

**TRADEMARKS AND FINANCIAL REMEDIES****Michael A. Einhorn, Ph.D.***

The U.S. Supreme Court in April 2020 issued the decision *Romag Fasteners, Inc. v. Fossil Group, Inc.* which revised the standards for financial remedy in trademark law. The Court's decision now allows plaintiffs to recover in equity an accounting related to disgorgement of infringer's profits attributable to infringement regardless of found willfulness; the decision reverses previous legal standard that required such a demonstration of willfulness. This paper presents the current state of trademark remediation following *Romag*, particularly as it affects analysis from economists, accountants, and other financial experts who must value damages and defendant profits. As a critical consideration, experts must distinguish between the likelihood of confusion in sales, advertisements, and messages needed for injunction, and actual confusion related, *inter alia*, to consumer goods bearing the infringing trademark. While proven likelihood may earn an injunction, only amounts that can be demonstrably connected to the actual confusion or infringing product can be included in the recovery base. This implicates the outcomes of cases where actual confusion can only be measured partially, or not at all.

1. INTRODUCTION

From the perspective of an expert economist active in valuation of intellectual property, this

paper analyzes monetary remediation for infringement under U.S. trademark law, as

modified in April 2020 in the U.S. Supreme Court decision *Romag Fasteners, Inc. v. Fossil Group, Inc.* (No. 18-1233,[1] 590 U.S. ____ (2020)). Per the decision, a trademark plaintiff may now recover in equity a disgorgement of defendant's profits attributable to the infringement regardless of proven willfulness in the act. The decision reverses the previous standard for remediation that required such a demonstration of defendant willfulness.

The *Romag* decision applies the Lanham Act (or Trademark Act of 1946), which 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; survey estimates

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above 25 percent¹ have been viewed as solid support for likelihood.²

Monetary remedy may be used to compensate mark owners for actual damages arising from infringement and/or to disgorge defendant profits. 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.”³

The most prevalent financial remedies available to courts implicate recovery of actual damages and an accounting related to profit disgorgement judging in equity to be arising from the infringement. Application of the two instruments depends upon respective matters of law and equity. An expert report must be heedful of the legal distinction between the two,

¹J. Thomas McCarthy, 6 *McCarthy on Trademarks and Unfair Competition* 32:188 (5th ed. 2020)

²The decision may also involve the likelihood that the plaintiff will prevail on merits, the extent to which plaintiff will be irreparably harmed, the defendant’s irreparable harm if injunction is issued, and the serving of the public interest. *Ramsey v. Nat’l Bd of Med. Exam’rs*, 968 F.3d 251, 256 (3rd Cir., 2020). The first two factors are essential. *Reilly v. City of Harrisburg*, 858 F.3d 173, 179 (3rd Cir. 2017) Regarding a three part test on the likelihood of success (including likelihood of confusion) see *A&H Sportswear Inc. v. Victoria’s Secret Stores Inc.* 237 F.3d 198, 210 (3rd Cir. 2000))

and the restrictions in method and evidence imposed thereto on the use of expert analysis.

Writing as a professional economist, I shall now analyze economic issues regarding monetary relief in trademark litigation. While experts may attempt to identify plaintiff damages or defendant profits, it is important for contestants to note the importance of a proven causal connection between the trademark infringement and any sought remedy. While the court may have some equitable discretion, the case law does not permit plaintiff experts to simply identify from income statements revenue totals and leave the defense to present all deductions and apportionments. Rather, a careful distinction must be established between the mark infringement and the subsequent actual confusion related to the sale of specific items that may have been affected.

³James M. Koelemay, "Monetary Relief for Trademark Infringement under the Lanham Act," 1995, 72 TRADEMARK REP., 458, 495.

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 manufactured or sold by others.” 15 U.S.C. 1127. Also protected 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 that may be associated with the product or service – i.e., *trade dress*. 15 U.S.C. 1125

Trademark owners can acquire rights to a mark in one of two ways – (1) being the first to use in commerce and (2) being the first to register the mark with the U.S. Patent and Trademark Office.⁴ Protection in the first instance applies only in the geographic 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 a federal award. Once enacted, registration of a mark provides to others constructive notice of a presence that can be discerned presumably through due diligence, as the Patent and Trademark Office publishes notice of new marks in its online database.⁵ Once granted, a trademark can be renewed indefinitely without termination; this differs from the limited terms of patent and copyright protection where terms are limited.

When a trademark is first infringed without authorization,⁶ some shoppers may come to believe that the product is either produced or approved by the company that owns the mark – likelihood of confusion. If presentation leads to purchase, the mark owner suffers a loss of sales and possible harm to its reputation; the defendant is unjustly enriched. A mark

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

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

⁶Trademark infringement is defined as the “use in commerce [of] any reproduction, counterfeit, copy or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution or advertising of any goods or services or in connection with which such use is likely to cause confusion, or cause mistake, or cause to deceive.” 15 U.S.C. §1114(b)

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 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.⁷ An infringed mark owner can win an injunction (if likelihood of confusion is proven) and recover monetary remedies (where actual confusion is proven); the latter category principally includes actual damages and/or defendant profits. 15 U.S.C. 1114, 1125.

A comprehensive review by Prof. Barton Beebe revealed that standards for proving likelihood may differ among Circuits.⁸

⁷Pub. 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)

⁸Barton Beebe, An Empirical Study of the Multifactor Tests for Trademark Infringement, 94 CALIF. L. REV 1581 (2006).

	1	2	3	4	5	6	7	8	9	10	11	DC
Similarity of the Marks	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
Evidence of Actual Confusion	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
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
Similarity of Adv. & Mktg.	x		x	x	x	x	x		x	x	x	
Similarity of Sales Facilities	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 Use without Confusion			x									

Per the oft-cited Second Circuit case of *Polaroid Corp. v. Polarad Elect. Corp.*,⁹ common factors for 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 can take action to 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.¹⁰

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

⁹287 F. 2d 492 (2d Cir. 1961).

descriptive name or present an attribute of the contested product), *nominative use* (when use of the trademarked term is necessary to identify another 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*.¹¹ However, owners of the trademark *Slickcraft* used on family recreation boats won an injunction to stop 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.¹²

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 granted the newspaper's nominative fair 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.¹³

¹⁰For a modified list, see *Interpace Corp. v. Lapp, Inc.* 721 F. 2d 460, 463 (3d. Cir. 1983)

¹¹*Zatarain's, Inc. v. Oak Grove Smokehouse, Inc.* 698 F. 2d 786 (5th Cir. 1983). The Fifth Circuit upheld the Defendant's right to use the words "fish fry" in the ordinary, descriptive sense, so long as there is no confusion as to the source of the goods.

