# Monetary Recovery in Trademark Cases

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The concepts addressed, and royalty rates used in this paper are not necessarily those the author or InteCap, Inc. would adopt in a given matter. The financial analyses incorporated herein are for illustrative purposes only and are not based upon any "industry standard" or the anticipated financial performance of any company.

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## 1. Introduction

### a. *Purpose of Trademark Protection*

The purpose of trademark protection is to enable a business to identify itself sufficiently as the source of a given product through the adoption of a mark which may be in the form of a slogan, symbol, ornamental design or other visual insignia.[1] Trademarks which are noteworthy or distinctive are generally given protection more readily that a generic trademark that is functional. Distinctive marks tend to generate "secondary meaning" among the consumers of such products or services. For the consuming public, the effect of secondary meaning is to associate the mark with a single source of supply. This association may represent a store of goodwill for the supplier of the product or service. Goodwill, in turn, relates closely to a company's earning capability. Thus, a strong trademark may have a positive influence on a company's earning potential.

Misappropriation of trademarks which are distinctive and strong enough to generate a measure of secondary meaning in the marketplace may be more likely to mislead or otherwise confuse customers as to the source of supply of the infringing product or service, possibly leading to (a) losses sustained by the trademark owner, and/or (b) the unjust enrichment of the alleged infringer of the trademark.

### b. *Scope of this Paper*

The scope of this paper is to identify generally the requirements to be met en route to monetary recovery under the Lanham Act, and to discuss different measures of losses sustained by the trademark owner (and benefits unjustly gained by the infringer).

*Lanham Act. Section 35(a)*

The primary source for remedy for trademark and unfair competition cases lies in the Lanham Act. Section 35 of the Lanham Act governs monetary recovery in federal trademark actions. Section 35(a) states:

> When a violation of any right of the registrant of a trademark registered in the Patent and Trademark Office or a violation under section 1125(a) of this title, shall have been established in any civil action arising under this

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*Roulo v. Russ Berrie & Co., Inc.*, 886 F.2d 931, 12 USPQ2d 1423, 1426, 7th Cir. 1989

chapter, the plaintiff shall be entitled, subject to the provisions 1111 and 1115 of this title, and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The Court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost of deduction claimed. In assessing damages, the Court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the Court shall find that the amount of the recovery based on profits is either inadequate of excessive the Court may in its discretion enter judgment for such sum as the Court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The Court in exceptional cases may award reasonable attorney fees to the prevailing party.

Thus, the Lanham Act combines the common law remedy of plaintiff's damages (hereafter, "damages") with the equitable remedy of defendant's profits (hereafter, "profits"). The statute does not specify that the plaintiff must make an election regarding which monetary remedy it seeks. Indeed, both may be recovered, and the award may be cumulative, i.e., the court may award the plaintiff both its damages and the defendant's profits [2]. However, a plaintiff generally will not be compensated for both its damages and the defendant's profits for the same sale [3].

Whether separate or combined, awards of damages and profits are intended to compensate for the infringement, though profits have commonly been awarded as a means to deter infringement. Courts retain the power to adjust monetary awards to avoid compensating the plaintiff inadequately or excessively. Damages awards may be trebled, and there appears to be no statutory limit to the enhancement factor the court may apply to an award of profits, provided, in each case, the adjustment constitutes compensation, and not a penalty [4].

*d.* *Brief Contrast to Patent Litigation*

Infringement of a trademark need not give rise to a monetary award. Numerous trademark violations have resulted in an injunction barring the defendant from

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[2] *Playboy Enterprises, Inc. v. P.K. Sorren Export Co.*, 724 F.2d 977, 11th Cir. 1984

[3] *Polo Fashions, Inc. v. Extra Special Products, Inc.*, 201 USPQ 421, 428, S.D.N.Y. 1980

[4] Barber, Willliam G. "Recovery of Profits Under the Lanham Act: Are the District Courts Doing Their Job?", The Trademark Reporter, 82 TMR 141, Mar-Apr 1992, p. 142.

further infringement, where the injunction was held to "satisfy the equities of the case" with no monetary award made [5].

In contrast, under 35 U.S.C. 284, a successful claimant in patent infringement litigation may be awarded "damages adequate to compensate for the infringement *but in no event less than a reasonable royalty*, together with interest and costs fixed by the court" (italics added). Thus, the fact of damage is presumed once a patent is found to be valid and infringed.

Observers have noted that Lanham Act violations generally lack established case precedents regarding monetary recovery, such as arguably exist in patent damages law, where seminal decisions on reasonable royalty [6] and lost profits [7] provide a clear starting point for the evaluation of damages issues. However, recent decisions, including *Rite-Hite v. Kelley* and *King Instrument Corp. v. Perego*, serve to remind us that the law on patent damages continues to evolve [8].

## 2. When is Monetary Recovery Available?

### *a. An Injunction Doesn't Mean Monetary Recovery*

Courts have found a clear distinction between the showing required to establish a right to injunctive relief and that required to establish a right to damages [9]. A showing of a likelihood of confusion between trademarks is enough to support an injunction to prevent continued infringement. All else equal, strong marks are more easily infringed than weak marks, requiring stronger remedies for infringement. Regardless of the strength of the mark, however, the mark owner is entitled only to a level of protection sufficient to eliminate the likelihood of confusion [10].

The right to monetary recovery is a matter for the court's equitable discretion [11]. That discretion is guided by the infringer's behavior and the existence of harm to the plaintiff or profit to the infringer [12].

