html

domain, except for those businesses that already had been deploying the name at the time of its federal award. Once enacted, registration of a mark provides to others constructive notice of a presence that can be discerned through due diligence; the Patent and Trademark Office publishes notice of new marks in its online database.[5] Once granted, a trademark can be renewed indefinitely without termination; this differs from the limited terns of patent and copyright.

A mark owner has a cause of action for infringement of a registered mark when an unauthorized party uses (1) any reproduction, counterfeit, copy or colorable imitation of a mark; (2) without the registrant's consent; (3) in commerce; (4) in connection with the sale, offering for sale, distribution or advertising of any goods; (5) where such use is likely to cause confusion, or to cause mistake or to deceive.[6]

An infringed mark owner can win injunction and recover monetary remedies; the latter category principally include actual damages and/or defendant profits. 15 U.S.C. 1114, 1125. Injunction requires the mark owner to demonstrate a likelihood of confusion; standards may differ among Circuits[7]

[5]https://www.uspto.gov/trademarks-application-process/search-trademark-database (retrieved August 22, 2016).

[6]Pub. L. 87-772, § 17, 76 Stat. 773 (1962). *See also* Continental Motors Corp. v. Continental Aviation Corp., 375 F.2d 857, 860 at n. 8 (5th Cir. 1967)

[7]Barton Beebe, An Empirical Study of the Multifactor Tests for Trademark Infringement, 94 CALIF. L. REV 1581 (2006).

	1	2	3	4	5	6	7	8	9	10	11	DC	F
Similarity of the Marks	x	x	x	x	x	x	x	x	x	x	x	x	x
Proximity of the Goods	x	x	x	x	x	x	x	x	x	x	x	x	x
Evidence of Actual Confusion	x	x	x	x	x	x	x	x	x	x	x	x	x
Strength of Plaintiff's Mark	x	x	x	x	x	x	x	x	x	x	x	x	x
Defendant's Intent	x	x	x	x	x	x	x	x	x	x	x	x	
Sophistication of Consumers	x	x	x	x			x	x	x	x		x	x
Similarity of Adv. & Mktg.	x		x	x	x	x	x		x	x	x		
Similarity of Sales Facilities	x			x	x		x				x		x
Likelihood of Bridging the Gap		x	x			x			x			x	
Comparative Quality of the Goods		x										x	
Similarities in Parties' Sales Efforts			x										
Length of Time of Concurrent Use without Actual Confusion			x										

Per the oft-cited Second Circuit case of *Polaroid Corp. v. Polarad Elect. Corp.,*[8] common factors for consideration in establishing likely confusion include (1) the strength of the plaintiff's mark; (2) the degree of similarity between plaintiff's and defendant's marks; (3) the proximity of the products; (4) the likelihood that plaintiff will bridge the gap; (5) actual confusion; (6) the defendant's good faith in adopting the mark; (7) the quality of defendant's product; and (8) the sophistication of the buyers. .

If likelihood of confusion can be suggested, the defendant may yet attempt to establish the affirmative defenses of *fair use* (when a distinctive mark is used in good faith

[8]287 F. 2d 492 (2d Cir. 1961).

for its primary meaning in the English language), *nominative use* (when use of the trademarked term is necessary to identify another producer's product), *parody (*when the mark is used to conjure or satirize a social institution), or *criticism* (when the mark is used more directly to single out a company for improper conduct.) For example,

Fair use: The defendant's use of the phrase "fish fry" to describe a batter coating for fish was an allowable fair use of the plaintiff's mark *Fish-fri*.[9] However, owners of the trademark *Slickcraft* used on family recreation boats prevailed against use of the name *Sleekcraft* that was used in connection with high-speed racing boats, a non-competitive product yet in the same general vehicle class.[10]

Nominative Use: The defendant newspaper *USA Today* prevailed against the rock band *New Kids on the Block* regarding the use of the band's name in a telephone poll in which listeners could choose their favorite band members. The Court allowed the newspaper's nominative use because the band could not otherwise have been identified, the use of the name was confined solely to the process of the contest, and there was no suggestion of endorsement.[11]

[9]Zatarain's, Inc v. Oak Grove Smokehouse, Inc. 698 F. 2d 786 (5th Cir. 1983). The Fifth Circuit upheld the Defendant's right to use the words "fish fry" in the ordinary, descriptive sense, so long as there is no confusion as to the source of the goods.

[10]AMF Inc. v. Sleekcraft Boats, 599 F. 2d 341 (9th Cir. 1979).

[11]New Kids on the Block v. News America Publishing, Inc., 971 F. 2d 302 (9th Cir. 1992).

Parody: The Second Circuit allowed the irreverent but harmless use of a pig-like character named Spa'am in a Muppets movie, despite the earlier registration of the mark Spam by food company Hormel.[12] However, a lower court (E.D.N.Y.) did not allow parody in the logo "Enjoy Cocaine" found to infringe upon Coca Cola's famous mark.[13] It is difficult to reconcile the two decisions. .

Criticism: The Court allowed an internet website entitled *Bally's Sucks* to continue the use of the Bally's name after recognizing the legitimate use needed for public criticism of Bally's; no person could possibly confuse the derogatory website with a Bally's property.[14] Bally's possible remedies at law yet could relate to defamation and putting in a false light.

3. INNOVATION AND THE PUBLIC INTEREST

The topics of trademark valuation and name protection appear in the peer--reviewed literature of professional economists.[15] From an economic perspective, trademarked names, logos,

[12]Hormel Foods Corp. v. Jim Henson Prods., 73 F. 3d 497 (2d Cir. 1996).

[13]Coca Cola Co. v Gemini Rising, Inc., 346 F. Supp. 1183 (E.D.N.Y. 1972). ("the case bristles with difficult questions of trademark law … the source of plaintiff's claimed irreparable injury has not been removed but is increasing by every "Enjoy Cocaine" poster which rolls off the press.")

[14]Bally Total Fitness Holding Corporation v. Andrew S. Faber, 29 F. Supp. 2d 1161 (C. D. Cal., Nov. 23, 1998).

[15]William M. Landes and Richard A. Posner, Trademark Law: An Economic Perspective, 30 J. L & ECON. 265,

and images are compact terms that present nuanced combinations of complex qualities that are commingled in some commercial product or service. As a matter of efficient communication, car buyers gratefully use the word *Volvo* instead of explaining to spouses that they must search 'customized auto lots until they find a seller of dependable Swedish cars for $60,000 that are not ostentatious but are status symbols nonetheless.' Justice Frankfurter[16] and several Circuit Courts[17] would have immediately concurred.

