

Trademark Monetary Remedies

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Keepers of Your Big Idea.

“Damages” and “Profits” – Terms of Art

Two modes of monetary relief in trademark cases

- “Damages” – at law
- “Profits” (accounting of wrongful profits) – in equity
- Meaning of both terms – “damages” and “profits” is a source of confusion

Case law on entitlement to either varies

- According to which form of relief
- According to the circuit
- According to (unclear) principles
- According to use of words (what is “damages”?)

Purposes of Monetary Remedy Provisions

Purposes

- Protect the public against the likelihood of confusion
- Protect the trademark owner from injury, provided remedy for losses
- Make infringement unprofitable to deter infringement

Modes of monetary remedies

- Damages at law – to compensate for loss; not deter
- Wrongful Profits (equitable, disgorgement) – to make infringement unprofitable and to deter

Criticism of the Current Scheme

- “A confusing melange of common law and equity principles”
- “Hodgepodge and confusion in judge-made rules of [monetary] recovery”
- “Schizophrenic” interpretations and circuit conflicts
- Case law that “find[s] little statutory guidance in the Lanham Act”
- “Sometimes...misguided...by analogies to patent and copyright law”
- “[T]he structure of the Lanham Act’s remedial provisions [is] confusing”
- Under current statutory scheme and case law:
 - Often, no damages or profits awarded
 - Confusion compounded by “only compensation, not penalty” limitation on enhanced damages or profits awards
 - Result: real injury without a remedy and no deterrent
- Bottom line: Don’t expect clear answers today.

15 U.S.C. § 1117: Profits, Damages, Costs

Violation of “any right of the registrant” or violation under section 1125(a) or (d) “or a willful violation under section 1125(c)”: plaintiff “shall be entitled...to recover”:

- “defendant’s profits”
- “any damages sustained by the plaintiff, and”
- “the costs of the action.”

Subject to “the principles of equity”

In assessing “profits” the plaintiff shall be required to prove the defendant’s sales only; defendant’s burden on costs.

15 U.S.C. § 1117: Adding and Subtracting

- “In assessing *damages*, “the court may enter judgment . . . For any sum above the amount found as actual damages, not exceeding three times such amount.”
- If the court finds the recovery “based on *profit*” is either “inadequate or excessive the court may in its discretion enter judgment” for a sum it deems just.
- “Such sum in either of the above circumstances shall constitute compensation” and not a penalty.

“Damages” at Law (not “Profits”)

Proof of actual confusion -- required?

- *Likely confusion* enough for liability (e.g., for injunctive relief), but not necessarily for damages
- For damages, must be actual injury
- Can there be actual injury without actual confusion?
Most courts: no.

Requirement of willful or intentional infringement?

However, “subject to principles of equity” – courts have interpreted differently

Damages – Proof of Actual Confusion?

Commentators:

Most say case law requires actual confusion to prove causation of injury for damages

- 1st, 2nd, 3rd, 4th, 6th, 7th, 8th, 10th, 11th, Federal Circuits
- 5th and 9th Circuits not as strict
 - 9th Cir (*Lindy Pen*): “totality of circumstances”

Damages – Proof of Actual Confusion?

Payne paper: *Actual Confusion and Trademark Damages: Through the Looking Glass* (AIPLA, 2013)

- Not as “clear” as common wisdom suggests
- Difference between stated words in opinion and holding/confused reasoning
 - 3rd Cir (*Video Pipeline* says not required)
 - 9th Cir (*Lindy Pen* cited wrongful profits cases for rationale)
 - 8th Cir (*Masters* discussed actual confusion re disgorgement)
 - 5th Cir (*Taco Cabana* dicta on actual confusion; not addressed; actual confusion found in record)
 - 11th Cir (*Aronowitz* actual confusion found in record and issue not addressed)

Damages at Law – Willfulness Required?

Majority view: damages for plaintiff's actual confusion, awardable without proof of willful infringement

- *See, e.g., Restatement Third, Unfair Competition § 36 comment j (1995)*

Some other courts: proof of willful infringement permits rebuttable presumption of actual confusion, sufficient to support award of damages (def's willfulness = plf's confusion)

“Profits” – Defendant’s Wrongful Profits

- Plaintiff’s lost profits (form of damages) vs. defendant’s wrongful profits (equitable accounting/disgorgement)
- “[T]he plaintiff *shall be entitled*, subject to ...the principles of equity, *to recover (1) defendant’s profits ...*.” 15 U.S.C. § 1117(a).”
- Issue: “entitled” to award of profits?
- Issue: actual confusion required?
- Issue: willfulness required?