¹²*AMF Inc. v. Sleekcraft Boats*, 599 F. 2d 341 (9th Cir. 1979).

¹³*New Kids on the Block v. News America Publishing, Inc.*, 971 F. 2d 302 (9th Cir. 1992). As affirmative defense, "the product or service in question must be one not readily identifiable without use of the trademark; second, only so much of the mark or marks may be used as is reasonably necessary to identify the product or

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.¹⁴ However, a lower court (E.D.N.Y.) stopped parody in the logo "Enjoy Cocaine" found to infringe upon Coca Cola's famous logo and mark.¹⁵

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 an endorsement of Bally's operations.¹⁶ Bally's issues involving improper speech could yet relate to issues of defamation and putting in a false light.

Protection through fair or nominative use is commonly allowed to cover operational compatibility of a replacement part with a trademarked apparatus; e.g., coffee pods used with Keurig coffeemakers.¹⁷ If a plaintiff can show likelihood of confusion per some accepted test, defendant must prove the infringement is yet necessary to describe both products or

service; and third, the user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder."

¹⁴Hormel Foods Corp. v. Jim Henson Prods., 73 F. 3d 497 (2d Cir. 1996).

¹⁵Coca 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.")

¹⁶Bally Total Fitness Holding Corporation v. Andrew S. Faber, 29 F. Supp. 2d 1161 (C. D. Cal., Nov. 23, 1998).

¹⁷769 F. Supp. 2d 699, 704, 707-08 (D. Del. 2011).

services, only so much of the plaintiff's mark is used for a descriptive purpose, the description is accurate.¹⁸

Generally speaking, the foundational assumption of nominative fair use is that a defendant uses a plaintiff's marks to reference plaintiff's goods or services as a means to communicate some comparison or property about its *own* goods or services, -- e.g., compatibility or comparison of product quality -- without presenting a direct commercial affiliation with the mark owner.¹⁹

3. LEGAL REMEDIES

The Lanham Act provides for injunctive relief and monetary remedy once trademark 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",²⁰ and *reverse confusion* --

¹⁸*Century 21 Real Estate Corp. v. Lendingtree, Inc.* 425 F. 3d 211, 214 (3d. Cir. 2005)

¹⁹*Cairns v. Franklin Mint Co.*, 292 F.3d 1139 (9th Cir.2002). "The nominative fair use analysis is appropriate where a defendant has used the plaintiff's mark to describe the plaintiff's product, *even if the defendant's ultimate goal is to describe his own product.*"

²⁰*EMI Catalogue P'ship v. Hill Holliday, Connors, Cosmopolos, Inc.*, 228 F. 3d 56, 62 (2d Cir. 2000).

when buyers mistakenly come to “believe that the junior user is the source of the senior user’s goods.”²¹

If liability is proven, allowable remedies are possibly recovered per 15 U.S.C. 1117.²² Subject to principles of law or 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 may 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.²³ Also allowable but less frequent are corrective advertising²⁴ and statutory damages (for counterfeiting). For the remainder of this article, I shall focus on measurement of *actual damages* and *defendant’s profits*.

²¹Banff, Ltd. v. Federated Dept. Stores, Inc., 841 F. 2d 486, 490 (2d Cir. 1988).

²²Champion Spark Plug Co. v. Sanders, 331 U.S. 125 (1947) (“*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]

²³See Deering, 269 F.2d at 194 (expressing approval, in theory, of trebling defendant's profits "[e]specially in view of the deliberate and fraudulent nature of the infringement"; Getty Petroleum Corp. v. Bartco Petroleum Corp., 858 F.2d 103, 113 (2d Cir.1988) (holding that § 35 of Lanham Act authorizes an additional damage award, "so long as its purpose is to compensate a plaintiff for its actual injuries even though the award is designed to deter wrongful conduct ..."); Ramada Inns, Inc. v. Gadsden Motel Co., 804 F.2d 1562, 1563, 1566-67 (11th Cir.1986) (upholding district court's award of treble damages, in case where terminated franchisee held over and infringed plaintiff's mark, which damage award the court had based upon plaintiff's lost franchise fees and expenditures necessary for attracting new franchisee). N.Y. Racing Ass'n, Inc. v. Stroup News Agency Corp., 920 F. Supp. 295, 301 (N.D.N.Y. 1996) (“In light of the inadequacy of a simple lost profits recovery as compensation for the damage Stroup's trademark violations caused NYRA, the Court will treble NYRA's award for actual injuries to \$2244.66.”)

²⁴Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co., 408 F. Supp. 1219 (D. Colo. 1976), modified, 561 F. 2d 1365 (10th Cir. 1977), cert. dismissed, 434 U.S. 1052 (1978). The Court of Appeals held that corrective advertising for a trademark infringement should be fixed at 25 percent of the defendant’s previous advertising budget. This number does not appear to have any scientific basis to which a technical expert may opine.

4. MONETARY REMEDIES: ACTUAL DAMAGES

Actual damages to the mark owner are commonly measured by diverted sales or lost licensing income that the owner would otherwise have earned; added costs and diminished reputation are also conceivable. The award of actual damages requires that the owner prove *actual buyer confusion*,²⁵ though admissible for an *injunction (supra)*, simple likelihood of confusion is not a sufficient basis for recovery of *actual damages*.²⁶

The recovery interval for actual damages begins at the time the infringer becomes aware of its malfeasance through a formal notification or demonstration through the presence of a registration mark. 15 U.S.C.A. 1111. If actual confusion can be established for some or all sales (by evidence or some approved presumptive means), recovery of actual damages is allowable as a matter of law and can thus be put to a jury at the request of either party.²⁷

Actual damages can also be measured alternatively by lost profits, or lost licensing income as measured by reasonable royalty which is the statutory floor. Restoration of *lost profits arising from diverted or suppressed sales* – although a generally allowable tort

²⁵Establishing 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).

