



**TRADEMARKS AND FINANCIAL REMEDIES:  
WHAT DAMAGE EXPERTS SHOULD KNOW**

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**1. INTRODUCTION**

From the perspective of an expert economist active in valuation of intellectual property, this paper analyzes monetary remediation for trademark infringement under U.S. law. The federal statute, the Lanham Act (or Trademark Act of 1946), established two remedies for trademark infringement – *injunction* and *monetary relief*. Injunctive relief is an outcome in liability that predictably follows when the mark owner can identify a *likelihood of confusion* that may result from misuse of its mark. A less certain outcome, monetary remedy may be used to

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compensate mark owners for actual damages arising from infringement and/or disgorge defendant profits in order to restore equity. That said, “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.”<sup>1</sup>

Writing as a professional economist, I shall now provide for lawyers and their experts an analysis of the economic issues for defining the parameters for monetary relief in trademark litigation. To summarize, the most prevalent financial remedies implicate recovery of actual damages and profit disgorgement. Application of the two instruments depends in law and equity upon two different predicates – actual confusion and egregious conduct. An expert report must be heedful of the legal distinction between the two, and the restrictions thereto on allowable method. Experts must also properly handle revenues and costs with full attention to the respective burden for plaintiff and defense

## **2. TRADEMARK PROTECTION AND BUYER CONFUSION**

Per 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

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<sup>1</sup>James M. Koelemay, “Monetary Relief for Trademark Infringement under the Lanham Act,” 72 Trademark Rep. 458, 495.

manufactured or sold by others.” 15 U.S.C. 1127. Also 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.<sup>2</sup> 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 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, as the Patent and Trademark Office publishes notice of new marks in its online database.<sup>3</sup> Once granted, a trademark can be renewed indefinitely without termination; this differs from the limited duration of patent and copyright protection.

A mark owner has a cause of action for infringement when an unauthorized party uses (1) any reproduction, counterfeit, copy or colorable imitation of a mark; (2) without the

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<sup>2</sup><http://smallbusiness.findlaw.com/intellectual-property/protect-your-trademark-from-infringement.html>

<sup>3</sup><https://www.uspto.gov/trademarks-application-process/search-trademark-database> (retrieved August 22, 2016).

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.<sup>4</sup>

An infringed mark owner can win an injunction and recover monetary remedies; the latter category principally includes actual damages and/or defendant profits. 15 U.S.C. 1114, 1125. Injunction requires the mark owner to demonstrate a *likelihood of confusion*. A recent survey by Prof. Barton Beebe reveals that standards for likelihood may differ among Circuits<sup>5</sup>

	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			x										

<sup>4</sup>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)

<sup>5</sup>Barton Beebe, An Empirical Study of the Multifactor Tests for Trademark Infringement, 94 CALIF. L. REV 1581 (2006).

Concurrent Use  
without Actual Confusion

Per the oft-cited Second Circuit case of *Polaroid Corp. v. Polarad Elect. Corp.*,<sup>6</sup> 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 market 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 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*.<sup>7</sup> However, owners of the

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<sup>6</sup>287 F. 2d 492 (2d Cir. 1961).

<sup>7</sup>*Zatarain's, Inc. v. Oak Grove Smokehouse, Inc.* 698 F. 2d 786 (5<sup>th</sup> 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.

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.<sup>8</sup>

*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.<sup>9</sup>

*Parody:* The Second Circuit allowed the irreverent but harmless use of a piglike character named Spa'am in a Muppets movie, despite the earlier registration of the mark Spam by food company Hormel.<sup>10</sup> 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 logo and mark.<sup>11</sup> It is difficult to reconcile the two decisions. .

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<sup>8</sup>AMF Inc. v. Sleekcraft Boats, 599 F. 2d 341 (9<sup>th</sup> Cir. 1979).

<sup>9</sup>New Kids on the Block v. News America Publishing, Inc., 971 F. 2d 302 (9<sup>th</sup> Cir. 1992).

<sup>10</sup>Hormel Foods Corp. v. Jim Henson Prods., 73 F. 3d 497 (2d Cir. 1996).