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*Champion Spark Plug Co. v. Sanders*, 331 US 125, 131; 73 USPQ 133 (1947)
*Georgia-Pacific Corp. v. United States Plywood*, F.2d 295, 2nd Cir., 1971
*Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 6th Cir. 1978
*Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 35 USPQ2d 1065, CAFC 1995 *(en banc)*
*King Instrument Corp. v. Perego*, 16 USPQ2d 1994, 36 USPQ2d 129, CAFC 995

[9] *Camel Hair and Cashmere Inst. v. Associated Dry Goods Corp.*, 799 F.2d 6, 12; 231 USPQ 39, 1st Cir. 1986

[10] *Aktiebolaget Electrolux v. Armatron Int'l, Inc.* 27 USPQ2d 1460, 1463

[11] *Lindy Pen Co. v. Bic Pen Corp.*, 982 F.2d 1400, 25 USPQ2d 1570, 1573, 9th Cir, 1993

The standard of proof necessary for monetary recovery is typically more rigorous than the likelihood of confusion standard required for an injunction. Awards of damages generally require the plaintiff to demonstrate damages by actual consumer reliance on the misleading statements or actions of the defendant. In other words, plaintiffs seeking damages should establish actual harm or actual confusion resulted from the infringement [13]. Depending on the venue, a showing of bad faith may also necessary, though recent trends suggest that awards of damages may not require a showing of bad faith [14].

In general, awards of profits are made for two reasons: to make the infringer forego that profit it never would have earned (i.e., unjust enrichment) but for the misappropriation of the trademark owner's property, or to deter willful infringement [15]. Awards of profits generally require a showing of willfulness, though certain venues hold that the court's primary function is to make violations of the Lanham Act unprofitable to the infringing party, intent notwithstanding [16].

The requirements for monetary recovery are addressed more fully in the remaining sections of this paper.

*b. A Word about the Federal Circuit*

Different circuits appear to have adopted different standards with respect to the showing required to obtain an award of plaintiff's damages or defendant's profits. Many observers have attempted to detect patterns in the approaches adopted by the Federal Circuit. Koulemay's cogent analysis in "Monetary Relief in Trademark Cases" is essential reading to gain familiarity with the sort of issues which different courts look to in determining whether to award or withhold monetary recovery [17]. In addition, Barber [18] and Bussert and Davis [19] provide excellent overviews of

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[12] Koulemay, James M., Jr., "Monetary Relief in Trademark Infringement Cases", 1994, p.4

[13] *Merriam-Webster Inc. v. Random House Inc.*, 26 USPQ2d 1161, at 1166, DC SDNY 1993, citing *Warner Bros., Inc. v. Gay Toys, Inc.*, 658 F.2d 76, 79; 211 USPQ 1017, 2d Cir. 1981

[14] Koulemay, p. 5

[15] Barber, p. 144

[16] *Otis Clapp & Son, Inc. v. Filmore Vitamin Co.*, 754 F.2d 738, 744; 225 USPQ 387, 7th Cir. 1985

[17] Koulemay, James M., Jr., "Monetary Relief in Trademark Infringement Cases", 1994

[18] Barber, Willliam G. "Recovery of Profits Under the Lanham Act: Are the District Courts Doing Their Job?", The Trademark Reporter, 82 TMR 141, Mar-Apr 1992

[19] Bussert, Christopher P. and Davis, Theodore H., Jr., "Calculating Profits Under Section 35 of the Lanham Act: A Practitioner's Guide", The Trademark Reporter, 82

differences in approaches adopted by the various circuit courts with respect to defendant's profits. To expand upon their considerable efforts to detect such patterns is outside the scope of this paper, and the reader who wishes to divine for himself or herself an understanding of differences between the courts on the Federal Circuit is advised to review these authors' works.

*Emerging Framework for Monetary Recovery*

The following framework, approved by the 1st Circuit, appears to encompass many of the critical distinctions between different circuits, and may provide a useful basis for gaining understanding to approaches which have succeeding in resulting in monetary awards:

a plaintiff seeking damages must prove actual harm caused by the infringement, such as sales lost to the defendant. Such harm may be demonstrated by showing actual confusion existed;
an award of defendant's profits generally requires that the products compete directly, such that defendant's profits would have gone to plaintiff but for infringement;

(3) guideline (2) is less restrictive if bad faith exists, such that actual harm is presumed;

(4) where the nature of the bad faith bypasses the usual rule of actual harm, damages may be assessed on an unjust enrichment theory [20].

Of course, these guidelines have not been standardized across the Federal Circuit As individual practitioners have come to realize, there is no substitute for a thorough evaluation of the facts and circumstances of issues involved in a particular matter, combined with an understanding of how courts have addressed similar issues in previous matters.

*d. The Importance of Actual Harm or 'onfusion*

The probable existence of confusion among consumers is sufficient to award an injunction. Generally, however, a plaintiff must meet the higher standard of actual harm, which, in some courts, may be presumed to flow from actual confusion, to support an award of damages [21]. Proof of confusion may be indicative of injury to the plaintiff, and may be inferred from a strong showing of likelihood of confusion, or from the infringer's intent to deceive [22]. Currently, there appears to be a lack of



[20] *Aktiebolaget Electrolux v. Armatron Int'l, Inc.*, supra, at 1463
*Adray v. Adry-Mart Inc.* 36 USPQ2d 1546, 1549, 9th Cir. 1995

[21] Koulemay, p. 9

consensus at the Federal Circuit level concerning the need to show actual confusion to obtain defendant's profits [23].