²⁶Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co. 145 F. 3d 481 (2d Cir. 1998); Brunswick Corp. v. Spirit Reel Co. 832 F. 2d 514 (10th Cir. 1987).

²⁷Neither party has a constitutional right to a jury under matters of pure equity. Texas Advanced Optoelectronic Sols., Inc. v. Renesas Elecs. Am., Inc., 895 F.3d 1304 (Fed. Cir. 2018).

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 along a dollar trajectory, it is difficult to isolate the contribution(s) of an interval of infringement(s) on the level of sales dollars. The problem of serial measurement over an historic interval then is quite unlike the discrete problem found in wrongful death or termination, where a discernible drop in worker earnings can often be noticed immediately after the injury.

Alternatively, a defendant’s infringement can deny to the mark owner the payment of *lost licensing income*, a more common measure of actual damages in a trademark case.²⁸ Lost licensing income is generally established as a percent royalty of defendant’s sales volume (or other royalty base) in a putative interval. As a general consideration, payments should be determined based on 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.²⁹ Pending an appeal, the largest historic royalty award appeared in *Variety*

²⁸Among many, *Sands, Taylor & Wood v. Quaker Oats Co.* 34 F.3d 1340 (7th 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).

²⁹*Boston Professional Hockey Association v. Dallas Cap & Emblem Manufacturing, Inc.*, 597 F. 2d 71, 202.

Stores, Inc. v. Wal-Mart Inc., (359 F.Supp.3d 315 (2019)) where Variety proved actual damages (\$45.5 million) and additional defendant profits (\$50 million) with regard to Walmart’s infringement of its trademarks The Backyard, Backyard, and Backyard BBQ.³⁰

To estimate reasonable royalties for a hypothetical trademark license, trademark courts sometimes (but not necessarily) modify and incorporate royalty standards set forth in the patent case of *Georgia Pacific Corp. v. U.S. Plywood-Champion Papers, Inc.*³¹

An expert estimation should implicate standards of valuation that a negotiating agent would apply from financial theory or industry custom and practice. However, the consideration should be objective and not extend to estimates for the subjective preferences of either party.³² 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

³⁰*Variety Stores, Inc. v. Wal-Mart Inc.*, No. 5:14-CV-217-BO (E.D.N.C. Aug. 29, 2019).

³¹318 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).

³²For 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 been licensed and is then deserving of a premium for a first-time use.

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.”³³ The matter can be complicated further if the royalty base itself is reasonably contested outside the terms of a stated contract.

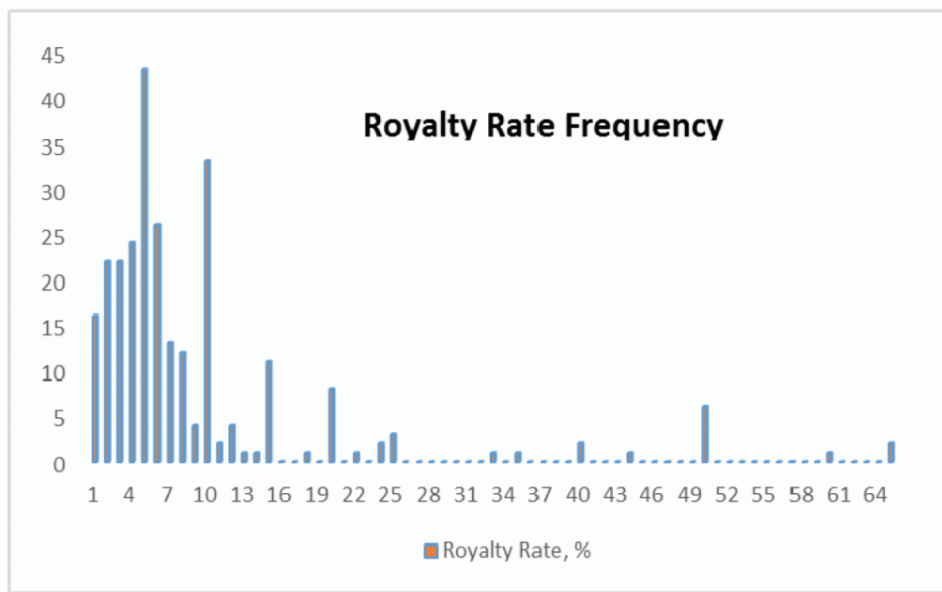
The determination of a royalty award then is apparently easier if evidence of some previous licensing or franchise arrangement between the two parties actually exists.³⁴ That said, the District Court of Oregon in *adidas America, Inc. v. Payless ShoeSource, Inc.*,³⁵ focused on the histories of the two 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 a plaintiff’s 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 or brand as well as established incumbents who have no history of licensing their name.

³³M R. Charles Henn, Jr., Sabina A. Vayner, and Katharine M. Sullivan, Monetary Recovery in Trademark Litigation, IP LITIGATOR, (16:6) November/December 2010 (http://www.kilpatricktownsend.com/~media/Files/articles/2010/IPLIT_111210_Henn.ashx, retrieved August 24, 2016)

³⁴*Ramada Inns, Inc. v. Gadsden Motel Co.* 804 F. 2d 1562 (11th Cir. 1986) (also awarded prejudgment interest, trebling damages, attorney’s fees, corrective advertising, and plaintiffs’ cost of developing a new franchise property in the same area). *La Quinta Corp. v. Heartland Properties LLC*, 603 F. 3d 327 (6th Cir. 2010) (also awarded liquidated damages if they arose, as well as a trebling of actual damages).

³⁵529 F. Supp.2d 1215 (D. Or. 2007).