<sup>11</sup>Coca Cola Co. v Gemini Rising, Inc., 346 F. Supp. 1183 (E.D.N.Y. 1972). ("[T]he 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.")

*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.<sup>12</sup> Bally's possible remedies at law yet could relate to defamation and putting in a false light.

### 3. LEGAL REMEDIES

The Lanham Act provides for injunctive relief and monetary remedy once liability is established. Per 15 U.S.C. 1116, a trademark owner may move first for an injunction when liability is proven; i.e., an infringing use is “*likely to cause confusion* or mistake or to deceive purchasers as to the source of origin of such goods or services.” The Lanham Act here protects against both *direct confusion* – i.e., when buyers “believe that the trademark owner sponsors or endorses the use of the challenged mark”,<sup>13</sup> and *reverse confusion* -- when buyers mistakenly come to “believe that the junior user is the source of the senior user’s goods.”<sup>14</sup>

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<sup>12</sup>Bally Total Fitness Holding Corporation v. Andrew S. Faber, 29 F. Supp. 2d 1161 (C. D. Cal., Nov. 23, 1998).

<sup>13</sup>EMI Catalogue P’ship v. Hill Holliday, Connors, Cosmopolos, Inc., 228 F. 3d 56, 62 (2d Cir. 2000).

<sup>14</sup>Banff, Ltd. v. Federated Dept. Stores, Inc., 841 F. 2d 486, 490 (2d Cir. 1988).

If liability is proven, monetary remedy for the plaintiff is no certainty.<sup>15</sup> Monetary remedies for trademark infringement 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 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.<sup>16</sup> Also allowable but less frequent are corrective advertising<sup>17</sup> and statutory damages (for counterfeiting). For the remainder of this article, I shall focus on *actual damages* and *defendant's profits*.

#### **4. MONETARY REMEDIES: ACTUAL DAMAGES**

Actual damages to the mark owner are commonly measured by diverted sales or lost licensing income; added costs and diminished reputation are also conceivable. The award of

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<sup>15</sup>Champion Sparkplugs, *infra* note 38 and surrounding text, (“*considering the lack of actual damages and the lack of an intent to confuse, deceive, injunctive relief satisfies the equities in this case.*” [emphasis mine]”

<sup>16</sup>McCarthy §30:90.

<sup>17</sup>Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co., 408 F. Supp. 1219 (D. Colo. 1976), modified, 561 F. 2d 1365 (10<sup>th</sup> 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.

actual damages requires a demonstrable connection that confirms *actual buyer confusion*;<sup>18</sup> mere likelihood of confusion – though admissible for an *injunction* -- is not a sufficient basis for recovery of *actual damages*.<sup>19</sup>

The recovery interval for actual damages begins at the time the infringer becomes aware of its malfeasance through a formal notification or demonstrated through the presence of a registration mark. 15 U.S.C.A. 1111 If confusion is established, 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* – although a generally allowable tort remedy -- is 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 of sales dollars or shape of any sales trajectory. The problem of serial measurement over an historic interval then is quite unlike

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<sup>18</sup>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 h (1995).

<sup>19</sup>*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 (10<sup>th</sup> Cir. 1987).

the discrete problem found in wrongful death or termination, where a discernible drop in worker earnings can presumably be noticed immediately after the injury.

Alternatively, a defendant's infringement can deny to the mark owner the payment of *licensing income* or *franchise fees*, a more common measure of actual damages in a trademark case.<sup>20</sup> Lost licensing income is generally established as a percent royalty of defendant's sales volume in a putative interval. As a general consideration, payments should be determined on the basis of a hypothetical negotiation between a willing buyer and a willing seller in an arms-length transaction. The hypothetical negotiation should then exhibit a strictly rational correlation between the infringed rights at issue and the proposed measure of damages.<sup>21</sup> The largest royalty award appeared in *Sands, Taylor & Wood v. Quaker Oats Co.*, where damages exceeded more than \$42 million for Quaker's infringement of the plaintiff's trademark THIRST AID in the advertising slogan "Gatorade is Thirst Aid".<sup>22</sup>

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<sup>20</sup>Among many, *Sands, Taylor & Wood v. Quaker Oats Co.* 34 F.3d 1340 (7<sup>th</sup> Cir. 1994) (percent royalties awarded after the 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).