But there is more to a trademark than a good instrument to prevent buyer confusion. While preserving the clarity of buyer choice, a clear trademark simultaneously provides to the producer (e.g., Volvo) a greater incentive to invest in design, performance, distribution, and retailing of an improved product. By maintaining clear communication in the posterior market, trademark clarity then facilitates for producers the presentation and differentiation of

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269-70 (1987); G. Ramello, What's in a Sign? *Trademark Law and Economic Theory*, working paper, 2006, at http://polis.unipmn.it/pubbl/RePEc/uca/ucapdv/ramello73.pdf, (retrieved October 1, 2011) D.W. Barnes, "A New Economics of Trademarks", 5 NW J. TECH & INTELL.PROP 22, Fall 2006.

[16]Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co., 316 U.S. 203, 206-07, 62 S.Ct. 1022, 86 L.Ed. 1381 (1942) (A trademark is a "merchandising shortcut which induces a purchaser to select what he wants, or what he has been led to believe he wants." The owner of a mark exploits this human propensity by making every effort to impregnate the atmosphere of the market with the drawing power of a congenial symbol. Whatever the means employed, the aim is the same -- to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trademark owner has something of value. If another poaches upon the commercial magnetism of the symbol he has created, the owner can obtain legal redress.")

[17]Ty, Inc. v. Perryman, 306 F.3d 509, 510 (7th Cir. 2002) ("The fundamental purpose of a trademark is to reduce consumer search costs by providing a concise and unequivocal identifier of the particular source of particular goods. The consumer who knows at a glance whose brand he is being asked to buy knows whom to hold responsible if the brand disappoints and whose product to buy in the future if the brand pleases."). *See also* Brennan's, Inc. v. Brennan's Rest., L.L.C., 360 F.3d 125, 132 (2d Cir. 2004); Union Nat'l Bank of Tex., Laredo, Tex. v. Union Nat'l Bank of Tex., Austin, Tex., 909 F.2d 839, 844 (5th Cir. 1990). .

new goods and services in a world where new product attributes are often difficult to communicate.[18] The benefit for producers involves "creative destruction" -- investment in and further development of entirely new products and technologies that destroy and regenerate the existing economic structure.[19]

This explicit recognition of producer harm and disinvestment calls to mind the related tort of trademark dilution and the legislative rationale for the **Trademark Dilution Revision Act of 2006**. (Pub. L. 109-312) *Trademark dilution* arises when the unauthorized use of a mark on an unrelated product with little connection to the marked product nonetheless *blurs* or *tarnishes* the public's association of the senior mark.[20] The act sought

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[18]Without such clear signage, "consumers would often pick a good of undesirable qualities, while firms, unable to transmit to the consumer signals of the unobservable high qualities of their goods, would choose to produce goods with the cheapest possible unobservable qualities. However, when there exists a way to identify the unobservable qualities of a good at the time of purchase, consumers are facilitated in their choices, and firms have an incentive to cater to a spectrum of tastes for variety and quality … Producers [then] are indirectly prompted to produce what consumers truly desire." N. S. Economides, TRADEMARKS, *the New Palgrave Dictionary of Economics and the Law*, 1997. *See also* N. S. Economides, The Economics of Trademarks, 78 TRADEMARK REP. 523 (1988).

[19]The "gale of creative destruction" describes the "process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one".[Joseph A. Schumpeter (1994) [1942]. CAPITALISM, SOCIALISM, AND DEMOCRACY, London, Routledge Publishers, pp. 82–83. Through the benefits of a clearly protected name, the innovation of Charles Schwab displaces Merrill Lynch, Wal-Mart (n/k/a Walmart) displaces Macy's, Starbucks displaces Chock Full O' Nuts, Southwest Airlines displaces TWA, Microsoft displaces IBM, America Online displaces CompuServe, Google displaces Yahoo, and Amazon displaces Borders. While these innovators benefitted from other legal protections, all of them benefitted from new ideas and business models that were secured by control of their names as discernible symbols of their product.

[20]*Blurring* refers to a mark associated with one product is moved to a neutral use in another market (such as "Kodak shoes"). *Tarnishment* is the weakening of a mark through an unflattering association. For example, an

to protect from expropriation well-known brands and investments that were made over years to build a reputation worthy of upholding. .

The potential harm of a trademark infringement on an innovator then is more than a discernible glitch in a consumer survey or even a drop in owner profits, and thus beyond the issues of *buyer protection* and *just dessert* underlying the Lanham Act [21] From its inception, the legislative provisions behind the Lanham Act did not explicitly establish the consequences of depleted investment and product development that would predictably arise if their names are not secure. The harm of dimmed innovation redounds not only to prospective businesses. In the end, the net result of lost innovation redounds to consumers themselves who may otherwise enjoy the uses of new technologies and improvements. Financial remediation here protects innovation and thus serves the public interest.

4. LEGAL REMEDIES

The Lanham Act provides for injunctive relief and monetary remedy. Per 15 U.S.C. 1116, a trademark owner may move first for an injunction when an infringing use is "*likely to cause confusion* or mistake or to deceive purchasers as to the source of origin of such goods or

adult toy store in Kentucky named *Victor's Little Secret* was found to tarnish the mark of the lingerie chain *Victoria's Secret.* V Secret Catalogue, Inc. v. Moseley, No. 08-5793 (6th Cir. May 19, 2010).

[21]First, the act aims to protect buyers from confusion; any person presumably should be confident that he/she will get the product sought or asked for. Secondly, the act aims to preserve the just desserts due *ex post* to a trademark owner who has spent energy, time, and money in creating the product S. Rep. No. 1333, 79th Cong.,

services." The Lanham Act protects against both *direct confusion* – i.e., when buyers "believe that the trademark owner sponsors or endorses the use of the challenged mark",[22] and *reverse confusion* -- when buyers mistakenly come to "believe that the junior user is the source of the senior user's goods."[23]

With its enactment, an injunction itself may be sufficient to stop future malfeasance; further monetary remedy is no adjudicatory certainty.[24] However, while an injunction may stop future harm, it cannot redress any previous injury suffered from infringement. For if no financial penalty was possible, a willful or negligent infringer would have an incentive to use a trademark for as long as possible, confuse buyers, and damage or destroy its competition. Once compelled to cease, it would simply forego – at no additional cost – a use of a mark that it never should have practiced in the first place.[25]

Monetary remedies for trademark infringement then appear in 15 U.S.C. 1117. Upon the finding of an infringement and subject to the principles of equity, a prevailing mark owner may recover (1) his/her actual damages, (2) defendant's profits, and (3) the costs of the

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2d Sess. 1-2 (1946), reprinted in 1946 U.S.C.C.A.N. 1274 (1946). *See also* Park 'N Fly, Inc. v. Dollar Park and Fly, Inc., 469 U.S. 189, 198 (1985).