Numerous factors have been applied by the courts to consider whether a likelihood of confusion may have been created by the defendant's acts. The following is a non-exclusive list of factors considered in recent cases from the 1st, 7th, and 9th circuits [24]:

- evidence of actual confusion
- strength of the plaintiff's mark
- similarity of the marks
- similarity of products or services
- marketing channels and proximity of the products or services
  - similarity of advertising media
  - similarity of target market
- degree of care exercised by consumers
- sophistication of buyers
- intent of the infringer

The factors "imply no mathematical precision, and a plaintiff need not show that all, or even most, of the factors are present in any particular case to be successful"[25]. Although there is no definitive listing of factors considered in making the determination, nor system of weighting used, evidence of actual confusion generally weighs heavily regarding findings of likelihood of confusion In *Adray v. Adry-Mart*, the 9th Circuit found that the "district court erred by failing to include actual confusion among factors jury should consider in determining whether plaintiff had established secondary meaning" in its mark for discount electronics stores [27].

In addition to the testimony of confused customers, survey evidence may be indicative of actual confusion[28]. In *Taco Cabana v. Two Pesos*, the 5th Circuit considered the merits of approaches to consumer surveys adopted by the plaintiff and defendant, concluding that meaningful inquiries centered upon the consumers' assumption of affiliation between plaintiff's and defendant's restaurant operations[29].

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22 Ibid

23 Ibid, p. 10

24 Ibid, p. 1462
*Roulo v. Russ Berrie & Co.*, supra, at 1427
*Adray v. Adry-Mart*, supra, at 1549

25 *Wynn Oil Co. v. Thomas*, 839 F.2d 1183, 1186; 5 USPQ2d 1944, 6th Cir. 1988

26 *Aktiebolaget Electrolux v. Armatron Int'l, Inc.*, supra, at 1463

27 *Adray v. Adry-Mart*, supra, at 1546

28 *Taco Cabana International, Inc. v. Two Pesos, Inc.*, 19 USPQ 1253, 1260, 5th Cir. 1991

In *Roulo v. Russ Berrie & Co.*, likelihood of confusion was inferred where trade dress of greeting cards was distinctive and therefore strong, where there was considerable similarity between plaintiff's and defendant's greeting cards, and the cards were sold side by side at same stores using similar display racks [30].

e. *Willfulness*

Though willfulness does not seem to have universal definition, most agree it implies a level of knowledge on the part of the wrongdoer [31]. Generally, an inquiry as to willfulness attempts to answer whether the infringer sought to benefit from the trademark owner's reputation and good will in the market. Whether willfulness is required in order to award plaintiff's damages is not fully settled, but it is generally a necessary condition to obtaining defendant's profits [32].

Typically, defendant's profits are awarded under two lines of reasoning: to make the infringer forego that profit it never would have earned (i.e., unjust enrichment) but for the misappropriation of the trademark owner's property, or to deter the willful infringement of the trademark owner's property [33]. In the first instance, defendant's profits may be viewed as a benefit taken by the defendant which belonged to the trademark owner. The mark is property capable of providing a return and that return belongs to the trademark owner. Thus, the infringer may benefit regardless of intent [34].

The 1st Circuit requires a showing of bad faith only if the plaintiff seeks the defendant's profits in the sale of products not in direct competition with the plaintiff. Where plaintiff and defendant compete directly, a showing of bad faith is not required [35]. Similarly, the 7th Circuit has held that willful infringement is not required for plaintiff to obtain defendant's profits [36]

In *Adray v. Adry-Mart*, the 9th Circuit ruled that the district court erred by instructing the jury not to award damages for trademark infringement absent a finding that the infringement was willful, since "defendant's profits attributable to infringement are a measure of plaintiff's damages under a theory of unjust

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29 Ibid, at 1260

30 *Roulo v. Russ Berrie & Co.*, supra, at 1423

31 Koulemay, p. 7

32 Koulemay, p.5

33 Barber, p. 143

34 Ibid, p. 157

35 *Aktiebolaget Electrolux v. Artmatron*, supra, at 1464

36 *Roulo v. Russ Berrie*, supra, at 941

*Sands, Taylor & Wood, Co. v. The Quaker Oats Co.*, 24 USPQ2d 1001, 1013, 7th Cir. 1992

enrichment if parties are in direct competition, and since plaintiffs can therefore recover such damages even if the infringement was not willful" [37].

However, certain courts do retain the willfulness requirement. "The monetary reward to ALPO is an award of Ralston's profits...yet we do not see ... the willful, targeted wrongdoing which an award of profits requires. ALPO is entitled to its actual damages, however ..." [38]. Koulemay states that, in addition to the DC Circuit, the 2nd, 6th, and 9th have held that a finding of willfulness is required for an accounting of the defendant's profits[39].

At the risk of repeating a familiar refrain, the importance of familiarizing oneself with the particular bases relied upon by each circuit to permit an award of defendant's profits cannot be overemphasized.

### 3. Plaintiff's Damages

*Amount of Damage*

Once the fact of damages has been proven by showing a causal connection between the defendant's acts and the resulting harm, a plaintiff typically has a lighter burden in proving the amount of damages he suffered [40]. As is the case in patent litigation, the courts generally hold that the defendant bears the risk of uncertainty. The standard of proof is relaxed even further where the defendant has obstructed discovery which would assist the plaintiff to quantify damages.