Actual Confusion and Wrongful Profits

Proof of actual confusion (damages)

Proof of actual confusion (wrongful profits) – not required

Rationale

- Not focused on plaintiff's *injury* and causation of injury
- Equitable remedy
- To prevent unjust enrichment, however it developed
- To deter infringing conduct

Willfulness – Wrongful Profits

Required for an accounting:

- First, Second, Sixth, Eighth, Tenth, Eleventh, and DC Circuits

Merely factor to be considered for an accounting:

- Third, Fourth, and Fifth Circuits

Pebble Beach Co. v. Tour 18 I, Ltd. factors:

- intent to confuse or deceive
- whether sales have been diverted
- adequacy of other remedies
- unreasonable delay by plaintiff
- public interest to make infringement unprofitable
- palming off

Calculation of Profits

Plaintiff required only to prove defendant's sales; defendant has burden to prove costs

Revenues included:

- Total net revenues on all products sold under the infringing mark?
- Limited to portion attributable to use of the infringing mark?

Costs to be deducted

- All costs involved in production and sale (including allocations of fixed and indirect costs)?
- Limited to variable costs directly incurred in production and sale?

AIPLA Board's Resolutions re Lanham Act

Three resolutions

- Monetary remedies
- Enhanced damages and attorneys' fees
- Injunctive relief

Monetary remedies:

- upon finding infringement, court “should award monetary relief”
- measured by:
 - infringer's unjust enrichment profits “attributable to the infringement,”
 - owner's actual damages including lost profits and effect on goodwill and reputation (factors: position of parties, actual confusion, conduct of infringer)
- “but in no event shall the mark owner be entitled to less than a reasonable royalty for the infringement.”

Enhanced Damages -- Statute

15 U.S.C. §1117(a):

“In assessing damages the court may enter judgment, *according to the circumstances of the case*, for any sum above the amount found as actual damages, *not exceeding three times such amount.*”

“If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. *Such sum* in either of the above circumstances *shall constitute compensation and not a penalty.*”

Enhanced Damages: Inconsistencies

Courts agree:

- Basis must be specifically explained
- Not punitive; not as a “penalty”

Courts disagree:

- Willfulness required?
- Compensation vs. deterrence
- Factors to be applied

Willfulness Required?

No:

- 9th Cir. (compensation only; willfulness not considered)
- Dist Ct (DC)
- Dist Ct (ND Tex) (not based on willfulness alone, “without proof that damages are not completely compensatory.”)

Yes, or “Yes, Probably”:

- Dist Ct (SD Cal, SD Ohio) (require allegation of willfulness)
- Dist Ct (CD Cal) (*requires* treble damages where D acts willfully)
- Dist Ct (SD Fla, ND Cal) (enhanced damages appropriate if D has acted willfully and damages are not punitive – what if defendant did not act willfully?)
- CAFC (D can avoid enhanced damages with “meritorious good faith defense and substantial challenge to infringement”)

Compensation vs. Penalty

Enhanced damages “shall constitute compensation and not a penalty”

- 9th Cir., Dist Ct (DC, ND Tex) -- Only awarded if necessary to compensate plaintiff for value of harm (e.g. damages difficult to calculate)
- 5th Cir., Dist Ct (ND Fla) -- Enhanced damages allowed where the monetary damages did not fully compensate P and D intentionally infringed upon P’s trademark (not clear if allowable without willfulness)

Detering future infringement (rather than compensation focus?)

- Dist Ct (SDNY, 2d Cir) -- required stmt that purpose is compensatory
- Dist Ct (ED Va) -- No stmt that compensatory; deterrence enough

Different Factors for Enhanced Damages

- Whether the defendant had the intent to confuse or deceive
- Whether sales have been diverted
- The adequacy of other remedies
- Any unreasonable delay by the plaintiff in asserting his rights
- The public interest in making the misconduct unprofitable;
- Whether it is a case of palming off

Speaker Biography -- Robert Payne

- Partner, LaRiviere, Grubman & Payne, LLP (Monterey, CA) -- patent and trademark litigation
- Chair, AIPLA Trademark Remedies Study Group (2012-2013)
- Chair, AIPLA Patent Litigation Committee (2009-2011)
- Chair of Executive Committee , California Bar Intellectual Property Section (2002-2003)
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Thank You

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