[22]EMI Catalogue P'ship v. Hill Holliday, Connors, Cosmopulos, Inc., 228 F. 3d 56, 62 (2d Cir. 2000).

[23]Banff, Ltd. v. Federated Dept. Stores, Inc., 841 F. 2d 486, 490 (2d Cir. 1988).

[24]Champion Sparkplugs, infra note 43 and surrounding text, ("c*onsidering the lack of actual damages and the lack of intent to confuse, deceive*, injunctive relief satisfies the equities in this case." [emphasis mine]"

[25] Playboy, infra note 50.

action. The Court also has discretionary power to increase the damage award to treble level for compensatory (but not punitive reasons), and may increase or decrease in equity an award of profits by any amount if the owner's recovery is deemed inadequate or excessive. [26] Also allowable but less frequent are corrective advertising[27] and statutory damages (for counterfeiting). For the purposes of this this article, I shall focus on the remedies of actual damages and defendant's profits.

5. MONETARY REMEDIES: ACTUAL DAMAGES

Actual damages are commonly measured by diverted sales, royalty income, or franchise fees; added costs and diminished reputation are also conceivable. The award of actual damages requires a demonstrable causal connection[28] that implicates a showing of *actual buyer confusion;* mere likelihood of confusion is not a sufficient basis for recovery of actual

[26] McCarthy $30:90.

[27] Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co., 408 F. Supp. 1219 (D. Colo. 1976), modified, 561 F. 2d 1365 (10th Cir. 1977), cert. dismissed, 434 U.S. 1052 (1978). The Court of Appeals held that corrective advertising for a trademark infringement should be fixed at 25 percent of the defendant's previous advertising budget. This number does not appear to have any scientific basis to which a technical expert may opine.

[28] Establishing a causal connection does not usually require an exhaustive consideration of all alternative factors. Proof of a general decline or disruption in sales following the misconduct can sometimes be sufficient evidence of causation. Restatement, Third, Unfair Competition, #36, Comment (1995).

damages.[29] The recovery interval for actual damages begins at the time the infringer became aware of its malfeasance through a formal notification or demonstrated through the presence of a registration mark. 15 U.S.C.A. 1111 Recovery of actual damages is a matter of law and can thus be put to a jury at the request of either party

Regarding actual damages, restoration of *lost profits arising from diverted or suppressed sales* is a generally allowable tort remedy but one that is nonetheless difficult to establish in a trademark case. Here an expert would need to estimate damages arising in an infringement interval by reviewing plaintiff sales in "before" and "after" time periods, and so taking the difference. However, because any number of factors (e.g., economic growth, seasonality, regional shifts) may also influence sales at any time, it is difficult to isolate the contribution(s) of the infringement(s) on the level or shape of any sales trajectory. The problem of serial measurement over an historic interval then is quite unlike the discrete problem found in wrongful death or termination, where a discernible drop in worker earnings can presumably be noticed immediately after the malfeasance.

Alternatively, a defendant's infringement can deny to the mark owner *licensing income* or *franchise fees* that it should have been paid. Lost licensing revenues can be established as a percent royalty of defendant's cumulative sales volume, a more common

[29]Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co. 145 F. 3d 481 (2d Cir. 1998) (no such evidence introduced); Brunswick Corp. v. Spinit Reel Co. 832 F. 2d 514 (10th Cir. 1987).

measure of actual damages in a trademark case.[30] As a general consideration in valuation of any missed use license, royalty payments should be determined on the basis of a hypothetical negotiation between a willing buyer and a willing seller in an arms-length transaction and should then exhibit a strictly rational correlation between the infringed rights at issue and the proposed measure of damages.[31] The largest royalty award appeared in *Sands, Taylor & Wood v. Quaker Oats Co.*[32]

To estimate reasonable royalties for a hypothetical trademark license, trademark courts often modify and incorporate standards set forth in the patent case of *Georgia Pacific Corp. v. U.S. Plywood-Champion Papers, Inc.;*[33] There are some useful factors that can be translated to the trademark domain,

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30 Among many, Sands, Taylor & Wood v. Quaker Oats Co. 34 F.3d 1340 (7th Cir. 1994) (percent royalties awarded after Seventh Circuit vacated a previous award of defendant profits); adidas America, Inc. v. Payless Shoesource, Inc. 529 F. Supp. 2d 1215 (D. Or. 2007) (upholding a jury award of reasonable royalty as a percent of sales although the outcome would have resulted in a loss to the defendant).

31 Boston Professional Hockey Association v. Dallas Cap & Emblem Manufacturing, Inc., 597 F. 2d 71, 202.

32 34 F. 1340 (7th Cir. 1994). corrected 44 F. 3d 579 (N.D. Ill., 1995). Here the Seventh Circuit awarded to the plaintiff a reasonable royalty of 1 percent of infringing product sales in the first year of infringement, and 0.5 percent afterward, after Quake Oats infringed its trademarked name THIRST-AID. "The royalty formula should attempt to measure the value to the infringer gained by the use of the particular mark." The Court then doubled the base award of $10.5 million to ensure deterrence so that payment of a royalty does not become anything more than a normal cost of doing business.

33 318 F. Supp. 1116 (S.D.N.Y. 1970), modified and aff'd, 446 F.2d 295 (2d Cir. 1971). For example, see Coryn Group II, LLC v. O.C. Seacrets, Inc., Civil No. WDQ-08- 2764, 2010 WL 1375301, at *8 n.27 (D. Md. Mar. 30, 2010) ("The Georgia Pacific factors were originally used in patent and trade secret cases, but have been applied, with variations, in trademark and unfair competition cases."); A & L Labs., Inc. v. Bou-Matic,

1. Previous royalties received by the mark owner for the licensing of the trademark-in-suit,
2. Previous rates paid by the licensee for the use of other marks comparable to the mark-in-suit,
3. Exclusivity or not;
4. Restriction in allowable territory or product line;
5. Whether or not the mark owner generally grants licenses to its mark,
6. The commercial relationship between the two parties (competitors, franchise);
7. The term of the prospective use license;
8. The established profitability and popularity of the products under consideration;
9. The recognized advantages of the trademarked product or brand compared with other products or brands in the same market;
10. Third party evidence probative of value of that use;
11. The portion of the profit or of the selling price that may be customary in the particular business, and
12. The contribution of non-infringing commingled elements.

An expert examination of the hypothetical transaction should implicate objective standards of valuation that any negotiating agent would consider; it should not extend to subjective preferences of either party. [34] Not all factors may be applicable in any given case; some may tend to increase the royalty, while others could be neutral or tend to decrease it.