Plaintiff's claim may include all identifiable and measurable forms of damage sustained, provided they are not double-counted. Essentially, they are lost profits, price erosion, damage to goodwill, corrective advertising, and reasonable royalty, among others. Defendant's profits have been awarded, usually for the sake of simplicity, as a proxy for plaintiff's damages. However, the plaintiff is not entitled to recover both its profits lost and the defendant's profits from the same sale [41]. Each of these topics is addressed in turn.

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37 *Adray v. Adry-Mart*, supra, at 1547

38 *ALPO Petfoods, Inc. v. Ralston-Purina, Co.*, 16 USPQ 2d 1081, 1082, CADC 1990

39 Koulemay, p. 6

40 *Otis Clapp & Son, Inc. v. Filmore Vitamin Co.*, supra, at 745

41 *Polo Fashion, Inc. v. Extra Special Products, Inc.*, supra, at 421

*b. Lost Profits. Lost Sales*

A plaintiff's challenge is to demonstrate that the defendant's actions harm the plaintiff. Many factors, including the competitive structure of the industry, the availability of alternative goods and services, and general economic conditions all may bear upon causation. The comparative weight of this burden may be a significant factor in many plaintiffs' decisions to seek the defendant's profits instead of their own actual damages.

The plaintiff must demonstrate that sales were actually lost to obtain an award of lost profits on the sale (or, if plaintiff elects, the profits the defendant made on the sale). Where the plaintiff and defendant are in direct competition, the court may look to the plaintiff's rate of growth prior to, during, and after the infringement to make a determination as to whether sales were diverted to the defendant.

For example, in *U-Haul v. Jartran*, the plaintiff and defendant were truck rental companies in direct competition. Jartran's advertising targeted U-Haul, resulting in U-Haul's sales declining while Jartran's revenues increased substantially [42]. Conversely, in *Otis Clapp & Sons v. Filmore Vitamin*, the plaintiff's growth in sales during the infringement coupled with a decline after the unfair practices had ceased, led the court to conclude that there were no lost sales [43].

In *BASF Corp. v. Old World Trading Co., Inc.*, a market share approach was employed to determine the amount of defendant's sales which the plaintiff would have made absent the false advertising campaign. The plaintiff's "but for" market share of the defendant's sales was given by the equation:

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|---|---|---|
| Plaintiff's Market Share of Defendant's Sales | = | Plaintiff's Actual Market Share / (100% - Defendant's % Share of Market) [44] |

In *Merriam-Webster, Inc. v. Random House, Inc.*, sales projections prepared in the normal course of business were compared to the plaintiff's actual sales after the infringement. The difference between the projected and actual amounts was attributed to the infringement [45].

In *Taco Cabana v. Two Pesos*, the appeals court affirmed the district court finding that lost profits could be awarded without a showing of actual confusion. The defendant's entry into the Houston market with its restaurants which infringed the

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[42] *U-Haul International, Inc. v. Jartran, Inc.*, 793 F.2d 1034; 230 USPQ 343; 9th Cir. 1986

[43] *Otis Clapp & Son, Inc. v. Filmore Vitamin Co.*, supra, at 387

[44] *BASF Corp. v. Old World Trading Co., Inc.*, 30 USPQ2d 1337, ND Ill 1993

[45] *Merriam-Webster, Inc. v. Random House, Inc.*, supra, at 1168

plaintiff's trade dress pre-empted the plaintiff's entry into the Houston market, causing the plaintiff to lose profits [46].

Note that an award of lost profits does not need to be based upon plaintiff's sales diverted to the defendant. An award for the present value of future profits lost by plaintiff because of a delayed rollout of a new product (where delay was caused by false advertising campaign) was held "not impermissible" nor "purely speculative" when it was based upon the plaintiff's projections prepared in the ordinary course of business to estimate the profits they would have earned from the new product. In this case, the award was directed to remand to be reduced to reflect the "return on capital" plaintiff "presumably received from alternative investments, using prejudgment interest rate as a measure of that return" [47].

When making any claim for the present value of future damages, it is essential to have sound reasoning for each assumption made to reduce the likelihood that a finder of fact will view the claim as being speculative.

*Eroded Prices*

If the plaintiff can demonstrate that the defendant's acts resulted in lower prices for the plaintiff's products than they would have had but for the infringement, then the plaintiff may have a claim for eroded prices. The standard of proof to be satisfied, however, is generally high. Prices may be influenced by a wide variety of factors. The facts and circumstances of the case will highlight any issues which relate to price erosion, however, the effect of price changes on quantity demanded (price elasticity), the competitive structure of the industry, the availability of substitute products, the potential impact of technological change, and the wider economy, among others, may be factors to consider, as well.

For example, in *BASF v. Old World Trading Co.*, the plaintiff's price erosion claim was denied by the court since there were multiple competitors and price was seen to be an important competitive tool [48].

In *Artmark-Chicago Ltd. v. E. Mishan & Sons*, the plaintiff succeeded in its price erosion claim, where the ratio of the plaintiff's but for price to the defendant's actual lower price was applied to the plaintiff's net profits [49]. An argument could be made that this approach may understate the plaintiff's price erosion damages, since it effectively increases by the same ratio all of the costs deducted already from the value of the diverted sales.

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[46] *Taco Cabana v. Two Pesos*, supra, at 1463
*ALPO Petfoods Inc. v. Ralston-Purina Co.*, supra, at 1459

[48] *BASF v. Old World Trading Co.*, supra, at 1337

*Artmark-Chicago, Ltd. v. E. Mishan & Sons, Inc.*, 26 USPQ 1201, DC N .Ill.