Without a direct history from the contesting parties, an economic expert may derive a license benchmark by considering comparable transactions that involve third-party licensors, as depicted below by an expert for a comprehensive sample in 2015.³⁶



This yet can be a difficult proposition. It is not proper simply to choose from the above table or any public database³⁷ 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

³⁶R. Parr, Royalty Rates for Trademarks & Copyrights - Fifth Edition, 2015, at <https://techtransfercentral.com/wp-content/uploads/2009/01/Royalty-Rates-for-Trademarks-and-Copyrights-5th-Edition-TOC.pdf>

³⁷ E.g., Business Valuation Resources kMINE, Royalty Connection, RoyaltySource, RoyaltyStat, LLC, Royalty Range European Royalty database.

licenses of other “comparable” patents not in suit.³⁸ 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.

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:³⁹ preventing wrongful gain⁴⁰ and deterring future infringement.⁴¹ When parties are competitors and plaintiff could have demonstrably made the same sales, the court may disgorge profits to approximate plaintiff losses.⁴²

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

³⁹George 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).

⁴⁰Hamilton-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 (11th Cir. 1983).

⁴¹Playboy 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).

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

Plaintiffs may recover both actual damages and defendant profits, but it is necessary here to make separate pleas in law and equity to cover each.⁴³ Moreover, it is not necessary for a plaintiff to demonstrate actual damages in law in order to recover a disgorgement in equity.⁴⁴ Unlike recovery of actual damages covered by law, a party in equity alone has no right to a trial by jury on the matter of profit accounting for disgorgement,⁴⁵ unless defendant profits are a reasonable surrogate for actual damages and thus recoupable in law.⁴⁶

Two Supreme Court precedents are important here regarding the equitable resolution of disgorgement that implicates confusion and willfulness. First, it is *not necessary* to demonstrate actual confusion for items *bearing an infringing mark*; disgorgement of defendant profits from mark-bearing items is designed to preserve equity and deter infringement where confusion is presumptive.⁴⁷ Second, the Supreme Court ruled in *Romag*

⁴³*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).

⁴⁴*Web Printing Controls Co., Inc. v. Oxy-Dry Corp.* 906 F. 2d 1202, 1205 (7th Cir. 1990). (“These remedies flow not from the plaintiff’s proof of its injury or damage, but from its proof of the defendants’ unjust enrichment or the need for deterrence.”) However, the Second Circuit demurred somewhat in 1944; some evidence of actual confusion was needed to recover profits in *T. H. Mumm Champagne v. Easter Wine Corporation*, 142 F. 2d 499, 501 (C.C.A. 2d Cir. 1944)

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

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

⁴⁷*Mishawaka* infra note 63. 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].” However, see [*Maier Brewing Co. v. Fleischmann Distilling Corp.*, 390 F.2d 117, 120 \(9th Cir.\)](#), cert. denied, 391 U.S. 966, 88 S.Ct. 2037, 20 L.Ed.2d 879 (1968). “The equitable

in April, 2020 that it is generally *not necessary* to demonstrate *willful intent or some comparable act of fraud or palming off*; a district court now may consider intent as a matter of equity among offsetting factors.⁴⁸ While many sections of the Lanham Act expressly included *mens rea* standards, (e.g., Sections 35(a) in 15 U.S.C. 117), the Supreme Court held that the Lanham Act included no such specified standard regarding intent with respect to profit awards (re Section 43(a)).

Three additional Circuit Court decisions relate to willful intent:

1. A demonstrated *willfulness* is not always *sufficient* to justify disgorgement; *weakness of mark* is a mitigating factor.⁴⁹
2. If infringement is willful, *some financial remedy is necessary* regardless of mitigating circumstances.⁵⁰
3. *Disgorgement* is possible *as a remedy in law* when plaintiff can prove that some share of defendant profits is a reasonable measure of actual damages.⁵¹

limitation upon the granting 1405*1405 of monetary awards ... would seem to make it clear that such a remedy should not be granted as a matter of right." See also [Burger King Corp. v. Mason, 855 F.2d 779, 780 \(11th Cir.1988\)](#).

⁴⁸Romag Fasteners, Inc. v. Fossil Group, Inc., No. 18-1233,[1] 590 U.S. ____ (2020). The court vacated and remanded a Federal Circuit decision from 2019.

⁴⁹Lindy Pen infra note 54.

⁵⁰Playboy, supra note 41.

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

Attorney Jonah Knobler points out that Section 1125(a), which was the basis for *Romag's* cause of action for trademark infringement, also contains the Lanham Act's prohibition on false advertising. "Consequently, the inference that the court drew from the statutory text should apply equally to false advertising claims."⁵² That is, it is not necessary to prove willfulness to demonstrate infringement and remedy in false advertising.

6. PLAINTIFF BURDEN

While plaintiff alone must prove actual damages, both plaintiff and defendant bear evidentiary burdens when profit disgorgement is at issue.⁵³ Plaintiff must first prove defendant revenues related to infringement, while defendant must then prove offsetting costs and a means for apportioning the value of non-infringing elements. Plaintiff may yet prove revenues through actual receipts, income tax statements, annual reports, statements, or other indirect methods of proof.

⁵² How SCOTUS' Trademark Profits Ruling in *Romag* Bears On False Advertising Cases. By Jonah M. Knobler, on May 5, 2020. <https://www.pbwt.com/misbranded/how-scotus-trademark-profits-ruling-in-romag-bears-on-false-advertising-cases/>

⁵³*Story Parchment Co. v. Paterson Parchment Paper Co.*, 282 U.S. 555, 563, 51 S. Ct. 248, 250, 75 L. Ed. 544 (1931)) ("[I]t will be enough if the evidence show [sic] the extent of the damages as a matter of just and reasonable inference, although the result be only approximate."); *Louis Vuitton, S.A. v. Spencer Handbags Corp.*, 765 F.2d 966, 973 (2d Cir. 1985); *Deering Milliken & Co. v. Gilbert*, 269 F.2d 191, 193 (2d Cir.1959) ("[W]here ... the defendant controls the most satisfactory evidence of sales the plaintiff needs only establish a basis for a reasoned conclusion as to the extent of injury caused by the deliberate and wrongful infringement."). *Wesco Mfg. v. Tropical Attractions of Palm Beach, Inc.*, 833 F. 2d 1484, 1488 (11th Cir. 1987), (the defendant's tax return alone was sufficient proof of infringing sales, thus shifting the burden to the defendant to disprove numbers that it had provided to the plaintiff in discovery).