LLC, No. Civ. 02-4862, 2004 WL 1745865, at *2 (D. Minn. Aug. 2, 2004) ("Generally, reasonable royalties are awarded as a measure of damages for infringement of a patent or trademark."); A Touch of Class Jewelry Co. v. J.C. Penney Co., No. Civ. A. 98-2949, 2000 WL 1224804, at *8 (E.D. La. Aug. 28, 2000).

[34]For example, it is not appropriate to suggest in a valuation that a particular mark owner on principle would never choose to license its mark and thus press for an exorbitant compensation beyond a demonstrable market standard. Nor is it appropriate to use – without further examination -- a defendant's proffered royalty rate that the mark owner had previously rejected. However, an expert in both instances may suggest that the mark had never before been licensed, and is then deserving of a premium for a first time use. That determination of a suitable premium, which should be established objectively by considering similar market outcomes, appears to be quite difficult.

However, while these standards appear reasonable, there is no objective way of weighting the importance of any, or even ranking them in order of importance. Charles Henn et al. point out the practical difficulty here, "within the sporting goods industry, if Nike were to establish a 6 percent royalty rate, Wilson were to establish a 3 to 6 percent rate range depending on the licensee, the Adidas rate were to range from 7 to 15 percent, and Mizuno were to apply a range of 5 to 9 percent, the range of royalty rates would vary from a meager 3 percent to a whopping 15 percent."[35]

The determination of a royalty award then is apparently easier if evidence of some previous licensing between the two parties actually exists and is then is particularly likely in franchise cases where a former franchise owner holds over the name of an established hotel or restaurant chain.[36] That said, the District Court of Oregon in *Adidas America, Inc. v. Payless ShoeSource, Inc.,*[37] became more focused on the histories of the two litigating parties, opting for consideration of prior licenses issued by the mark owner, prior rates paid

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[35]M R. Charles Henn, Jr., Sabina A. Vayner, and Katharine M. Sullivan, Monetary Recovery in Trademark Litigation, IP LITIGATOR, (16:6) November/December 2010 (http://www.kilpatricktownsend.com/~/media/Files/articles/2010/IPLIT_111210_Henn.ashx, retrieved August 24, 2016)

[36]Ramada Inns, Inc. v. Gadsden Motel Co. 804 F. 2d 1562 (11th Cir. 1986) (also awarded prejudgment interest, trebling damages, attorney's fees, corrective advertising, and plaintiffs' cost of developing a new franchise property in the same area). La Quinta Corp. v. Heartland Properties LLC, 603 F. 3d 327 (6th Cir. 2010) (also awarded liquidated damages if they arose, as well as a trebling of actual damages).

[37]529 F. Supp.2d 1215 (D. Or. 2007)

by the licensee, and the licensor's common practices – i.e., actual events that would be found directly in the predicate of the imagined licensing transaction. While the Adidas standard – i.e., the introduction of specific license data related to the two parties in suit – would seem to be most preferred, the difficulty here is that many plaintiffs simply do not have any history of licensing their marks. This concern might implicate both market entrants that have just begun to promote a new product as well as established incumbents that would have no interest in lending out their brand name.

Returning then to a more general consideration per *Georgia Pacific*, it is not proper simply to choose from a public database a compendium of possible benchmark licenses from related transactions and choose the average or midpoint as the strike point. Indeed, the Federal Circuit disqualified a patent expert who had presented a list of seven benchmark licenses that he drew up from the licenses of other "comparable" patents not in suit. [38] Without further analysis, the expert then proceeded to present the average royalty rate as a suitable standard for the matter at hand. Rather than crudely adopt a rough average of licenses, a valuation expert without a licensing history should then select those few benchmark licenses most comparable to the matter in suit. This requires more analysis – often contestable -- and yet does not mean the chosen outcome – if it survives challenge -- will be sufficient proof of lost royalties.

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[38]ResQNet v. Lansa, 594 F.3d 860 (Fed. Cir. 2010).

6. MONETARY REMEDIES: PROFIT DISGORGEMENT

An alternative financial remedy involves disgorgement of defendant's profits. There are three justifications for this:[39] preventing wrongful gain,[40] deterring future infringement,[41] and approximating actual plaintiff harm (when parties are direct competitors and plaintiff could have demonstrably made the same sales),[42] It is not necessary to demonstrate actual damages to recover a disgorgement, [43] and plaintiffs may recover both actual damages and defendant profits if the two occurrences do not overlap.[44] Unlike damages, neither party in

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[39]George Basch Co., Inc. v. Blue Coral, Inc. 968 F. 2d 1532, 1537 (2d Cir. 1992). *See also* Cuisinarts, Inc. v Robot-Coupe Intern. Corp., 580 F. Supp. 634, 637 (S.D.N.Y.1984), Marshak v. Treadwell, 595 F. 3d 478, 495 (3d Cir. 2009).

[40]*Hamilton-Brown Shoe. v. Wolf Bros*; 240 U.S. 251, 36 S.Ct. 269, 60 L.Ed. 629 (1916) ("the infringer is required in equity to account for and yield up his gains to the true owner, *upon a principle analogous to that which charges a trustee with the profits acquired by wrongful use of the property of the trust*" [emphasis mine]) *See also* St. Charles Mfg. Co. v Mercre, 737 F. 2d 891, 893 (11th Cir. 1983).

[41]Playboy, infra note 50.

[42]"Where the parties are competitors, the defendant's profits … are a rough measure of the plaintiff's damages. Indeed, they are probably the best possible measure of damages available." Polo Fashions, Inc. v. Craftex, Inc., 816 F. 2d 145, 149 (4th Cir. 1987); *see also* Intel Corp. v. Terabyte Intl'; 6 F. 3d 614 (9th Cir. 1993) (multiply defendant unit sales by the plaintiff's profit margin.)

