

New Matter

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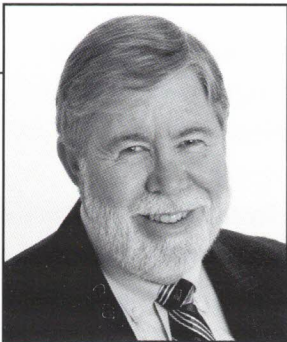
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"UNKNOWN UNKNOWNNS" AND "KNOWN UNKNOWNNS": UNTETHERED TRADEMARK MONETARY REMEDIES AFTER TMA ENACTMENT AND *ROMAG*

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In 2002, Secretary of Defense Donald Rumsfeld famously ruminated on the possible link between Saddam Hussein's Iraq and international terrorist groups:

Reports that say that something hasn't happened are always interesting to me, because as we know, there are known knowns; there are things we know we know. We also know there are **known unknowns**. That is to say we know there are some things we do not know. But there are also **unknown unknowns**—the ones we don't know we don't know. And if one looks throughout the history of our country and other free countries, it is the latter category that tends to be the difficult ones.¹ [Boldface added.]

What called this to mind were the two recent, signal developments in trademark law: The *Romag* decision² by the Supreme Court in 2020 and

the implementation of the Trademark Modernization Act (TMA), beginning just before 2022.³

- » As a result of the TMA enactment, we know that a statutory presumption of irreparable injury initially applies for injunctive relief. The "unknown unknown" however is the impact of the presumption on awards of actual damages. No one talks about this or recognizes it as an issue. If irreparable injury is now initially presumed for injunctions, should it not be presumed for damages as well? If so, does a plaintiff still have an initial burden of production of evidence to show causation of injury?
- » As a result of the Court's decision, we face a "known unknown." We know that willfulness is no longer a requirement for awarding wrongful profits by the trial court. We don't know what standard should replace it.

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These two principles—willfulness for profits, causation for damages—have been the leading factors limiting monetary recovery in past trademark cases. They tethered awards to elements plaintiffs often could not prove.

Now what?

ROMAG AND TMA

In 2006, the Supreme Court held that a patent plaintiff must *prove* irreparable harm to get injunctive relief. While that case, *eBay, Inc. v. MercExchange*,⁴ was a patent infringement case, its holding spread to trademark cases in some federal courts, but not all. As a result, plaintiffs carefully considered whether they could bring suit in a forum that still applied the presumption, despite *eBay*, as application of the presumption substantially increased the likelihood of early injunctive relief.

The TMA resolved this split among the courts. The TMA amends the Trademark Act to clarify that a rebuttable presumption of irreparable harm applies upon a finding of infringement in the permanent injunction context, or upon a finding of likelihood of success on the merits in the context of preliminary injunctive relief.

A plaintiff seeking any such injunction shall be entitled to a rebuttable presumption of irreparable harm upon a finding of a violation identified in this subsection in the case of a motion for a permanent injunction or upon a finding of likelihood of success on the merits for a violation identified in this subsection in the case of a motion for a preliminary injunction or temporary restraining order.

15 U.S.C. § 1116(a)).

Until 2020, a longstanding requirement in many circuits restricted a court's equitable discretion to award wrongful profits in trademark cases. A finding of willfulness was required.⁵ In *Romag Fasteners Inc. v. Fossil Inc. et al.*, the Supreme Court held that

a showing of a defendant's willfulness is not a prerequisite for recovering an infringer's profits for trademark infringement under the Lanham Act.⁶ The standard going forward was not set out.

ACTUAL DAMAGES—THE UNKNOWN UNKNOWN

The law of monetary recovery for trademark infringement starts with 15 U.S.C. § 1117(a). The statute makes clear that “damages” means “actual damages.” It is distinct from “profits,” which means the infringer's wrongful profits. Put in different terms, “actual damages” is generally understood to be a remedy afforded by damages at law; wrongful profits are generally permitted only through applying equitable principles.⁷ The statute does not express a standard of proof for assessing actual damages but does address the initial burden of production in the case of wrongful profits (proof of the amount of defendant's sales).

Despite the pronouncement by statute, and partially because of it, the law in this area continues to plague trademark plaintiffs. While finding trademark infringement only requires proof of likely confusion, awarding actual damages requires some proof of causation of injury. The dilemma facing trademark plaintiffs seeking actual damages arises from the first phase of a two-phase analysis. While the *fact* of incurring injury to some extent must be clearly shown, the *amount* need not be proved with the same degree of certainty, so long as the court makes a reasonable approximation.⁸ Proof of that first phase, that some injury occurred from defendant's actions, usually translates into a requirement of proof of some actual confusion. While not required expressly in all circuits, the obvious logic is that harm can only result if at least some consumers were confused as to association of goods.