<sup>21</sup>*Boston Professional Hockey Association v. Dallas Cap & Emblem Manufacturing, Inc.*, 597 F. 2d 71, 202.

<sup>22</sup>34 F. 1340 (7<sup>th</sup> 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 Quaker 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

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.*:<sup>23</sup>

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. Whether licensed use is exclusive 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.

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deterrence so that payment of a royalty does not become anything more than a normal cost of doing business.

<sup>23</sup>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, 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).

An expert examination of the hypothetical transaction should implicate standards of valuation that a negotiating agent would consider as an application of financial theory or industry custom and practice. However, the consideration should be objective and not then extend to estimates for the subjective preferences of either party.<sup>24</sup> Some conceivable factors may tend to increase the royalty, while others could be neutral or tend to decrease it; there is often no objective way of ranking or weighting the importance of any. As a practical difficulty involving sneakers, “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.”<sup>25</sup>

The determination of a royalty award then is apparently easier if evidence of some previous licensing or franchise arrangement between the two parties actually exists.<sup>26</sup> That

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<sup>24</sup>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.

<sup>25</sup>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](http://www.kilpatricktownsend.com/~media/Files/articles/2010/IPLIT_111210_Henn.ashx), retrieved August 24, 2016)

<sup>26</sup>Ramada Inns, Inc. v. Gadsden Motel Co. 804 F. 2d 1562 (11<sup>th</sup> Cir. 1986) (also awarded prejudgment interest, trebling damages, attorney’s fees, corrective advertising, and plaintiffs’ cost of

said, the District Court of Oregon in *adidas America, Inc. v. Payless ShoeSource, Inc.*,<sup>27</sup> focused on the histories of the two contestants, opting for consideration of prior licenses issued by the mark owner, prior rates paid 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. However, the difficulty of the *adidas* standard is that many plaintiffs simply do not have any history of licensing their marks. This concern might implicate market entrants who have just begun to promote a new product as well as established incumbents who have no history of licensing their brand name.

Without a direct history, an economic expert may derive a license benchmark by considering comparable transactions that involve third-party licensors. This can be a difficult proposition. It is not proper simply to choose from a public database a compendium of related transactions and choose the average or midpoint license rate as the strike point. Indeed, the Federal Circuit disqualified a patent expert who had presented a list of seven benchmark licenses that he compiled from the licenses of other “comparable” patents not in suit.<sup>28</sup> Without further analysis, the expert then proceeded to present the average royalty rate

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developing a new franchise property in the same area). *La Quinta Corp. v. Heartland Properties LLC*, 603 F. 3d 327 (6<sup>th</sup> Cir. 2010) (also awarded liquidated damages if they arose, as well as a trebling of actual damages).

<sup>27</sup>529 F. Supp.2d 1215 (D. Or. 2007).

<sup>28</sup>*ResQNet v. Lansa*, 594 F.3d 860 (Fed. Cir. 2010).

as a suitable standard for the matter at hand. Rather than crudely adopt a rough average of licenses, a valuation expert should then select those benchmark licenses most comparable to the matter in suit, and explain any remaining differences. The analysis is often contestable; an expert's chosen putative benchmark drawn from third-party transactions may be insufficient proof of lost royalties.

## **5. MONETARY REMEDIES: PROFIT DISGORGEMENT**

As a provision in equity, a plaintiff under the Lanham Act may disgorge defendant's profits. There are two primary justifications for this:<sup>29</sup> preventing wrongful gain<sup>30</sup> and deterring future infringement.<sup>31</sup> When parties are competitors and plaintiff could have demonstrably made the same sales, disgorged profits can also approximate plaintiff losses.<sup>32</sup>

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<sup>29</sup>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).

<sup>30</sup>*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 Mercere*, 737 F. 2d 891, 893 (11<sup>th</sup> Cir. 1983).