[43]Web Printing Controls Co., Inc. v. Oxy-Dry Corp. 906 F. 2d 1202, 1205 (7th Cir. 1990). ("These remedies flow not from the plaintiff's proof of its injury or damage, but from its proof of the defendants' unjust enrichment or the need for deterrence.") . However, the Second Circuit demurred somewhat in 1944; some evidence of actual confusion was needed to recover profits in T. H. Mumm Champagne v. Easter Wine Corporation, 142 F. 2d 499, 501 (C.C.A. 2d Cir. 1944)

[44]Maltina Corp. v. Cawy Bottling Co., Inc., 613 F.2d 582, 585 (5th Cir. 1980); Springs Mills, Inc. v. Ultracashmere House, Ltd., 724 F.2d 352, 356 (2nd Cir. 1983).

equity has a right to a trial by jury on the matter of profit accounting for disgorgement,[45] unless defendant profits are a reasonable surrogate for actual damages and thus recoupable in law.[46]

Two Supreme Court precedents are important here. First, it is generally *not necessary* to demonstrate *actual confusion* as a precondition for disgorgement; disgorgement is a remedy to preserve equity and deter infringement.[47] Second, it is generally *necessary* to demonstrate *willful intent or some comparable act of fraud or palming off;* this would be consistent with the need to deter egregious behavior. **[48]**

Three additional qualifications appear below in the circuits. First, willfulness is not always sufficient to justify disgorgement; weakness of mark appears to be a mitigating factor.[49] That said, the Ninth Circuit would nonetheless come to affirm that if a trademark

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[45]G. A. Modefine S.A. v. Burlington Coat Factory Warehouse Corp. 888 F. Supp. 44, 45 (S.D.N.Y. 1995) ("A claim for profits in a trademark infringement case is an equitable remedy for which there is no right to trial by jury.")

[46]Daisy Group, Ltd. v. Newport News, Inc. 999 F. Supp. 548, 551 (S.D.N.Y. 1998) (As an award of profits is a surrogate for actual damages, a "claim for [defendant] profits under the Lanham Act gives rise to a right to trial by jury.")

[47]Mishawaka, supra note 16. A plaintiff was entitled to recover profits even though "there was no evidence that particular purchasers were actually deceived into believing that the [goods] sold by the [infringer] were manufactured by the [mark's owner]."

[48]Champion Spark Plug Co. v. Sanders, 331 U.S., 125, 131, 67 S. Ct. 1136 (1947) ("Here, as we have noted, there has been no showing of fraud of palming off … In view of these various circumstances, it seems to use that the injunction will satisfy the equities of the case.")

[49]Lindy Pen; infra note 53; Texas Pig Stands, infra note 85

infringement is willful, *some financial remedy* is necessary[50] Finally, disgorgement can be allowable if *unwillful* infringement led to actual damages, as defendant profits are a measure of actual damages.[51]

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[50]Playboy Enterprises, Inc. v. Baccarat Clothing Co., Inc., 692 F.2d 1272, 1274 (9th Cir. 1982). (a remedy no greater than an injunction "slights the public" and a tacit invitation to other infringement.)

[51]Western Diversified Services, Inc. v. Hyundai Motor America, Inc. 427 F. 3d 1269, 1272 (10th Cir. 2005).

7. PLAINTIFF BURDEN

As a matter of profit disgorgement, plaintiff bears the burden to prove defendant revenues related to infringement, while defendant bears the posterior burden to prove offsetting costs and a means for apportioning the value of non-infringing elements in the defendant's profit total.

While the plaintiff's burdens can sometimes be simple[52] it is less certain what revenue components can meet the starting burden when the defendant infringes in only some of its product lines. In the Ninth Circuit case of *Lindy Pen v. Bic Pen,*[53] the defendant Bic used Lindy's trademarked slogan AUDITOR'S FINE POINT to market pens through a mail order campaign. The Plaintiff Lindy then sought restitution of profits on all pens that Bic sold in all markets. The Court held that Lindy had access through discovery to Bic's records from which it could have extracted those revenues directly related to infringing market sales in the campaign. The Court then declined to enforce Lindy's sought revenue disgorgement,

[52]Wesco Manufacturing, Inc. v. Tropical Attractions, 833 F.2d 1484 (11th Cir. 1987) (the defendant's tax return alone was sufficient proof of infringing sales, thus shifting the burden to the defendant to disprove numbers that it had provided to the plaintiff in discovery.)

[53]Lindy Pen Co., Inc. v. Bic Pen Co., 982 F.2d 1400, 1405-7 (9th Cir. 1993). *See also* Rolex v. Michel Company, 179 F. 3d 704, 712 (9th Cir. 1999); Computer Access Tech. Corp. v. Catalyst Enters. Inc., 273 F. Supp. 2d 1063, 1074 (N.D. Cal. 2003); Texas Pig Stands, infra note 85 at 696. Maier Brewing, infra note 66.

and shut out the plaintiff's remedy claim entirely. Perhaps tellingly in equity, the Court also found Lindy's descriptive trademark to be weak and the infringement to be unintentional.[54]

The Seventh Circuit case of *WMG Gaming Inc. v. WPC Productions LLC* ended in an opposite manner.[55] The defendant WPC produced a variety of casino games, one of which violated the WMG's trademarked slogan JACKPOT PARTY. After WMG sought to disgorge all WPC profits identified in WPC's Annual Report, the District Court required the plaintiff to meet the burden of proving sales solely from the offending activity. The Circuit Court reversed, citing to the Supreme Court in *Hamilton-Brown Shoe Co. v. Wolf Bros. & Co.;*[56] while it is often difficult to "ascertain[ ] what proportion of the profit is due to the trademark, and what to the intrinsic value of the commodity" -- such that the proper proportion often "cannot be ascertained with any reasonable certainty… it is more consonant with reason and justice that the owner of the trademark should have the whole profit than that he should be deprived of any part of it by the fraudulent act of the defendant."[57]

There is an apparent Circuit split here. The matter is further complicated because the Seventh Circuit reference to the *Hamilton-Brown Shoe* precedent may implicate *obiter*

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[54]Lindy also failed to present evidence of its own market damages arising from Bic's telephone sales.

[55]No. 07-3585 (7th Cir. 2008). Reversing a lower court, the Seventh Circuit held that defendant bore the responsibility to break out infringing and noninfringing unit sales as part of its requirement to prove deductions.

[56]Supra note 40

[57]If one wrongfully mixes his own goods with those of another, so that they cannot be distinguished and separated, he shall lose the whole, for the reason that the fault is his; and it is but just that he should suffer the loss rather than an innocent party, who in no degree contributed to the wrong." 240 U.S. at 262, 36 S.Ct. 269

dicta. Hamilton sold three infringing products, each bearing the infringing mark Wolf Brothers and two also bearing the mark of Hamilton. The issue before the Supreme Court in *Hamilton* actually involved apportionment of infringing revenues between two marks commingled on the same product label. This is not the same fact pattern as *WMG v. WSC*, where the Seventh Circuit allowed the plaintiff to disgorge revenues from an infringing product as well as some defendant products that *had no offending marks whatsoever*. There really is no economic reason why the defendant should have disgorged profits from a non-infringing product.

