

ECONOMIC DAMAGES FRAMEWORK FOR TRADEMARK INFRINGEMENT

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INTRODUCTION

The determination of the economic damages in trademark infringement disputes does not benefit from the same type of professional guidance that is found in the landmark patent infringement case decisions. In the patent infringement area, lost profits and reasonable royalty damages guidelines set by *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.* and *Georgia Pacific Corp. v. U.S. Plywood* have withstood the test of time.^{1,2}

The framework of these patent infringement judicial decisions is consistent with generally accepted economic decision analysis. These judicial decisions also make sound business sense with regard to estimating economic damages related to patent infringement. Further, when following the analytical framework established by these cases, the damages analyst is typically prepared to meet any potential challenges to expert report/expert testimony admissibility.

The above-mentioned judicial decisions provide useful professional guidance to damages analysts in patent infringement disputes. In addition, the precedents set by *Panduit* and *Georgia Pacific* can also be used in the determination of economic damages in trademark infringement cases.

COMPARISON OF ECONOMIC DAMAGES IN PATENT AND TRADEMARK INFRINGEMENT CASES

Economic damages in patent infringement disputes are guided by Title 35, Section 284 of U.S. Code. Section 284 mandates that damages be adequate to compensate for the infringement, but no less than a reasonable royalty for use of the subject patented invention. Monetary awards in patent cases are determined through the calculation of lost profits and/or a reasonable royalty rate, each guided by case law.

In claiming lost profits, the patent holder's burden of proof is to generally satisfy the guidelines contained in the *Panduit* case. When a claim for lost profits is defeated, the patent holder is assured of receiving at least some monetary damages based on a reasonable royalty. The *Georgia Pacific* case provides the basis for determining a reasonable royalty.

In trademark infringement cases, even when injunctive relief is granted, a monetary award does not necessarily follow. Economic damages in trademark infringement are guided by Title 15, Section 1117 of U.S. Code (the Lanham Act).

The Lanham Act specifies recovery as (1) the defendant's profits and/or (2) the plaintiff's damages and associated costs.

The Lanham Act does not provide a floor for monetary damages in trademark infringement cases. And, there is no case law to specifically guide the analyst in the calculation of economic damages in trademark infringement cases.

THE VALUE OF A JUDICIAL FRAMEWORK IN CHALLENGES TO EXPERT ADMISSIBILITY

The frameworks established by *Panduit* for the determination of whether lost profits are appropriate, and by *Georgia Pacific* for calculating reasonable royalty, are also useful in trademark infringement cases. This is because they (1) provide a foundation for the damages analysis based on grounded economic decision analysis and (2) prepare the analyst to meet the potential challenges to expert report/expert testimony admissibility.

Such challenges to the damages analyst's expert report and/or expert testimony may include:

1. Did the analyst conduct the types of analyses and investigations typically performed by experts?
2. Did the analyst use the tools of analysis that damages experts commonly use?
3. Did the analyst conduct reasonableness tests, with "reasonable" defined as somewhere between unsupportable speculation and precision?

LOST PROFITS FRAMEWORK AND TRADEMARK INFRINGEMENT CASES

In patent infringement cases, lost profits are typically determined through the application of the *Panduit* test. The *Panduit* test establishes the key factors an analyst should consider in determining whether lost profits are an appropriate measure of patent infringement damages.

The four *Panduit* factors are:

1. whether demand for the subject intellectual property existed;
2. whether acceptable noninfringing alternatives existed;
3. whether the plaintiff had the capacity to have manufactured and marketed the infringing products; and

4. whether economic damages can be quantified with reasonable probability.

For some trademark infringement cases, the analyst generally may be faced with a similar task—that is, to determine whether lost profits are appropriate. To establish the first *Panduit* factor, whether demand existed, the analyst should identify (1) the infringing sales and (2) the driving force and other contributing factors behind the infringing sales. Such factors may include: the nature of relevant market competition, brand loyalty, sales trends, and so on.

For example, a logo on a shirt may be one reason why a consumer purchased that particular shirt. However, an argument can be made that the consumer also purchased the shirt for its utility. Therefore, only a portion of that sale may be attributed to the logo. And, a reasonable royalty for use of the logo would generally make more sense as a basis for economic damages than lost profits. On the other hand, for trademarked products (1) which already have established demand and (2) whose existing sales have been affected by infringement, evidence may exist to support the *Panduit* demand element.

In the case of the second *Panduit* factor, whether acceptable noninfringing alternatives exist, the analyst should find a way (1) to measure the impact of the alternatives on infringing sales and (2) to determine whether the trademark owner would have made those sales.

To accomplish this task, the analyst should estimate where the lost sales would have reasonably gone, either (1) to the trademark holder or (2) to a competitor(s) with an acceptable noninfringing alternative. The analyst should provide a sound argument for the estimate. Evidence of (1) limited or (2) no noninfringing alternatives would support a lost profits position.

The third *Panduit* factor considers whether the trademark owner had the manufacturing and marketing capacity to have made the lost sales itself. As in patent infringement cases, absent capacity, the trademark owner cannot claim lost profits. In that case, a reasonable royalty may be the appropriate damages conclusion.

Finally, the fourth *Panduit* factor requires that lost profits can be calculated with a minimum of speculation. The key element of the damages calculation in trademark infringement is quantifying infringing sales or some portion of those sales. The plaintiff's burden of proof is in showing that, absent the infringement, the plaintiff would have made those sales.

REASONABLE ROYALTY FRAMEWORK AND TRADEMARK INFRINGEMENT CASES

In patent infringement cases, a reasonable royalty rate is determined through consideration of factors established by the

court in *Georgia Pacific*. The basic *Georgia Pacific* framework can be applied to establishing a reasonable royalty in trademark infringement cases as well. In the reasonable royalty framework, an analysis of the outcome of a hypothetical negotiation between the trademark holder and the infringer is based on, but not limited to, the following factors:

- the royalties received by the trademark holder for the trademark;
- an analysis of existing royalty agreements for the subject trademark and royalty agreements for comparable trademarks;
- the nature of the market for the trademarked product, such as exclusive or nonexclusive or as restricted or nonrestricted in terms of territory;
- the commercial relationship between the licensor and the licensee, such as whether they are competitors;
- the term of the license;
- the established profitability of the trademarked product or products;
- the value of the trademarked product in generating sales of other products;
- the commercial success of the trademarked product; and
- the economic value of the trademarked product.

SUMMARY AND CONCLUSION

There are established judicial frameworks for determining economic damages in patent infringement cases. These judicial frameworks (1) have broad acceptance and (2) contain generally accepted economic methodology for calculating damages in patent infringement cases.

Such judicial frameworks may also be useful in determining economic damages in trademark infringement cases. This is because both patent and trademark infringement analyses focus on the value of the subject intellectual property assets. Further, the same judicial frameworks provide intellectual property infringement analysts with professional guidance that may help them avoid potential challenges to the expert report and/or expert testimony admissibility.

Notes:

1. *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 197 USQ 726 (6th Cir. 1978).
2. *Georgia Pacific Corp. v. U.S. Plywood*, 446 F.2d 295, 296-97 (2d Cir. 1971).

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