*d.* *Incremental Costs on Lost Profits*

Where the plaintiff's damages are based on lost sales, the plaintiff must show the expenses which would have been incurred to produce and sell the lost units must be deducted from the amount of lost revenue.

Well-established in patent litigation is the premise that only the incremental costs (i.e., those that would change as a result of making additional sales) should be deducted from lost revenue to arrive at lost profits [50]. The incremental costing approach has been used in trademark litigation to quantify a plaintiff's lost profits[51] Other approaches to cost determination have been used in trademark infringement matters, however, plaintiffs usually find the incremental approach to be most advantageous to them. The different approaches to cost determination and treatments of particular classifications of expenses are discussed more fully in "Defendant's Profits" below.

*Corrective Advertising*

Awards of corrective advertising may permit the plaintiff to recover the cost of advertising undertaken to restore the value of the plaintiff's trademark lost as a result of the misleading advertising or infringement [52].

Federal courts have applied corrective advertising damages in trademark and unfair competition cases in two ways. First, the plaintiff's actual expenditures for corrective advertising incurred prior to trial have been treated as recoverable business losses Second, awards based upon the advertising expense incurred by the defendant have formed the basis of plaintiff's damages for harm to the plaintiff's goodwill and to eliminate the confusion in the marketplace created by the defendant's advertisements. This is known as prospective corrective advertising.

In an example of the former, the plaintiff in *Cuisinarts, Inc. v. Robot-Coupe Intern. Corp.* recovered damages it spent on "reparative advertising" to correct confusion created by defendant[53].

In *ALPO Petfoods v. Ralston-Purina*, the court calculated the cost incurred by plaintiff for advertising in response to the defendant's false advertising claims by

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[50] *Paper Converting Machine Co. v. Magna-Graphics Corp.*, 745 F.2d 11, 22; 223 USPQ2d 591, CAFC 1984

[51] *BASF Corp. v. Old World Trading Co.*, supra, at 1337

[52] *Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.* 408 F.Supp. 1230, 1231, 561 F.2d 1365, 10th Cir. 1977

[53] *Cuisinarts, Inc. v. Robot-Coupe Intern. Corp.*, 580 F.Supp 634, SDNY 1984

- relying upon the plaintiff's anticipated advertising budget for the relevant time period as a baseline;
- assuming that expenditures for that period would not have increased absent the defendant's false advertising claims;
- subtracting what the plaintiff planned to spend from what it actually spent;
- and treating the difference as the cost of responding to the defendant's false claims [54].

An award equal to the plaintiff's own advertising expenses may be granted even though it may exceed the amount the defendant spent on its advertising campaign. Furthermore, the award does not require that the defendant actually made a profit during the period the misleading advertising was employed [55].

Corrective advertising awards may include amounts for expenditures incurred by both plaintiff and defendant. In *U-Haul v. Jartran*, the court awarded U-Haul the $13,000,000 it spent to correct the confusion on created by Jartran's advertising. The court also awarded the $6,000,000 spent by Jartran. Additional damages brought the total award to $40,000,000 [56].

For prospective corrective advertising, courts have adopted the FTC rule on corrective advertising, basing the award on advertising expenses incurred by the defendant. In *Big O v. Goodyear*, the district court awarded damages based on the defendant's "Bigfoot" tire ad campaign in spite of finding that "no evidence that any economic losses resulted" [57]. Although Big O was unable to prove its damages, it was ruled to be entitled to do an equivalent volume of advertising to eliminate the confusion created by Goodyear's advertising. Goodyear's $10,000,000 ad campaign resulted in a $2,800,000 award, based on ratio of states where the campaign ran (14 states / 50 states = 28%). On appeal, the award was reduced to $700,000 as a result of an FTC guideline which states that "dollar for dollar expenditure for corrective advertising is unnecessary to dispel the effect of confusing and misleading advertising [58].

Regarding prospective corrective advertising, the 9th Circuit has held that the award does not hinge upon plaintiff's financial inability to conduct a corrective advertising campaign prior to trial:

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54 *ALPO Petfoods v. Ralston-Purina*, supra, at 1455

55 *U-Haul International, Inc. v. Jartran, Inc.*, 793 F.2d 1034, 1041; 230 USPQ 343, 349; 9th Cir. 1986

56 Ibid, p. 343

57 *Big O v. Goodyear*, supra, at 1231

58 *Big O v. Goodyear*, supra, at 1375-76

"plaintiffs need not demonstrate that they were financially unable to conduct corrective advertising campaign before trial in order to recover cost of prospective corrective advertising, since there is no reason to limit availability of essentially compensatory damages in that manner...such damages (may be awarded) only to the extent that necessary amount does not exceed damages to the value of plaintiff's mark" [59].

*f.* *Damage to Goodwill*

Plaintiffs have on occasion brought damages claims for harm to goodwill. Generally, damaged goodwill is claimed because the value of the mark owner's name or reputation of its product has been tarnished by actions of the defendant, such as false advertising or marketing an inferior product.

These claims have met with limited success owing to the considerable standard of proof the plaintiff must meet. In *DC Comics, Inc. v. Filmation Associates*, the jury "was empowered to compensate (harm to goodwill, but instead) chose only to compensate direct economic loss" [60]. Similarly, in *Taco Cabana v. Two Pesos*, damages were awarded for franchise fees lost and royalty income which would have been earned but for the infringement, but no damages were awarded for harm to goodwill [61].