8. DEFENDANT BURDEN

If plaintiff proves defendant sales, the latter bears the burden to prove deductible expenses and to value the deductible contribution of non-infringing factors. The defense burden is a more cumbersome process that requires more than a cursory accounting *compilation* (where unaudited data are simply presented in a table without any further analysis) or a *review* (where the unaudited data are entered in an accounting statement and then eyeballed to maintain their general consistency with the all derivative entries). Rather, the trademark defendant may reasonably expect to engage an independent *audit* where each cost item can be verified by an independent expert or presented by a fact witness who may confirm that reported financial records were compiled for prior purposes independent of the action before the court, and so verified.[58]

There are three possible methods for estimating cost deductions (in order of increasing magnitude): [59]

1. *Differential cost method:* includes only the variable costs (e.g., costs of goods sold) that the infringer incurred directly in order to produce or distribute the infringing goods. Sales taxes are deductible expenses, but income taxes are not.[60]

2. *Direct assistance method* includes differential costs as well as apportioned common costs for items that directly assisted in production or distribution of the infringing goods. For example, R & D dollars or advertising expenses in a common budget may be apportioned among several recipient goods, including the infringement item.

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[58]Maltina, supra note 44, at 586. (The defendant submitted two pages of evidence purporting to show items such as "cost of goods sold," "sales commissions," "legal fees," and "telephone and telegraph." Affirming the district court's finding that the defendant had failed to carry its burden of proving permissible deductions, "[the defendant] . . assert[ed] that it did have "specific and detailed figures and corroborating sales slips, invoices and the like to support" its claims of expenses attributable [to sales of the infringing product]. [The defendant] failed, however, to submit any of this corroboration to the district court.") .

[59]How to Measure Trademark Infringement Damages – The Importance of Appropriate Calculation, A. A. Schachter, https://www.citrincooperman.com/getattachment/5cb5471c-8e38-4b0a-94b6-1adad197cda8/263_NYLJBranded_MeasureTrademarkInfringement.pdf.aspx, (retrieved August 28, 2016)
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[60]Restatement Third, Unfair Competition, # 37, Comment g (1995).

3. *Fully allocated cost method* also adds apportionments of general overhead costs, usually per the rules of generally accepted accounting principles.[61]

After deducting costs, defendant must prove a means to apportion and deduct the fractioned contribution of non-infringing commingled elements that might have contributed to sale – e.g., the value of the defendant's marketing campaign or retailing relationships. Consistent with the general burden of evidence in tort law, "the burden is the infringer's to prove that his infringement had [diminished] cash value in sales made by him If he does not do so, the profits made on sales of goods bearing the infringing mark properly belong to the owner of the mark… There may well be a windfall to the trademark owner where it is impossible to isolate the profits which are attributable to the use of the infringing mark. But to hold otherwise would give the windfall to the wrongdoer."[62] Some courts have disallowed

[61]It should be pointed out that GAAP standards have no special standing in court as a means of proving anything Shalala v. Guernsey Memorial Hosp. (93-1251), 514 U.S. 87 (1995). ("An examination of the nature and objectives of GAAP … which does not necessarily parallel economic reality, encompasses all of the changing conventions, rules, and procedures that define accepted accounting practice at a particular point in time, and consists of multiple sources, any number of which might present conflicting treatments of a particular accounting question.")

[62]Mishawaka, supra note 16. ("In the absence of his proving to the contrary, it promotes honesty and comports with experience to assume that the wrongdoer who makes profits from the sales of goods bearing [an infringing mark] was enabled to do so because he was drawing upon the good will generated by that mark.")

entirely apportionment as a matter of equity and discouragement of infringement. [63] If allowed, apportionment techniques appear generally to be matters of equity rather than methods consistent with peer-reviewed literature; it can then be a difficult issue for experts. .

In complex infringements, defendant profits are accounted for annually and positive profits are summed. The defendant here may not offset losses in one year against profits earned in another. [64] Nor was a defendant chain of thirteen Burger King Restaurants allowed to offset profits on six by losses on the other seven.[65]

9. COMPETITIVE HARM

While Congress sought to compensate producers with just desserts for money, time, and effort spent, there is no recognition in the creation in 1946 of the Lanham Act of the economic imperative for financial remediation as a means of providing incentives for development and marketing of new products and territories. This would widen buyer choice and accrue to the ultimate gain of the public it is left then to the common law to flesh out

[63]Wynn Oil Co. v. American Way Serv. Corp., 943 F. 2d 595 (6th Cir. 1991); Truck Equipment Service Co. v. Fruehauf Corp. 536 F.2d 1210 (8th Cir. 1976), cert. denied, 429 U.S. 861 (1976); Stuart v. Collins, 489 F. Supp. 827 (S.D.N.Y. 1980).

[64]Wolfe v. National Lead Co., 272 F. 2d 867 (9th Cir. 1959), cert. denied, 362 U.S. 950 (1960). *See also* Jones Apparel Group, Inc. v. Steinman, 466 F. Supp. 560 (E.D. Pa. 1979).

[65]Burger King Corp. v. Mason, 855 F. 2d 779 (11th Cir., 1988).

the nuances of these issues and recognize in equity and preserve innovation in a modern market economy.

General Reputation Effects

In the Ninth Circuit case of *Maier Brewing v. Fleischmann,*[66] the appellee Fleischmann had successfully marketed for fifty years a superior brand of scotch whiskey called *Black and White*. Claiming that the title was generic, Maier Brewing came later to use the same phrase as the label of one of its beers. Although beer and scotch producers generally do not compete for buyers in any foreseeable beverage market, the Court upheld the validity of the suggestive mark and ruled further "that the infringement of this mark by another alcoholic beverage tends to jeopardize the name of *Black and White Scotch*, or at least so diminish the appellee's ability to control and therefore sustain the reputation of their scotch."[67] Distinguished from a competitive product, this brings in the concept of a "closely related" product -- one "which

[66]390 F. 2d 117, 124 (9th Cir. 1968).

[67]Id. ("No recognition is given to the possibility that customers who believe that they are buying a product manufactured by the plaintiff -- whether such product is competitive or non-competitive -- may be so unhappy with that product that they will never again want to buy that product or any other product produced by the same manufacturer, who they believe to be the plaintiff.") *See also* Admiral Corp. v. Penco Inc., 203 F. 2d 517 (2d Cir. 1953) (consumers may confuse origin when small seller of "Admiral" vacuum cleaners and sewing machines was stopped from using the same name as the larger manufacturer of washing machines, dryers and refrigerators) .

[67]Maier Brewing, supra note 66.

would reasonably be thought by the buying public to come from the same source, or thought to be affiliated with, connected with, or sponsored by, the trademark owner."[68]

Well before the Trademark Dilution Act of 1996 and its explicit recognition of brand investment, the *Maier* Court here noted the growing importance of *brand investment* "with slight reference to the real utility of the product" and the "complications of *mass communication technologies* (such as broadcast television) that make *reputations more vulnerable*."[69] [Emphasis mine]. The court's resolution presciently anticipated the growing role of communication in modern markets and its ability to break down barriers. Whether confusion was actual, likely, or non-existent, the misuse of the plaintiff's mark in a beer market could nonetheless blur or tarnish by association the name of a well-known producer of scotch.