<sup>31</sup>Playboy, infra note 40.

<sup>32</sup>"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*,

Plaintiffs may recover both actual damages and defendant profits if the two occurrences do not overlap.<sup>33</sup> Moreover, it is not necessary for a plaintiff to demonstrate actual damages in order to recover a disgorgement.<sup>34</sup> Unlike recovery of actual damages, a party in equity has no right to a trial by jury on the matter of profit accounting for disgorgement,<sup>35</sup> unless defendant profits are a reasonable surrogate for actual damages and thus recoupable in law.<sup>36</sup>

Two Supreme Court precedents are important here with regard to the equitable resolution of disgorgement (Infra notes 40 and 41). Unlike the remedy in law of actual damages, it is generally *not necessary* to demonstrate *actual confusion* as a precondition for

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Inc. v. Craftex, Inc., 816 F. 2d 145, 149 (4<sup>th</sup> Cir. 1987); *see also* Intel Corp. v. Terabyte Intl'; 6 F. 3d 614 (9<sup>th</sup> Cir. 1993) (multiply defendant unit sales by the plaintiff's profit margin).

<sup>33</sup>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).

<sup>34</sup>Web Printing Controls Co., Inc. v. Oxy-Dry Corp. 906 F. 2d 1202, 1205 (7<sup>th</sup> 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)

<sup>35</sup>G. A. Modfine 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.")

<sup>36</sup>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.")

disgorgement; disgorgement is a remedy to preserve equity and deter infringement.<sup>37</sup> While actual confusion is not necessary, it is generally *necessary* to demonstrate *willful intent or some comparable act of fraud or palming off*, as would be consistent with the need to deter egregious behavior.<sup>38</sup>

The circuits added three additional qualifications related to the presence of willfulness. (Infra notes 42-44). First, a demonstrated willfulness is not always *sufficient* to justify disgorgement; *weakness of mark* appears to be among the mitigating factors.<sup>39</sup> That said, the Ninth Circuit would nonetheless come to affirm that if a trademark infringement is willful, *some financial remedy* is necessary regardless of mitigating circumstances.<sup>40</sup> Finally, disgorgement can be allowable nonetheless if *willful* infringement cannot be demonstrated when defendant profits are a measure of actual damages and thus a remedy in law.<sup>41</sup>

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<sup>37</sup>Mishawaka, infra note 52. 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].”

<sup>38</sup>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.”)

<sup>39</sup>Lindy Pen, Infra note 43.

<sup>40</sup>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).

<sup>41</sup>Western Diversified Services, Inc. v. Hyundai Motor America, Inc. 427 F. 3d 1269, 1272 (10<sup>th</sup> Cir. 2005).

## 6. PLAINTIFF BURDEN

While plaintiff alone bears the burden to prove actual damages, both plaintiff and defendant bear evidentiary burdens when profit disgorgement is at issue. Plaintiff bears the first 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.

The plaintiff's revenue burden is straightforward if all defendant sales are infringing.<sup>42</sup> That said, courts have differed on plaintiff burden when the defendant infringed in only some of its product lines. In the Ninth Circuit case of *Lindy Pen v. Bic Pen*,<sup>43</sup> 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, regardless of the presence of the mark. 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. The Court then declined to enforce Lindy's sought revenue disgorgement, and shut out the plaintiff's remedy claim entirely.

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<sup>42</sup>Wesco Manufacturing, Inc. v. Tropical Attractions, 833 F.2d 1484 (11<sup>th</sup> 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).

Perhaps tellingly as equitable concerns, the Court found Lindy's descriptive trademark to be weak and the infringement to be unintentional.<sup>44</sup>

The Seventh Circuit case of *WMG Gaming Inc. v. WPC Productions LLC* ended in an opposite manner.<sup>45</sup> 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.*,<sup>46</sup> 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."<sup>47</sup>

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<sup>43</sup>Lindy Pen Co., Inc. v. Bic Pen Co., 982 F.2d 1400, 1405-7 (9<sup>th</sup> Cir. 1993). *See also* Rolex v. Michel Company, 179 F. 3d 704, 712 (9<sup>th</sup> Cir. 1999); Computer Access Tech. Corp. v. Catalyst Enters. Inc., 273 F. Supp. 2d 1063, 1074 (N.D. Cal. 2003)

<sup>44</sup>Lindy also failed to present evidence of its own market damages arising from Bic's telephone sales.