Where plaintiffs have succeeded in recovering for lost goodwill, the circumstances of the case have generally involved reasonably egregious behavior on the part of the defendant. In *Pioneer Leimel Fabrics Inc. v. Paul Rothman Industries Ltd.*, plaintiff suffered a fire in which approximately 75,000 yards of is polymer coated Leathertouch fabric. The defendant purchased the damaged goods and offered them for resale in the United States, in direct contradiction to an agreement they had signed specifying where the damaged goods could not be sold. Recognizing the difficulty in quantifying damages of this type, the district court doubled the plaintiff's lost profits[62]. In *Artmark-Chicago v. E. Mishan & Sons*, trebled damages were assumed by the court to compensate the plaintiff for any damaged goodwill suffered as a result of the defendant's marketing of inferior goods [63].

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59 *Adray v. Adry-Mart*, supra, at 1547

60 *DC Comics, Inc. v. Filmation Associates*, 486 F.Supp. 1273, SDNY 1980

61 *Taco Cabana v. Two Pesos*, supra, at 1253

62 *Pioneer Leimel Fabrics, Inc. v. Paul Rothman Ind., Ltd.*, 25 USPQ2d 1096, DC EPa 1992

63 *Artmark-Chicago, Ltd. v. E. Mishan & Sons, Inc.*, supra, at 1205

g. *Reasonable Royalty*

Damages may be quantified as the royalties the trademark owner would have received had the infringer taken a license [64]. The use of reasonable royalties to compensate the plaintiff for the infringement has been approved under a variety of circumstances, including: when the plaintiff cannot quantify its lost sales, when the defendant did not make a profit, and when an award of defendant's profits would result in a windfall to the plaintiff, among other reasons. However, one ruling held that a royalty was inappropriate where the harm to the plaintiff resulted from the defendant's advertising campaign emphasizing differences between the parties' products and not from diverted sales on which a royalty would have been paid had an agreement existed [65].

The royalty may be based upon an established royalty, the "going rate in the market", a license agreement, an infringer's offer to license, or other acceptable methodology.

Use of reasonable royalties under the Lanham Act appears to differ with the manner in which the measure is often applied in patent litigation in at least two respects. First, the determination of a reasonable royalty in Lanham Act matters does not appear to contemplate the "heads I win, tails you lose" doctrine, which permits the royalty to be adjusted by the trier of fact to restrict the infringer's ability to impose what amounts to a compulsory license on a property owner unwilling to license others [66]. Recall, however, the Lanham Act permits the court to adjust the monetary recovery if the award is insufficient or excessive, and this discretionary power may be the instrument through which courts can avoid the circumstance whereby an infringer pays no more than a willing licensee would have.

A second difference is that an infringer's offer to license does not constitute an acceptable reasonable royalty for an infringed patent [67].

In *Holiday Inns, Inc. v. Airport Holiday Corp.*, the plaintiff was granted a royalty for the defendant's unauthorized use of the Holiday Inn name at the "going rate in the marketplace" instead of the rate in effect during the license agreement prior to the termination of the agreement[68].

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64 Ibid

65 *Gillette Co. v. Wilkinson Sword, Inc.*, 1992 US Dist. LEXIS 1265, SDNY 1992

66 *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, supra, at 1152

67 *Deere & Co. v. International Harvester Co.*, 710 F.2d 1551; 218 USPQ 481, CAFC 1983

68 *Holiday Inns, Inc. v. Airport Holiday Corp.*, 493 F.Supp. 1025, 1028, N.D. Tex 1980

The reasonable royalty measure has been used where the defendant did not actually show a profit from the infringement. In *Otis Clapp & Sons v. Filmore Vitamin Co.*, the court relied upon its discretionary power to award a 15% royalty, holding that the plaintiff should not be prejudiced by the defendant's inefficiency even though the plaintiff was unable to prove its lost sales [69].

In *Source Perrier S.A. et al. v. Waters of Saratoga Springs, Inc.*, the defendant did not profit from the infringement and a royalty was awarded to compensate for the infringement. The royalty was half of the gross margin (less advertising expense) the plaintiff would have earned had they and not the defendant made the sales[70].

In *Taco Cabana v. Two Pesos*, the defendant's gained a "headstart" into the Houston restaurant market while infringing on the plaintiff's trade dress, in this case, the look and feel of the restaurant. The plaintiff could not show that sales were diverted per se, but was awarded a royalty (in the form of initial franchise fees and an ongoing percentage of sales) because they were deprived of economic benefits they would have had through licensing[71].

A royalty may be appropriate when disgorgement of defendant's profits would constitute a windfall to the plaintiff. In *Sands, Taylor & Wood Co. v. The Quaker Oats Co.*, the 7th Circuit reversed the award of profits and remanded, suggesting that a royalty would "more accurately reflect the extent of Quaker's unjust enrichment and the interest of (the plaintiff) that has been infringed" [72].

## 4. Defendant's Profits

Generally, defendant's profits are awarded under two lines of reasoning: to make the infringer forego that profit it never would have earned (i.e., unjust enrichment) but for the misappropriation of the trademark owner's property, or to deter the willful infringement of the trademark owner's property [73].

A profits award may be a proxy for plaintiff's damages, usually for the sake of simplicity, recognizing the potential difficulty of proving which of the plaintiff's sales were lost as a result of the infringement. Awarding defendant's profits upon proof by the plaintiff of lost sales should be viewed as a damages theory [74].