The Second Circuit went further in *Monsanto Chemical Co. v. Perfect Fit Products Mfg. Co*, affirming the general principle that profit accountings are allowable remedies in equity, even if the two parties do not sell the same product at all;[70] the dangers to general

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[68]McCarthy, supra § 24:3, at 166; *see also* International Kennel Club, 846 F.2d at 1089; Scarves by Vera, Inc. v. Todo Imports, Ltd., 544 F.2d 1167 (2d Cir. 1976); James Burrough Ltd. v. Sign of Beefeater, Inc., 540 F.2d 266 (7th Cir. 1976) .

[69]Maier Brewing, supra note 66.

[70]349 F. 2d 389 (2d Cir. 1965) "[T]he justification for an accounting is found in the principles of *unjust enrichment traditionally applicable where property is used for profit without the owner's permission* … In

goodwill were deemed sufficient. The Second Circuit here explicitly reversed earlier narrow precedence that had established that accounting of profits was allowable only if the mark owner could prove diversion of sales among competitive or closely related products; "a narrow rule is entirely inadequate to protect the interest of the public." [71]

Product Development and Migration

A related instance implicates the potential for innovation through product development and migration into a new market. In *Tamko Roofing Products Inc. v. Ideal Roofing Company, Ltd.*,[72] Tamko Roofing and Ideal Roofing respectively sold asphalt and metal roofing products to different types of buyers, although there was some market overlap with regard to steep slope roofs. Tamko had designed a trademark "Heritage" for its business that Ideal had appropriated for its entry into a new product line.

The First Circuit upheld the District Court that allowed Tamko to disgorge profits from Ideal; general reputation and brand harm would be apparent issues. However, Ideal may

particular, … it is irrelevant that the plaintiff was not selling in the market exploited by the infringer. [emphasis mine]")

[71] Id.

[72] Nos. 01-1382, 01-2273 m(1st Cir. 2002).

also have interfered further with the foreseeable possibility of Tamko to expand its line of business into the metal roofing market (which can be more expected than migration from scotch to beer). Without trademark protection for Tamko, any conceivable market expansion might not result at all, and a buyer may be entirely devoid of the subsequent opportunity to buy a new product. More than *buyer confusion*, the conceivable result of missed migration would be more problematic -- *buyer negation.*

Territorial Expansion

In the Second Circuit case of *Dad's Root Beer v. Doc's Beverages*,[73] a Chicago plaintiff produced and distributed Dad's Old Fashioned Root Beer in its local area and sold franchise rights and soda concentrate in other parts of the country. The defendant -- a New York establishment that had initially operated a Dad’s franchise then came to promote its own branded product, Doc's Old Fashioned Root Beer, exclusively in the New York area. Although the soda producers did not yet compete directly in the same urban regions, the district court ordered an accounting of the defendant's profits from such sales, and the Second Circuit affirmed.

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[73]193 F.2d 77, 82-83 (2 Cir. 1951).

Doc's imposed actual damages upon Dad's by failing to pay franchise fees. However, the matter in equity also extends to lost sales possible in an evolving chain of restaurants. As the service territories were different, the presence of actual confusion in the New York region was negligible at the moment. However, the likelihood of confusion would be apparent if Dad's were to advertise or otherwise enter a New York City area in which Doc's had a head start.[74] Indeed, franchises can start in one location and come – after lots of hard work -- to span the entire nation.[75]. Here, Doc's diminished Dad's profitability of new marketing and its prospects of a possible expansion in a new geographic area. And quite conceivably, New York customers would have lost entirely the opportunity to patronize Dad's at all – another *buyer negation.* Quoting an earlier Second Circuit decision, "it may be inferred that there was a latent demand for plaintiff's goods which it would eventually have supplied, except for the infringement."[76]

10. DUE DILIGENCE

[74]The *headstart issue* created by the infringing use of an infringing trade dress would reappear in Taco Cabana Int'l, Inc. v. Two Pesos, Inc. 932 F. 2d 1113 (5th Cir. 1991), aff'd 505, U.S. 763 (1992).

[75]Starbuck's started in Seattle, McDonald's in Bakersfield, Dunkin' Donuts in Quincy, Mass., etc.

[76]Lawrence-Williams Co. v. Societe Enfrante Dombault, 52 F. 2d 774 (6th Cir. 1931).

As an economic matter, market efficiency is enhanced when trademark owners exercise due diligence and proactively police or protect for potential infringements of their marks; prospective users should have the same clear mandates to act with due caution. There are two economic benefits here. First, any diligence and deterrence regarding infringement is preferable to time spent in litigation. Second, infringers can be deterred from engaging in duplicative or otherwise wasteful investments that would generate buyer confusion, costs of cleanup, and economic harm to the infringer itself. Thus the commitment of trademark owners to clear nomenclature and process enhances *market efficiency* and is in the *public interest.*

It would then seem economically efficient and in the public interest to reward a mark owner who takes beforehand *preventive measures* to strengthen the mark and so avoid confusion. This is made possible by investing the dollars to create a *fanciful* [77] or an *arbitrary* mark [78] *Suggestive* marks generally are less expensive to develop, but do have the possibility of being more confusing.[79]

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[77]A *fanciful mark* is invented for the sole purpose of functioning as a trademark: e.g., CLOROX bleach , EXXON petroleum,

[78]An *arbitrary* mark has a recognizable word or phrase, but the meaning is unrelated to the good or service offered for sale –e.g., SUBWAY restaurant, APPLE computers.

[79]A *suggestive mark* suggests a conceivable quality or characteristic of goods and services that nonetheless requires a subtle leap through “imagination, thought and perception” to discern the nature of the good – e.g., COPPERTONE suntan oil, LONDON FOG raincoats.

By contrast, *descriptive* marks can only be upheld in the finding of a secondary meaning that can be acquired only after five years of use.[80] It is an apparent invitation for confusion in the public mind. Moreover, the uncertainty of a verifiable secondary meaning that might be found somewhere in the market is less apparent to an unsuspecting "infringer" who may already have launched – without full awareness -- an "infringing" product line.

