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How to Measure Trademark Infringement Damages - The Importance of Appropriate Calculation

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A trademark is any word, name, emblem, logo, insignia, or any combination thereof that a business uses to distinguish its goods and services from those of others.

McDonald's®, Facebook®, Xerox®, Burger King®, and Chevrolet® are all examples of trademarks. Trademark law also extends to domain names.

Trademarks are given legal protection federally under The Lanham Act [15 USC 1114-118] and by various state trademark registration acts. Under federal law, the administration of trademark registration and approval is conducted by the United States Patent and Trademark Office ("USPTO"). USPTO attorneys review and screen federal trademark applications for registration. Certain immoral, scandalous, deceptive, or merely descriptive marks cannot be registered. The USPTO attorneys will determine by review of prior registered marks, whether the applicants proposed mark or trade dress will cause confusion or mistake. If the mark is approved, such approval will be published in a federal government publication, the Official Gazette.

The purpose of trademark law is to avoid customer confusion and deception, and to protect a firm's investment in their reputation and goodwill. Priority is given to the first user to register the mark, regardless of the date of first use. Trademarks are generally protected for an unlimited time period, provided they meet re-registration requirements (10 years for federal re-registration) and the mark remains in continuous use. The mark must also be affixed to the goods in question.

Infringement Damages

In a typical trademark litigation, counsel for the trademark owner ("owner"), will attempt to seek an injunction. In order to be successful, counsel must convince the court that the alleged infringing mark will likely cause confusion. However, in order to prove economic damages, counsel must prove that actual confusion existed.

The Lanham Act and related case law provides for several measures of damages:

- ❖ Owner's lost profits
- ❖ Disgorgement of infringer's profits
- ❖ Reasonable royalty
- ❖ Corrective advertising
- ❖ Augmented punitive damages
- ❖ Statutory damages
- ❖ Legal fees

Owner's Lost Profits

An owner claiming lost profits based on lost sales must demonstrate that the infringer's wrongful acts caused the loss. In proving these cases certain factors must be considered, including, sales trends before and after the infringement; budget to actual expense analyses; market share analyses; as well as, the owner's operational and financial capacity to produce the alleged infringing goods without the acquisition of additional plant, equipment, and personnel.

Disgorgement of Infringers Profits

The Lanham Act provides for the award of infringer's profits that he would not have earned, but for the infringing wrongful acts. Such awards are generally understood to account for the unjust enrichment of the infringer.

The owner is only required to prove the infringer's sales. The infringer is required to prove the appropriate expense deductions related to those sales. The most controversial issue in determining disgorgement of the infringer's profits is the determination of the appropriate expense deductions applicable to the alleged infringing sales. There are a number of competing methods for computing the infringer's expense deductions:

Differential cost method: Sometimes referred to as the incremental approach which includes only the specific costs that would not otherwise be incurred but for the production of the infringing goods. Fixed costs such as rent for manufacturing facilities would not be deducted. Only variable costs such as raw materials and labor that are actually directly utilized in the manufacturing of the infringing product would be allowed.



The direct assistance method: Is a variant of the differential cost method. Under the direct assistance method cost that directly assisted in the production of the infringing goods are also allowed. Under this method, certain elements of overhead and general administration are permitted as deductions.

Fully allocated cost method: Sometimes referred to as the full absorption approach, is the most beneficial to the infringer. Under this method, all expense items properly allocated under generally accepted accounting principles related to the production of the infringing goods are allowed.

After determining the infringer's profit under one of the three aforementioned methods, the infringer is permitted to apportion that profit to other assets that have contributed to profitability, but are not related to the infringement, such as other intellectual property, business reputation, and the cost of capital. To avoid a duplicate award, the unit sales utilized in the determination of the infringer's profit cannot be used when calculating lost profits of the owner.

Reasonable Royalty

In the case where the plaintiff has minimal lost profits, and the infringer's profits also result in a minimal amount, the courts have discretion to award the owner a reasonable royalty based upon market transactions. One must be extremely careful in reading royalty agreements to make sure that they are comparable and relevant to the owner's products.

Corrective Advertising

In addition to damages stated above, the owner can also be awarded damages in the form of corrective advertising in order to compensate and assist in the reversal of any negative associations resulting from the alleged infringing actions.

Augmented Punitive Damages

The Lanham Act gives the court discretion to increase damages under certain circumstances. *"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 the amount. If the court shall find the recovery based on profits is either inadequate or excessive, the court in its discretion enters judgment for such sum as the court shall find to be just according to the circumstances of the case."* This provision provides the court with substantial discretion in awarding monetary damages. It is therefore essential to be aware of the relevant case law in the circuit in which the case is being tried.

Statutory Damages

Statutory damages are only provided in cases involving the use of counterfeit marks. The court has discretion to award the owner not less than a \$1,000 per mark, but no more than \$200,000 per mark, per type of goods or services sold, offered, or distributed. When the court deems that the use of the counterfeit mark is willful, the \$200,000 ceiling per mark is raised to \$2 million dollars. An owner may elect to recover statutory damages at any time before judgment is rendered by the court.

Legal Fees

Legal fees can be awarded to the prevailing party in exceptional circumstances. These circumstances exist when the prevailing parties' claims are groundless, unreasonable, or pursued in bad faith.

The analysis of trademarks and related infringement damages is an intriguing and complex area of the law and requires the expertise of skilled financial professionals to assist counsel in calculating the appropriate amount of damages under varying scenarios. Calculating these damages appropriately can make an enormous difference to the value and profits of a firm's.

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