On these rocks numerous trademark cases founder.⁹ According to a report of the House Judiciary Committee on the TMA, “[A] significant majority of successful trademark cases...deny an award of damages.... [I]t is not only possible but common to win your case and still not be awarded money,”

leaving injunctive relief as some plaintiffs' only recourse."¹⁰

With enactment of the TMA, the question of proof of some actual injury to satisfy that first phase in damages analysis assumes center stage. Irreparable injury is now rebuttably presumed by statutory edict for injunction purposes. The inevitable question is therefore whether that provision establishes a rebuttable presumption of irreparable harm *only* for injunction purposes but not for damages purposes.

So, if a rebuttable presumption establishes that irreparable injury results from infringement, doesn't logic demand that we also rebuttably presume that an act of infringement causes harm for damages purposes? Doesn't "irreparable injury" inherently include "non-irreparable" injury, insofar as establishing that some harm occurred from infringement?

Not surprisingly, this is an issue that has not been addressed in reported cases, or even discussed for that matter. Cases arising since TMA's effective date of December 18, 2021, have either been too few to catch up with this obscure issue or have not yet matured to a decision stage.

The legislative history behind TMA offers little assistance. It simply underscores its focus on injunctive relief and ignores any possible implication for damages. Noting the historical pre-*eBay* practice of routine recognition of irreparable injury for injunctive relief, the House report mentioned above reasoned as follows, "In the courts' view, 'the damages occasioned by trademark infringement are by their very nature irreparable and not susceptible of adequate measurement for remedy at law.' For the trademark system to function properly, appropriate relief must be available when a company's trademark is infringed."¹¹

So, we are left untethered, facing a so-far "unknown" problem in which the implications of the TMA on actual damages are also unknown.

'Unknown,' until the courts weigh in. What will the courts say?

Several arguments can be asserted against extending the presumption. The obvious argument against presuming injury from the TMA is that the legislative intent did not address it. Courts routinely refuse to interpret or expand the reach of a statute where it is not supported by the clear text or legislative intent.¹² Second, the standard of culpability is different—likelihood of injury vs. actual injury. Third, one might argue that Congress stepped in merely to speak to the unique problem of inherent "non-compensable" damage to goodwill and brand recognition. Fourth, a similar argument might blithely distinguish "at law" remedies from equitable remedies. However, the latter three arguments each beg the question. Each still assumes that the act of infringement caused injury, in that even the likelihood of injury liability standard still requires irreparable injury for injunctive relief, more likely than not. These potential arguments each ignore the underlying assumption in the "irreparable injury" debate: infringement of one's trademark more likely than not caused injury, regardless of the "need" to establish the unprovable.

Injury in fact for injunctions is considered so extreme that it is "irreparable." In fact, Congress presumes that some injury is generally *inevitable*. Post *e-Bay* trademark cases before enactment of TMA made clear that a finding of irreparable injury was considered a greater burden than proof of mere damages. "Loss of sales alone will not support a finding of irreparable injury 'because acceptance of that position would require a finding of irreparable harm to every' plaintiff regardless of circumstances."¹³

Compounding the problem for plaintiffs, if statutory construction itself does not establish a statutory, rebuttable presumption of injury, can the trial courts establish on their own a judicially generated presumption? Plaintiffs might argue that Congress did not expressly exclude a rebuttable presumption for actual damages, leaving open some wiggle room

The problem is that long-standing precedent places that burden of production and of persuasion initially with the plaintiff.¹⁴ The best argument plaintiffs can muster, absent case and statutory authority, is that imposition of the presumption for purposes of establishing irreparable injury is tantamount to becoming part of the law of the case or a *de facto* finding by the court of the fact of injury. It may or may not be the “law of the case,” but clearly imposition of the statutory rebuttable presumption for injunctive relief establishes “the logic of the case” for purposes of the causation-of-injury inquiry. This is probably untrodden ground as well.

The logic of applying the underpinnings of this presumption thus clashes with the apparent legislative intent and with established precedent. The problem with both arguments is not the intended reach of the statute; it’s the wholly incongruous effect that cannot be explained away. At some point, a bold trial court will break from assumed precedent to disregard additional causation proof, and then the appellate court conflict will begin.

Skeptics might attack adoption of a rebuttable presumption of injury as overturning damage law in a fundamental way. Perhaps, but imposing a rebuttable presumption of injury only affects plaintiff’s initial burden of production of evidence, not the burden of persuasion. Ultimately, in a contested matter, a plaintiff still shoulders the burden of persuasion for irreparable injury in the case of injunctive relief. Likewise, it would retain the burden of persuasion for proof of both the amount of injury and that defendant caused that damage. Defendant’s right of rebuttal would remain intact.

Shifting the presumption of injury would have a significant impact, however arcane or trivial the shift of a rebuttable presumptions for the fact of injury might seem to some. Though still required to calculate the amount of damage with reasonable certainty, plaintiffs would not be blocked from receiving awards of actual damages by the additional initial burden of producing specific instances of actual confusion. In contested cases

where a defendant fails to provide a survey or other evidence rebutting a presumption that proven loss was caused by infringement, the outcome may change a zero recovery prospect to hundreds of thousands, or millions, of dollars.