The 1st Circuit and 9th Circuits require a showing of bad faith only if the plaintiff seeks the defendant's profits in the sale of products not in direct competition with

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69 *Otis Clapp & Sons v. Filmore Vitamin Co.*, supra, at 744

70 *Source Perrier S.A. et al. v. Waters of Saratoga Springs, Inc.*, 217 USPQ 617

71 *Taco Cabana v. Two Pesos*, supra, at 1253

72 *Sands, Taylor & Wood Co. v. The Quaker Oats Co.*, supra, at 1001

73 Barber, at 143

Barber, p. 141

the plaintiff. Where plaintiff and defendant compete directly, a showing of bad faith is not required [75]. The 7th Circuit has also held that neither willful infringement nor direct competition are not required for plaintiff to get defendant's profits, and that primary purpose of recovery under the Lanham Act is to make infringement an unprofitable activity [76].

*a.* *Infringing Sales*

The plaintiff bears the burden of quantifying the defendant's sales of the infringing product. However, the defendant may wish to reflect upon the wisdom of obstructing the plaintiff's attempt to quantify its sales. Courts have permitted plaintiffs to rely on a variety of methods, including plaintiff's own estimates of the defendant's sales [77], and the testimony of an investigator, hired by the plaintiff, who had discussions outside of court with the defendant about their sales [78].

*b.* *Apportioning Defendant's Profits*

The concept of apportionment flows from the idea that less than all of the profit realized on the sale of an infringing product is properly attributable to the trademark. In other words, the defendant contributed something to the process which, in some measure, caused a sale to be made. Like damaged goodwill, apportionment may be difficult to quantify.

In *Holiday Inns v. Airport Holiday*, the defendant, a former Holiday Inn franchisee, continued to display Holiday Inn signs after the franchise agreement was terminated. The defendant showed that only thirty percent of their business was from Holiday Inns' customers who were seeking to use a Holiday Inn. Accordingly, the trial judge ruled that only thirty percent of the defendant's profits were related to the unauthorized use of the signs [79].

In *Roulo v. Russ Berrie & Co.*, apportionment was rejected since the defendant appropriated the "total concept and feel" of the plaintiff's greeting cards . Berrie had argued that the infringing elements of the greeting cards contributed approximately $38,000 in profits. The court stated that "the jury's verdict of

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[75] *Aktiebolaget Electrolux v. Armatron*, supra, at 1463
*Adray v. Adry-Mart*, supra, at 1547

[76] *Roulo v. Russ Berrie & Co.*, supra, at 941
*Sands, Taylor & Wood Co. v. Quaker Oats Co.*, supra, at 1013

[77] *Dive N' Surf, Inc. v. Anselowitz*, 834 F.Supp. 379, 384, M.D. Fla, 1993

[78] *Louis Vuitton S.A. v. Spencer Handbags Corp.*., 765 F.2d 966, 972; 227 USPQ 377, DC Ca 1985

[79] *Holiday Inns, Inc. v. Airport Holiday Corp.*, supra, at 1027

$4.3mm rather than the entire $5mm proposed by the plaintiff is evidence that the jury either apportioned the award or accepted some of Berrie's other deductions"[80]

In *Sands, Taylor & Wood v. Quaker Oats*, the court found it was "reasonable to infer that defendant's advertising campaign was responsible for 10% of the products success and hence profit" [81]

*Deductible Costs*

While plaintiffs must show the amount of the defendant's sales, the defendant must prove the expenses it would have incurred to make and sell the infringing product. In patent infringement litigation, the rule is clear: only incremental costs (i.e., those that would vary as a result of making the sales in question) should be deducted from sales revenue. By contrast, the defendant in trademark litigation may chose from at least two conflicting approaches: the incremental approach and the percentage basis approach.

The two approaches are discussed below, and individual classifications of expense and their deductibility are considered. Perhaps not surprisingly, the rules differ among the circuits as to which method should be employed. Barber suggests that the 5th, 7th, and 11th Circuits follow the incremental cost rule, while 2nd, 4th, and 9th Circuits permit the defendant greater latitude to deduct expenses which are not strictly variable [82].

*d. Incremental Cost Approach*

Under this approach, the defendant may deduct only those expenses which vary with the production and sale of the infringing products. Expenses are usually categorized as being either "fixed" or "variable". Fixed expenses are those which would not change over the time frame or number of units to be produced. Insurance or building rent are typical examples of expenses which might be classified as fixed. Variable expenses, on the other hand, change as sales are made. Direct material and sales commission are examples of expenses which are generally variable. Under this approach, overhead expenses would not be deducted from the defendant's sales unless the defendant could show that they were incurred in the production and sale of the infringing products.

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80 *Roulo v. Russ Berrie & Co.*, supra, at 1424, 1431

81 *Sands, Taylor & Wood v. The Quaker Oats Co.*, supra, at 1474

82 Barber, at 173

*e.* *Percentage Basis Approach*

This method allocates all costs according to the ratio of infringing sales to total sales. This method may also be referred to as full absorption accounting. Under this approach, each unit sold bears a share of all costs, including those not incremental to the production and sale of the infringing units. All else equal, this method is more attractive to defendants since it permits the amount of its unjust enrichment to be reduced by virtually every type of expense incurred during the period of the infringement.