The plaintiff's revenue burden is straightforward if all defendant sales are infringing. 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*,⁵⁴ the defendant Bic used Lindy's trademarked slogan AUDITOR'S FINE POINT to market pens sold through a telephone mail order campaign. After prevailing on likelihood of confusion in the infringing market, plaintiff Lindy sought restitution of profits on all Bic Pens sold in the campaign, regardless of the presence of the infringing mark on the sold product. Recovery under the found presence of the infringing mark on the sold product itself implicates equitable consideration in *Mishawaka* (infra note 58)

The Ninth Circuit Court upheld the District Court. The Court found that Lindy had access through discovery to Bic's records from which it could have extracted revenues related to those units with infringing use of the mark. As Lindy had failed to isolate infringing sales from total pen sales, Lindy's calculations of defendant revenues contained items in which no confusion provably existed and no equitable consideration would justify disgorgement.⁵⁵ Without an appropriate breakout, the Court then declined to enforce Lindy's

⁵⁴*Lindy Pen Co., Inc. v. Bic Pen Co.*, 982 F.2d 1400, 1405-7 (9th Cir. 1993). . ("A plaintiff must prove both the fact and the amount of damage.", **citing** 2 J. Thomas McCarthy, Trademarks and Unfair Competition § 30:27, at 511 (2d ed. 1984). abrogated on other grounds by *SunEarth, Inc. v. SunEarth Solar Power Co.*, 839 F.3d 1179, 1181 (9th Cir. 2016) (en banc) (percuriam).

⁵⁵"Lindy failed to come forward with any evidence of sales of the Bic "Auditor's Fine Point" in the infringing market. Lindy instead brought forth proof of Bic's total sales. Lindy averred to the court that a division of Bic's sales into the telephone submarket "is impossible from Bic's records since Bic never separated its pens according to telephone sales...." To the contrary, Lindy had access through discovery to Bic's records from which a reasonable estimate could have been accomplished." Id.

sought revenue disgorgement and thus shut out the plaintiff's remedy claim entirely. As equitable concerns, the Court found Lindy's descriptive trademark to be weak and the infringement to be unintentional.

In the latter case of *Rolex v. Michel Company*,⁵⁶ Rolex sought recovery from Defendant who had repaired and resold trademarked Rolex watches along with two other non-infringing products. After the District Court allowed the Defendant to resell the marked watches with appropriate clarification, the Ninth Circuit disallowed reuse of the mark altogether and awarded attorneys' fees to Rolex. Nonetheless, the Circuit Court enforced *Lindy Pen* to uphold the District Court's rejection of disgorgement; Rolex had insufficiently met the Plaintiff's burden to identify what fraction of Defendant revenues actually carried the infringing marks.⁵⁷

The *Lindy* decision resurfaced yet again in 2012 when the District Court (C.D. Cal.) reviewed a remedy for false advertisement that implicated a burden to prove a causal connection from infringement to remedy.⁵⁸ The Court found that Plaintiff expert David Nolte

⁵⁶179 F. 3d 704, 712 (9th Cir. 1999)

⁵⁷*The district court denied Rolex's request for Michel's profits because it concluded that Rolex had not adequately demonstrated what portion of Michel's sales were attributable to altered "Rolex" watches. The district court based this conclusion on Michel's testimony in which he stated that he did not know whether the invoices offered by Rolex represented his sale of Rolex products or other watch brands and that even with those invoices that mentioned a Rolex product, it was not clear whether the product sold was simply a used Rolex watch or an altered 'Rolex' watch. It was Rolex's burden to show with reasonable certainty Michel's gross sales from counterfeit altered 'Rolex' watches.*" [Defendant *Id.*, at II.C, emphasis mine

⁵⁸*Out of the Box Enters., LLC v. El Paseo Jewelry Exch., Inc.*, Case No. EDCV 10-01858 VAP(DTBx) (C.D. Cal. Oct. 30, 2012)

established merely a correlation—but not a causal relationship—between El Paseo’s advertisements and a decline in plaintiff’s projected profits. The Court also faulted plaintiff’s disgorgement calculation; “Nolte assumed that all of El Paseo’s profits during the relevant period were due to its advertisements, without evidence to support that assumption.” That said, the record provided “no way to determine with any degree of certainty what award would be compensatory,” as found to be required by precedent.⁵⁹

7. CIRCUIT SPLIT AND SUPREME COURT RESOLUTION

The Seventh Circuit case of *WMG Gaming Inc. v. WPC Productions LLC* ended very differently.⁶⁰ The infringer 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 use of the offending mark.

The Circuit Court reversed, citing to the Supreme Court in *Hamilton-Brown Shoe Co. v. Wolf Bros. & Co.*⁶¹ 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

⁵⁹*TrafficSchool.com Inc LLC v. Edriver Inc.* CW, 653 F.3d at 831. (9th Cir. 2011)

⁶⁰542 F.3d 601 (7th Cir. 2008)

⁶¹*Hamilton-Brown Shoe* supra note 40.

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.”⁶²

Lindy and WMG Gaming appear to have established a circuit split. However, the Seventh Circuit reference to *Hamilton-Brown Shoe* may be misplaced. The issue in *Wolf v. Hamilton* actually involved apportionment of Hamilton’s infringing shoe sales that implicated Wolf’s fanciful mark (“American Girl”) that Hamilton modified (“American Lady”) on each of three products, two marks were commingled with further identification to Hamilton-Brown. Wolf’s sought profit recovery only included products bearing the infringing mark that was commingled on the product design.

The commingled mark would appear again before the Supreme Court in *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*⁶³ In a matter that involved a commingled use of a trademarked circular plug embedded in Kresge’s shoe heels, the Court cited *Hamilton*,

⁶²240 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.”)

⁶³*Mishawaka*, 316 U.S. 203, 206-07, 62 S.Ct. 1022, 1381 (1942) (“it promotes honesty and comports with experience to assume that the wrongdoer who makes profits from the sale of goods *bearing a mark* belonging to another was enabled to do so because he was drawing upon the good will generated by that mark.”)