<sup>45</sup>No. 07-3585 (7<sup>th</sup> 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.

<sup>46</sup>Hamilton-Brown Shoe , *infra* note 47.

The reference to *Hamilton-Brown Shoe* may implicate *obiter 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 the defendant's infringing revenues between the Hamilton and Wolf marks that were *commingled on the same product* label. This is not the same fact pattern as *WMG v. WSC*, where the court allowed the plaintiff to disgorge revenues from WPC's infringing product as well as other WPC products that *had no offending marks whatsoever*. That said, there really is no apparent economic reason why the defendant should have been allowed to disgorge profits from a non-infringing product.

## **7. DEFENDANT BURDEN**

Once plaintiff proves defendant sales, the defendant bears the burden to prove deductible expenses and to estimate a value for the deductible worth of non-infringing factors that aided the sale of infringing goods. The defense burden involves 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).

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<sup>47</sup>240 U.S. at 262, 36 S/ Ct/ 269. (“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.”)

Rather, the trademark defendant may reasonably expect to engage in an independent *audit* or comparable process where each cost deduction can be verified to the court. This may require testimony of an independent expert or fact witness who may confirm that reported financial records were pulled together for prior purposes independent of the action before the court, and so verified at the time of assembly.

There are three possible methods for estimating cost deductions (in order of increasing inclusiveness):<sup>48</sup>

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.<sup>49</sup>

2. *Direct assistance method* includes differential costs as well as an apportionment for common costs for expensed items that directly assisted in production or distribution of the infringing goods. For example, common advertising expenses in a specified budget for brand promotion may be apportioned among several benefitted products, including the infringement item.

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<sup>48</sup>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](https://www.citrincooperman.com/getattachment/5cb5471c-8e38-4b0a-94b6-1adad197cda8/263_NYLJBranded_MeasureTrademarkInfringement.pdf.aspx), (retrieved August 28, 2016).

<sup>49</sup>Restatement Third, Unfair Competition, # 37, Comment g (1995).

3. *Fully allocated cost method*: adds apportionments of general overhead costs, usually per the rules of *generally accepted accounting principles*, which are the standards of the accounting profession. These principles are not necessarily binding on courts.<sup>50</sup>

After deducting costs, defendant may also attempt to estimate and deduct the value of non-infringing elements that might have contributed to sale – e.g., the value of the defendant’s retailing relationships or packaging. Defense here carries a considerable burden to provide a suitable technique that can survive opposing efforts to exclude or limit expert testimony, per .702 of the Code of Federal Regulations<sup>51</sup>

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.

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<sup>50</sup>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.”)

<sup>51</sup>As amended in 2011, .702 now reads

A witness who is qualified as an expert by knowledge, skill, experience, training, or education may testify in the form of an opinion or otherwise if:

- (a) The expert’s scientific, technical, or other specialized knowledge will help the trier of fact to understand the evidence or to determine a fact in issue;
- (b) The testimony is based on sufficient facts or data;
- (c) The testimony is the product of reliable principles and methods; and
- (d) The expert has reliably applied the principles and methods to the facts of the case.

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.”<sup>52</sup> As a means for discouraging infringement, some courts have entirely disallowed defendants to attempt to apportion.<sup>53</sup> If allowed, apportionment techniques appear generally to be matters of equity, and should be presented as such. .

In multiyear infringements, defendant profits are accounted for annually and positive annual profits are summed to obtain a total amount that can be disgorged. The defendant here may not offset losses in one year against profits earned in another.<sup>54</sup> Nor was a defendant chain of thirteen Burger King Restaurants allowed to offset profits on six by losses on the other seven.<sup>55</sup>

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<sup>52</sup>*Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 206-07, 62 S.Ct. 1022. 1381 (1942) (in 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.”)