The judicial record on mark strength and due diligence is spotty. Neither the owner's strength of mark nor the user's diligence of search is mentioned as a consideration in the defining decisions of *Pebble Beach v. Tour 18* [81] and *W. E. Bassett Co. v. Revlon*[82] that set forth standards for allowing disgorgement. These decisions miss some economic considerations that could have been set forth more forthrightly. On the user side, the Second

[80]*A descriptive* mark presents to the buyer an immediate idea of the ingredients, qualities or characteristics of the goods; e.g., BEST BUY retail stores, FIRST BANK.

[81]Pebble Beach Company v. Tour 18 Limited, 155 F. 3d 526; *see also* Rolex Watch USA, Inc. v. Meece, 158 F.3d 816, 823 (5th Cir. 1998); Seatrax, Inc. v. Sonbeck International, Inc., 200 F.3d 358, 369 (5th Cir. 2000); Quick Technologies, Inc., v. Sage Group PLC, 313 F. 3d 338 (5th Cir. 2002); Synergistic Intern, LLC v. Korman, 470 F. 3d 162, 176 (4th Cir. 2006). The *Pebble Beach* factors include (1) The adequacy of *other remedies*, (2) Whether the defendant had the *intent* to confuse or deceive, (3) The *public interest* in making the misconduct unprofitable, (4) Whether sales have been or could be *diverted,* (5) Whether it is a case of *palming off,* and (6) Any *unreasonable delay* by the plaintiff in asserting his rights.

[82]W. E. Bassett Co. v. Revlon, Inc., 435 F.2d 656, 664 (2nd Cir.1970). The Second Circuit offered the alternative list: (1) The degree of certainty that the *defendant benefited* from the unlawful conduct; (2) Availability and adequacy of *other remedies*; (3) The role of a particular defendant in effectuating the infringement; (4) *Plaintiff's laches*; and (5) *Plaintiff's unclean hands.*

Circuit ruled that a missed search demonstrated willfulness,[83] while the Third Circuit held the reverse. [84]

The Fifth Circuit case of *Texas Pig Stands v. Hard Rock Café* may have recognized the importance of mark strength.[85] Texas Pig Stands had operated a large chain of barbecue restaurants -- most of which had closed before the purported infringement -- that featured a trademarked menu item called a "pig sandwich" – a descriptive mark with a presumed secondary meaning from years of use in Texas. After opening in Dallas (a city that TPS had already vacated), Hard Rock Café knowingly offered a menu item with the same name. After the jury awarded an accounting of profits, the lower court dismissed the jury's verdict. The Circuit Court upheld the District.

The market for TPS was declining and the mark was evidently getting weaker by the year; Hard Rock's infringing use of "pig sandwich" – though admittedly willful – presented no immediate possibility of sales diversion from the vacant Dallas location. But as a matter of business, TPS had at least the possibility of selling off its remaining restaurants to an

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[83]International Star Class Yacht Racing Ass'n .v. Tommy Hilfiger, U.S.A. Inc., 80 Fd 749 (2nd Cir. 1996). ("Such willful ignorance should not provide a means by which [defendant] can evade its obligations under trademark law.")

[84]SecuraComm Consulting Inc. v. Securacom Inc., 166 F. 3d 182 (3d Cir. 1996) ("[I]t is unreasonable to conclude that the [defendant's] failure to conduct a trademark search established willful ignorance akin to willful infringement.")

[85]Texas Pig Stands v. Hard Rock Café, 951 F.2d 684, 696 (5th Cir. 1992), reh'g denied , 966 F.2d at 957-58.

expanding barbeque chain and so relicensing the recognizable names of its most popular food items.

The plaintiff might yet have claimed some justifiable remediation had it adopted a stronger mark – fanciful, arbitrary, or suggestive – in which it may have invested more in name clout. Instead, it chose a descriptive mark with a fleeting secondary meaning. Had TPS chosen a stronger mark, it might have cited with more credibility its right to maintain some residual value over commercial properties (including trademarks) that would be implicated in its exit strategy. Here the mark's weakness hurt the owner's chances for financial remedy.

Another descriptive mark fared better in the Second Circuit case (1956) of *Maternally Yours, Inc. v. Your Maternity Shop, Inc*.[86] A popular maternity shop in the Bronx was named "Maternally Yours". The defendant "Your Maternity Shop" located its store within two blocks of the plaintiff, imitated the plaintiff's script in its advertising, used similar packing boxes, and adopted confusing telephone listings. The plaintiff won a disgorgement remedy after the defendant claimed a right to use common descriptive words in the English language.

The defendant's use of plaintiff's mark extends apparently to trade dress confusion (in script, boxes, telephone listings) that goes beyond the use of similar phrases found in the

[86] 234 F.2d 538 (2nd Cir. 1956).

two store names. The fact pattern then invites a hypothetical reconsideration. What if the defendant had agreed to eliminate all similarities in trade dress, but yet attempted to retain use of the phrase “Your Maternity Shop” as a store name or a secondary byline that was displayed on store windows and/or interior walls of the establishment.

It is arguable whether there could be any likelihood of confusion in the specific words themselves, or – alternatively -- if the plaintiff store name Maternally yours” deserved the equitable protection of financial remediation. From an economic perspective, this would be inappropriate, as it would be awarding a weak mark with a very strong remedy that does not seem to match the equities.

11. CONCLUSION

While financial remediation is allowable under the Lanham Act, there is no assurance that a prevailing plaintiff will walk away with anything more than an injunction useful to stop future infringement. The common financial remedies of actual damages and disgorgement of defendant profits are a domain for common law and are no certainty.

Litigating parties in remediation may choose their expert team – economist, accountant, licensing professional. etc. – with particular tasks in mind. Actual damages are commonly estimated by lost sales, licensing income, or franchise fees. The first two general items are often quite difficult to prove with professional techniques that a court may allow. The usual "before and after/but for." technique found in personal injury and wrongful termination may be less useful for examining a trajectory of sales in a wider interval when several events can synchronously or serially affect sales of the infringed good. And while an expert may attempt to establish reasonable royalty rates and lost licensing income from a compendium of benchmarks, the court may restrict considerably the allowable standards for choosing admissible benchmarks.

A mark owner may then find that disgorgement of infringer profits is a more practical undertaking on the remedy side. Here, the Act does not set forth any definite standards that should be considered when choosing to enforce disgorgement; each Circuit Court may establish its own criteria to determine suitability of disgorgement.

Here economic analysis is appropriate to stipulate a set of factors in order to consider, supplement, and prioritize in a manner that would implicate buyer confusion, just desserts, competitive harm, due diligence, and overall loss to the public interest. Considerations for competitive harm would critically involve the potential dangers to new innovation – emerging product lines, marketing, channel development, and new territories. Due diligence involves prior actions by both owner and user to ensure that the enforcement process is efficient. This list is not exhaustive, but is rather a frame of reference for any expert presentation.