“The burden is the infringer’s to prove that his infringement had no cash value in sales made by him. If he does not do so, the profits made on sales of goods *bearing the infringing mark properly* belong to the owner of the mark... There may well be a windfall to the trademark owner where it is impossible to isolate the profits which are attributable to the use of the infringing mark. But to hold otherwise would give the windfall to the wrongdoer.”⁶⁴

The Supreme Court vacated a more restrictive Circuit Court ruling that allowed disgorgement of profits only when where petitioner could prove a displacement of its own sales.

*While Hamilton, Mishawaka, and Nintendo of Am., Inc. v. Dragon Pac. Int’l.*⁶⁵ considered disgorgement with commingled trademarks on consumer products, the Seventh Circuit went further to allow WMG to disgorge revenues from WPC’s one infringing product and other WPC products in its Annual Report that *had no offending marks whatsoever*. This interpretation of the law seems very questionable. Per *Mishawaka*, “the plaintiff of course is not entitled to profits demonstrably not attributable to the unlawful use of his mark.” [citing *Straus v. Notaseme Hosiery* 240 U.S. 179, 183 (1916),⁶⁶ this wording would apparently hold even if the remaining infringing sales led to irreparable harm. There is then is no clear

⁶⁴Id.

⁶⁵40 F. 3d 1007, 1012 (9th Cir. 1994). “[W]here infringing and noninfringing *elements of a work cannot be readily separated*, all of a defendant’s profits should be awarded to a plaintiff.” [emphases mine]

⁶⁶Cf. *Straus v. Notaseme Hosiery Co.*, [240 U.S. 179, 183](#) (1916), 36 S.Ct. 288, 289, 60 L.Ed. 590; compare *Sheldon v. Metro-Goldwyn Pictures Corp.*, [309 U.S. 390, 60](#) S.Ct. 681, 84 L.Ed. 825; *Westinghouse Electric & Mfg. Co. v. Wagner Electric & Mfg. Co.*, [225 U.S. 604, 32](#) S.Ct. 691, 56 L.Ed. 1222, 41 L.R.A., N.S., 653.

precedent or economic reasoning that would allow the defendant to disgorge profits from any non-infringing product that had no offending marks and no demonstrated means of causing confusion.

If my reading of *Lindy*, *Rolex*, and *Out of the Box* is correct, attorneys and experts face a critical distinction between the implications of likely and actual confusion, and their respective determination of injunction and remediation. After plaintiff proves some likelihood of confusion to justify an injunction on use of the mark; it would furthermore be improper to conclude that which buyers of defendant products had made a wrong purchase, and which were actually confused. However, the presence of the mark on the product itself would be presumptive evidence for confusion on every sale, unless proven otherwise.

This presumption of confusion is not true for advertising, adwords, hashtags, or other tactics for raising initial interest in a product (infra Section 8). For example, a dishonest Toyota dealer website/billboard could improperly use the fanciful word Sentra (as in Nissan Sentra) to create likely confusion, attract some unsuspecting visits, and wind up selling some other models for the trouble. It would be quite difficult to prove what percentage of eventual visitors or buyers on the lot had actually come to first view the infringing mark in the advertisement. Surveys are circumstantial evidence in an experimental situation of actual confusion and do not represent “real consumers making mistaken purchases.” McCarthy, *supra* note 1. Isolated incidents of actual confusion do not demonstrate a pattern of confusion. *A&H Sportswear*, *supra* note 2.

My proffered interpretation of remediation would relate trademark remedy with comparable matters that involve copyright infringements in sales and advertising – upon which I have written previously⁶⁷ If a reproduction of a work appears as a complete or commingled element of a larger product, the owner may recover damages and profits related directly to the sale of the infringing contribution.⁶⁸ Plaintiff must prove gross revenues related to infringing sales, while defendant must prove offsetting costs and apportionment for non-infringing value. However, when the infringed work appears in the advertising or promotion but not on the actual product sold, the plaintiff must first be prepared to prove a causal connection from infringement to an actual sale. Two different infringed copyright owners were here denied an accounting in *Estate of Vane v. The Fair* (5th Cir. 1985)⁶⁹ and *On Davis v. The Gap* (2d Cir. 2001).⁷⁰ Similarly, plaintiff’s sought accounting for a digital

⁶⁷M. A. Einhorn, Copyright, Causality, and the Courts, **JOURNAL OF THE COPYRIGHT SOCIETY**, Winter, 2015.

⁶⁸*Harper & Row v. Nation Enterprises*, 471 U.S. 539, 105 S. Ct. 2218, 85 L. Ed. 2d 588 (1985). The matter involved an unauthorized taking (three hundred words) of Gerald Ford’s book on Watergate that was lifted verbatim by Nation Magazine for an article on Ford’s pardon of Richard Nixon. An “infringer who commingles infringing and noninfringing elements must abide the consequences unless it can make a separation of the profits so as to assure to the injured party all that justly belongs to him.” At 576 (quoting *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 406, 60, S. Ct. 681, 84 L. Ed. 825 (1940))

⁶⁹849 F. 2d 186 (5th Cir. 1985). A Texas retail store, The Fair, used the plaintiff’s photographic slides of store merchandise as part of several dozen television commercials that featured a sequenced photographic display of items on sale in the store. The court ruled that the proper causal test could implicate only the proven connection between the defendant’s particular merchandise sales and those Vane photographs that were elements of the commercial sequence, and not the entire advertising campaign.

⁷⁰246 F. 2d 152 (2d Cir. 2001). Designer plaintiff On Davis sought to recover all cash register earnings (\$1.7 billion) from the clothing chain The Gap after the chain ran public advertisements with an actor dressed in ornamental eyeglasses designed by Davis. After a lower court found that defendant revenues bore no reasonable relation to the infringement itself, the Circuit Court upheld; “gross revenue under the statute means

infringement was shut out in the Northern District of California in *Thale v. Apple, Inc* (N. Cal. 2013).⁷¹

8. DEFENDANT BURDEN

Once plaintiff proves defendant sales, the defendant must prove deductible expenses and the deductible worth of non-infringing factors that contributed to the sale of any infringing good where actual confusion is proven. 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). 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.