<sup>53</sup>*Wynn Oil Co. v. American Way Serv. Corp.*, 943 F. 2d 595 (6<sup>th</sup> Cir. 1991); *Truck Equipment Service Co. v. Fruehauf Corp.* 536 F.2d 1210 (8<sup>th</sup> Cir. 1976), cert. denied, 429 U.S. 861 (1976); *Stuart v. Collins*, 489 F. Supp. 827 (S.D.N.Y. 1980).

<sup>54</sup>*Wolfe v. National Lead Co.*, 272 F. 2d 867 (9<sup>th</sup> 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).

<sup>55</sup>*Burger King Corp. v. Mason*, 855 F. 2d 779 (11<sup>th</sup> Cir., 1988).

## **8. SUMMARY**

A few summary points for the reader to take away

- 1. Experts may calculate actual damages, defendant profits to be disgorged, or both.**
- 2. As a matter of law, the award of actual damages requires a showing of *actual buyer confusion*, and not a mere likelihood.**
- 3. If a matter of law can be demonstrated, an expert’s opinion regarding the matter of law can be put to a *jury at the request of either party*.**
- 4. The usual “before and after/but for” technique elsewhere found (e.g., personal injury, wrongful termination) may be less useful for examining revenue movement over a wider period when several factors can complicate the analysis.**
- 5. When basing damages on lost royalties, a valuation expert should select those few benchmark licenses most comparable to the matter in suit and be prepared to explain and account for any differences in market circumstances.**
- 6. If egregious conduct can be demonstrated, it is not necessary in equity to demonstrate actual damages or actual confusion to recover a profit disgorgement.**

**7. Experts must be heedful of respective burdens for revenue, costs, and apportionment of commingled items that may differ for plaintiff and defense.**

## ABOUT THE AUTHOR

**Michael A. Einhorn** ([mae@mediatechcopy.com](mailto:mae@mediatechcopy.com), <http://www.mediatechcopy.com>) is an economic consultant and expert witness active in the areas of intellectual property, media, [entertainment](#), damage valuation, licensing, antitrust, personal injury, and commercial losses. He received a Ph. D. in economics from Yale University. He is the author of the book *Media, Technology, and Copyright: Integrating Law and Economics* ([Edward Elgar Publishers](#)), a Senior Research Fellow at the [Columbia Institute for Tele-Information](#), and a former professor of economics and law at Rutgers University. He has published over seventy professional and academic articles and lectured in Great Britain, France, Holland, Germany, Italy, China, and Japan.

In the [technology](#) sector, Dr. Einhorn worked at Bell Laboratories and the U.S. Department of Justice (Antitrust Division) and consulted to General Electric, AT&T, Argonne Labs, Telcordia, Pacific Gas and Electric, and the Federal Energy Regulatory Commission. He has advised parties and supported litigation in matters involving [patent damages](#) and related valuations in semiconductors, medical technologies, search engines, e-commerce, wireless systems, and proprietary and open source [software](#).

Litigation support involving media economics and [copyright damages](#) has involved [music](#), movies, television, advertising, branding, apparel, architecture, fine arts, video games, and photography. Matters have involved Universal Music, BMG, Sony Music Holdings, Disney Music, NBCUniversal, Paramount Pictures, DreamWorks, Burnett Productions, Rascal Flatts, P. Diddy, Nelly Furtado, Usher, 50 Cent, Madonna, U2, and Led Zeppelin.

Matters involving trademarks and publicity rights have included Samsung, Hasbro, Weather Channel, the Kardashians/BOLDFACE Licensing, Oprah Winfrey/Harpo Productions, Madonna/Material Girl, CompUSA, Steve Madden Shoes, Kohl's Department Stores, *The New York Observer*, and Avon Cosmetics. Matters in publicity right damages have involved Zoey Deschanel, Arnold Schwarzenegger, Rosa Parks, Diane Keaton, Michelle Pfeiffer, Yogi Berra, Melina Kanakaredes, Woody Allen, and Sandra Bullock.

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