*f.* *Categories of Expense*

Cost of goods sold is typically deductible from defendant's sales to determine profits from the infringement. A manufacturer's cost of goods generally contains direct material, direct labor, freight-in, and an allocation of factory overhead. Whether all elements of factory overhead represent expenses which should be deducted under the incremental cost approach must be evaluated in the context of the particular case.

Operating expenses which may be deductible under both approaches include salespersons' salaries and commissions. Other selling, general and administrative expenses (SG&A) may be deductible under the incremental approach if they increased as a result of making infringing sales. In any case, they are likely to be deductible under the percentage-basis approach. These expenses include, for example, utilities, office supplies, repair and maintenance, building rent, insurance depreciation and amortization, taxes (other than income taxes), legal and accounting (unrelated to the litigation), and managerial salaries (though bonuses may represent a distribution of defendant's profits, and therefore not be deductible), among others.

The deductibility of certain other classifications has been controversial. Deductions for advertising expenses have been both allowed [83] and denied [84]. The cost to relabel infringing goods has not been allowed[85]. Income taxes have been allowed [86] and disallowed [87] as acceptable deductions (generally disallowed where bad faith is found).

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[83] *Carter Products, Inc. v. Colgate-Palmolove Co.*, 214 F. Supp. 383, D. Md. 1963

[84] *S.C. Johnson & Son, Inc. v. Drop Dead Co.*, 144 USPQ 257, S.D. Ca 1965
*W.E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656, 2nd Cir. 1970

[86] Ibid
*Carter Products, Inc. v. Colgate-Palmolove Co*, supra

In *Wolfe v. National Lead Co.*, the defendant sought to offset profits made from infringement during certain years with losses incurred in other years. The defendant argued that its losses should be offset against its profits. The 9th Circuit rejected their argument, and profits were awarded for the profitable years, and were not reduced for losses incurred in other years [88].

The 11th Circuit permitted a defendant to offset losses when some restaurants incurred losses and others did not. The court did not allow losses from the unprofitable restaurants to be offset against profits from the others, but rather allowed the defendant to reduce profits at the profitable restaurants by losses incurred during unprofitable years at those restaurants [89].

### g. *Award of Both Damages and Profits*

A plaintiff is entitled to recovery both its damages and the defendant's profits. However, the award may not include both damages and profits relating to the same sale. Such an award would be a dual recovery.

However, in *Veryfine Products, Inc. v. Colon Brothers, Inc.*, the plaintiff appears to have recovered twice for the same infringing sales. "Veryfine has proven that Colon's sales from the infringing products total $446,000. Colon has presented no evidence at trial as to the cost of its sales...it is appropriate to force Colon to pay over to Veryfine all that it has made off of the sale of its infringing products...Additionally, Veryfine is entitled to an award for the damages sustained by it. The Court finds that Veryfine is entitled to $67,500, representing the 3% lost of sales during the period from January 1992 through June 1992..." [90]

## 5. Prejudgment Interest

Claims for prejudgment interest are predicated upon the fact that the plaintiff has not had the use of the funds the infringer deprived them of. The claim is for the lost opportunity to use those funds for the period of time they were unavailable.

There appears to be an emerging consensus that prejudgment interest should be calculated at the prime rate (or plaintiff's borrowing rate, if it is more adequate to compensate for the infringement) and be compounded on an annual basis [91].

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88 *Wolfe v. National Lead Co.*, 272 F.2d 867, 123 USPQ 574, 9th Cir. 1959

89 *Burger King Corp. v. Mason*, 855 F.2d 779, 782, 8 USPQ2d 1263, 1265, 11th Cir. 1988

90 *Veryfine Products Inc. v. Colon Brothers Inc.*, 25 USPQ2d 1897, 1912, DC PR

*Gorenstein Enterprises Inc. v. Quality Care-USA Inc.*, 874 F.2d 431, 10 USPQ2d 7th Cir. 1989; *BASF Corp. v. Old World Trading Co.*, supra, at 1349; *Gillette Co.*

Willfulness does not appear to be a requirement for prejudgment interest, but the award may be more likely to be forthcoming where the violation is "intentional (or) outrageous"[92].

However, some courts are reluctant to award prejudgment interest where the amount of the recovery has already been enhanced under the court's equitable discretion [93].

## 6. Attorneys Fees and Costs

Section 35 provides for awards of attorneys' fees in exceptional cases (the award is automatic under Section 35(b), which relates to counterfeiting). Generally, this has been taken to mean cases involving willful infringement. In many cases, attorneys' fees have been considerable, and several awards have exceeded $700,000[94].

Awards for costs, including, court fees, experts' fees, and other items, appear harder to come by. In both *BASF Corp. v. Old World Trading Co.* and *Clark-Reliance Corp. v. McNab, Inc.*, attorneys fees were awarded, but experts' fees were denied [95].

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*v. Wilkinson Sword, Inc.*, supra

[92] *Gorenstein Enterprises Inc. v. Quality Care-USA Inc.*, supra, at 436

[93] *Pioneer Leimel Fabrics Inc. v. Paul Rothman Ind., Ltd.*, supra, at 1111

[94] see, for example, *Taco Cabana v. Two Pesos*, supra; *ALPO Petfoods, Inc. v. Ralston-Purina Co.*, supra

[95] *BASF Corp. v. Old World Trading Co.*, supra; *Clark-Reliance Corp. v. McNab, Inc.*, 1993 U.S. Dist. LEXIS 15726, SDNY 1993, 1994 U.S. Dist. LEXIS 1879, SDNY 1994