There are three possible methods for estimating cost deductions (in order of increasing inclusiveness) of likely dollar amount:⁷²

gross revenue reasonably related to the infringement, not unrelated items.” The Circuit Court did allow Davis to recover – per 15 U.S.C. 504(b) -- actual damages equal to the lost licensing revenues of \$50 that represented a fair market value that Davis would have earned for a license.

⁷¹(C-11-03778, N.D. Cal, 2013). Plaintiff Taea Thale sued Apple after it used one of her online photographs in a television commercial for its new iPhone. The plaintiff established that Apple disregarded the license posted along with her photo, was enthusiastic about the commercial importance of the picture, and used the infringed image as the central visual focus for five seconds of a thirty second television commercial. The Court nonetheless denied recovery of profits because the plaintiff yet failed to prove that her specific photograph generated sales of the iPhone for a period of time reasonably related to the limited airing (two weeks) of the commercial.

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.⁷³

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 infringing item.

3. *Fully allocated cost method* adds apportionments of general overhead costs, often per the rules of *generally accepted accounting principles*, which are the standards of the accounting profession. It should be pointed out the GAAP standards have no accepted special standing in court and other valuation means can be applied.⁷⁴

⁷²How to Measure Trademark Infringement Damages – The Importance of Appropriate Calculation, A. A. Schachter, https://www.citrincooperman.com/getattachment/5cb5471c-8e38-4b0a-94b6-1adad197cda8/263_NYLJBranded_MeasureTrademarkInfringement.pdf.aspx, (retrieved August 28, 2016).

⁷³Restatement Third, Unfair Competition, # 37, Comment g (1995).

⁷⁴*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.”)

4. 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.

Consistent with the general burden of evidence of apportionment in trademark law, the Supreme Court ruled in *Mishawaka* that

“the burden is the infringer’s to prove that his infringement had [diminished] cash value in sales made by him. If he does not do so, the profits made on sales of goods bearing the infringing mark properly belong to the owner of the mark... There may well be a windfall to the trademark owner where it is impossible to isolate the profits which are attributable to the use of the infringing mark. But to hold otherwise would give the windfall to the wrongdoer.”⁷⁵

As a means for discouraging infringement, some courts have entirely disallowed defendants to attempt to apportion.⁷⁶ If allowed, apportionment techniques appear generally to be matters of equity, and can 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.⁷⁷ Nor would a defendant

⁷⁵*Mishawaka*, supra note 58

⁷⁶*Wynn Oil Co. v. American Way Serv. Corp.*, 943 F. 2d 595 (6th Cir. 1991); *Truck Equipment Service Co. v. Fruehauf Corp.* 536 F.2d 1210 (8th Cir. 1976), cert. denied, 429 U.S. 861 (1976); *Stuart v. Collins*, 489 F. Supp. 827 (S.D.N.Y. 1980).

⁷⁷*Wolfe v. National Lead Co.*, 272 F. 2d 867 (9th Cir. 1959), cert. denied, 362 U.S. 950 (1960). *See also Jones Apparel Group, Inc. v. Steinman*, 466 F. Supp. 560 (E.D. Pa. 1979).

chain of e.g., thirteen restaurants (Burger King) allowed to offset profits on six by losses on the other seven.⁷⁸

9. FALSE ADVERTISING AND HASHTAGS

Competitors have remedies in the Lanham Act when they are injured by false advertising that may result from misrepresentations that extend beyond basic trademark infringement in the consumer product itself.⁷⁹ While the Lanham Act is intended to protect consumers, infringed competitors may serve as an enforcement mechanism against deceptive practices.⁸⁰

Plaintiff rights were unified under the Uniform Deceptive Trade Practices Act (UDTA) of 1964, which sought to unify the federal and state law of unfair competition to protect consumers from misleading business practices such as false advertising, trademark

⁷⁸Burger King Corp. v. Mason, 855 F. 2d 779 (11th Cir., 1988).

⁷⁹ Under the Lanham Act (15 U.S.C 43(a)), plaintiff bears the burden to prove .

1. A false statement of fact has been made about the advertiser's own or another's goods or services;
2. The statement either deceives or has the potential to deceive a substantial portion of its targeted audience;
3. The deception is likely to affect the purchasing decision of its audience;
4. The advertising involves goods or services in interstate commerce; and
5. The deception has resulted in injury to the plaintiff or is likely to result in injury to the plaintiff. The injury is calculated as the amount of money the plaintiff paid for the falsely advertised goods or services

⁸⁰ POM Wonderful LLC v. Coca Cola. 573 U.S. 102 (2014) "Competitors who manufacturer or distribute products have detailed knowledge regarding how consumers rely upon certain sales and marketing strategies. Their awareness of unfair competition practices may be far more immediate and accurate than that of agency rulemakers and regulators."

infringement, misrepresentation, and false disparagement.⁸¹ The federal act now provides injunctive relief, while state remedies may include injunctive relief, corrective advertising,⁸² and actual damages. While damage recovery is allowable in law, equitable disgorgement of defendant profits is not a statutory provision for false advertising. However, plaintiffs may yet recover defendant profits if related to trademark infringement as a consideration.

To recover damages from false advertising, Plaintiff must prove outright falsehood, actual deception, or use of advertising in bad faith. Recoverable damages may include diverted sales, price erosion, corrective advertisements, and harms that cannot be undone through corrective advertising. Proof may then involve a direct comparison of marks and product traits or information obtained through a consumer survey;⁸³ “a [survey] control should share as many characteristics with the experimental stimulus as possible, with the key exception of the characteristic whose influence is being assessed.” (internal quotation marks and citation omitted)⁸⁴ After proving likely confusion, experts may yet find remediable

⁸¹Uniform Deceptive Trade Practices Act, Uniform Law Commission Archives, Tarlton Law Library, The University of Texas at Austin.

⁸²The court can order the defendant to run advertisements that correct the misleading information, or award the plaintiff monetary damages so the plaintiff can run its own counter the false advertising.

⁸³For a thorough review, see S.S. Diamond and D. J. Franklyn, Trademark Surveys: An Undulating Path. 92, TEX L. REV. 2029 (2014). See also Beebe, op.cit., Robert C. Bird and Joel H. Steckel, The Role of Consumer Surveys in Trademark Infringement: Empirical Evidence from the Federal Courts, 14 J. BUS. L. 1013 (2012). D. Sarel and H. Marmorstein The Effect of Consumer Surveys and Actual Confusion Evidence in Trademark Litigation: An Empirical Assessment, 99 TRADEMARK REP. 1416 (2009)

⁸⁴Thoip (a Chorion Ltd. Co.) v. the Walt Disney Co., 788 F. Supp. 2d 168, 99 U.S.P.Q.2d (BNA) 1323 (S.D.N.Y. 2011)

damages or infringer sales difficult to enumerate (supra); some fraction of the defendant's sales may be unrelated to any confusing event.⁸⁵

The unauthorized use of a competitor's trademark in a hashtag⁸⁶ can be viewed as an infringement possibly subject to injunction. A business can promote product awareness by including a rival's name in message hashtags sent out to readers on its social media platform. Retrieved messages in the linked conversations be complimentary, derogatory, or neither, but generally reflect buyer opinion learnable through wider awareness and comments enabled through likes, shares, and new followers.

A trademark owner may sometimes claim that an infringed hashtag may lead buyers to confusion regarding the source or origin of an infringer's products. In this regard, the District Court of Massachusetts in *Eksouzian v. Albanese*⁸⁷ ruled in a specific application that "hashtags are merely descriptive devices, not trademarks."⁸⁸ However, the *Eksouzian*

⁸⁵Unrelated viewers would include knowledgeable or pre-existing buyers, wholesale purchasers, commercial distributors, or professionals. Complicating factors on the trajectory of defendant revenues include word-of-mouth, formative relationships, product innovation, professional advice, divergent sales channels, and in-store experiences. These factors tend to weaken the determined strict link between found confusion in a survey and damages.

⁸⁶ "A 'hashtag' is a form of metadata comprised of a word or phrase prefixed with the symbol '#' (e.g., #chicago, #sewing, and #supremecourtdecisions)." (TRADEMARK MANUAL OF EXAMINING PROCEDURE, ¶ 1202.18 (Wolters Kluwer eds., 2014), 2014 WL 5799282.) A hashtag is a word entered in a social media message (e.g., Twitter) by a pound symbol (#), also called an octothorpe. By clicking on a hashtag in a message, a reader can reach other posted content that contains the same hashtag. Businesses can promote product awareness by including hashtags in messages sent out to readers on the social media platform.

⁸⁷No. CV 13-00728-PSG-MAN, 2015 WL 4220478 (C.D. Cal. Aug. 7, 2015),

ruling was not general, as the unauthorized use of a found trademark in a defendant's hashtag yet was found to be infringing -- and possibly beyond fair use protection -- when combined with other words,⁸⁹ images,⁹⁰ and false sponsorship⁹¹ that could implicate an association or endorsement beyond necessary. The plaintiffs in each later case (notes 89-91) proved likelihood of confusion and received an injunction against further use. However, as with false advertising,⁹² it would be inappropriate in a hashtag infringement to assume a causal connection involving the infringement and either actual damages or defendant profits,

⁸⁸*Eksouzian*, 2015 WL 4220478 at * 8. Even if the contested hashtag (*#cloudpen*) included another's registered mark (*cloudpen*), the hashtag use of a weaker trademark is not infringing if it does not implicate the source of any trademarked good. Rather, the hashtag use may be a "merely a functional tool" that directs consumers to a particular promotion. se also *AOP Ventures, Inc. v. Steam Distribution, LLC*, No. EDCV151586VAPKKX, 2016 WL 7336730, at *13 (C.D. Cal. Oct. 11, 2016)

⁸⁹*Public Impact LLC v. Boston Consulting Group*. 169 F. Supp. 3d 278 (D. Mass. 2016) BCG's combined use of username "@4Publicimpact" and hashtag #publicimpact infringed the marks of PUBLIC IMPACT, a competitor in education services. By attaching both the username and hashtag to every Twitter post, BCG so implicated PUBLIC IMPACT as a source or affiliate. The Court found that it was likely that "even a sophisticated consumer could be confused," and therefore granted injunctive relief.

⁹⁰*Chanel, Inc. v. WGACA, LLC* 18 Civ. 2253 (LLS) (S.D.N.Y. Sep. 14, 2018) Chanel asserted claims of false advertising or endorsement, trademark infringement, and unfair competition against What Goes Around Comes Around (WGACA), a reseller of repaired accessories. WGACA had included on its social media pages photos of Chanel products with hashtag #WGACACHANEL. The repeated combined use of Chanel's name and image improperly suggested sponsorship or endorsement.

⁹¹*Align Technology, Inc. v. Strauss Diamond Instruments, Inc.* 2019 WL 1586776 (N.D. Cal. April 12, 2019). Defendant stated within nominative fair use that its silicon sleeve product (MagicSleeve) was compatible with plaintiff's trademarked leading iTero scanners. (*New Kids on the Block*, supra note 13). Nonetheless, Strauss used the materials improperly to promote and describe its MagicSleeve and to imply a commercial association that did not exist.

⁹²Supra note 79 and surrounding text.

unless dollars of claimed remedy may be causally related to the infringement through actual confusion.

10. SUMMARY

A few summary points to take away

1. Economic experts may calculate actual damages, defendant profits to be disgorged, or both, as specified in the Lanham Act.
2. As a matter of law, the award of actual damages requires a showing of a causal connection between infringement and plaintiff harm, and not a mere likelihood of confusion
3. 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.
4. As a matter of equity, the award of disgorgement may require a showing of a causal connection to infringement,
5. The use of the mark on the infringing product is a presumptive basis to prove an equitable basis for disgorgement. Defendant bears the burden to provide a means of apportioning the relative value of infringing and non-infringing uses.

6. There is no presumptive proof of causality for any type of financial remedy in advertisements and messages that use an infringing trademark not embedded in the retail product or service. A more positive demonstration of actual confusion is necessary.

ABOUT THE AUTHOR

Michael A. Einhorn (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 trademark remedies have included Juul Labs, 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 Zooey Deschanel, Arnold Schwarzenegger, Rosa Parks, Diane Keaton, Michelle Pfeiffer, Yogi Berra, Melina Kanakaredes, Woody Allen, and Sandra Bullock.

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