WRONGFUL PROFITS—THE KNOWN UNKNOWN

In the aftermath of *Romag*, the standard for awarding wrongful profits is a “known unknown.” It’s apparent that a void has been created where once a reasonably clear requirement existed in numerous circuits. But the Supreme Court in *Romag* expressly chose not to define what the new standard should be, aside from emphasizing that intent remains highly relevant. “[W]e do not doubt that a trademark defendant’s mental state is a highly important consideration in determining whether an award of profits is appropriate. But acknowledging that much is a far cry from insisting on the inflexible precondition to recovery Fossil advances.”¹⁵

Leading up to *Romag*, the Ninth Circuit confirmed that willfulness was a requirement for a wrongful profits award.¹⁶ As of this writing, there have been only four Ninth Circuit cases that discuss awards of profits since *Romag*. None gave clear guidance. *Monster Energy Co. v. Integrated Supply Network, LLC*,¹⁷ comes closest. While not applying a label of willfulness to defendant’s actions, the trial court granted profits in view of defendant’s “bad motive,” suggesting that continuation of sales after a demand to stop and the filing of suit, along with culpable awareness of defendant’s benefit from use of the mark, is enough.

The three other post-*Romag* cases in the Ninth Circuit provide no illumination. One simply remanded the case for a new trial on profits in view of *Romag*, without instructions on new standards.¹⁸ Another allowed a wrongful profits award where the district court found willfulness in fact existed.¹⁹ The third was an order allowing discovery, in which plaintiff sought information on defendant’s profits and willfulness, in furtherance of its claim for an equitable award of wrongful profits. As willfulness

is still highly relevant, even if not required, this decision is likewise non-illuminating.²⁰

A review of numerous post-*Romag* cases in other circuits fails to produce a clearer picture. One Eleventh Circuit decision found that the equity goals of deterrence and unjust enrichment supported a decision awarding profits, independent of bad faith. Bidding on Google AdWords with plaintiff's mark suggested association with plaintiff's goods, not the goods defendant claimed to sell.²¹

In another decision, a district court rejected a defendant's contention that willfulness was required for an award of profits. In *dicta* it volunteered that no particular intent is required for disgorgement of profit but offered no standard for assessing intent.²² Other post-*Romag* cases discussing awards of wrongful profits provide no direction.²³

So, we continue to tread through twilight. We know what is not required for wrongful profits, but no principle has been instilled to replace the willfulness doctrine. One shaft of light may emerge from acquaintance with the tripartite notion underlying such equitable awards, long obscured by the willfulness debate. In addition to deterrence, which has a strong intent component, court can consider such awards to prevent unjust enrichment and to provide a fairer level of compensation. Neither depends as heavily on a specific level of defendant's intent.²⁴

SUMMARY AND CONCLUSION

We enter a new era of uncertainty in a field already scattered with incongruities, inconsistencies and imprecision.²⁵ The only thing we can say for certain regarding *Romag* and TMA as it affects monetary remedies is this: sooner or later, plaintiffs will invoke TMA as an argument to overcome a failure of evidence to establish the fact of injury in a claim for actual damages. Some courts will likely reject the effort on statutory interpretation grounds; perhaps some will not, creating a new split in cases. Sooner or later, furthermore, courts sitting in equity will tackle awards of wrongful profits where willfulness has not been

established by plaintiff, unburdened by the throttling influence of the past willfulness requirement.

The slate for now, however, remains clean. ✱

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Endnotes

1. Herb Lin, *The Fourth Quadrant—The Unknown Knowns*, LAWFARE, (Friday, July 9, 2021, 4:05 PM), <https://www.lawfareblog.com/fourth-quadrant-unknown-knowns>.
2. *Romag Fasteners, Inc. v. Fossil, Inc.*, 590 U.S. ___, 140 S. Ct. ___, 2020 WL 1704611 (2020).

- 1492 (2020).
3. Consolidated Appropriations Act of 2021, H.R. 133, Public Law 116–260, signed into law on December 27, 2020. The Trademark Modernization Act of 2020 (hereinafter “TMA”) is Division Q, Title II, Subtitle B (Sections 221-228) of the Consolidated Appropriations Act of 2021. Section 226 of the TMA amends Section 34(a) of the Lanham Act (15 U.S.C. § 1116(a)) to add the rebuttable presumption of irreparable harm.
4. 547 U.S. 388, 126 S. Ct. 1837 (2006).
5. See, e.g., *Stone Creek, Inc. v. Omnia Italian Design, Inc.*, 875 F.3d 426 (9th Cir. 2017).
6. *Romag Fasteners*. 140 S. Ct. at 1497.
7. Trademark remedy law is riddled with inconsistent case law, including this most fundamental distinction between remedies at law and in equity. To start with, section 1117(a) itself provides the plaintiff shall be “entitled,...subject to the principles of equity, to recover (1) defendant’s profits, (2) any damages sustained by the plaintiff.” Some courts state that damages at law under this statute are subject to the principles of equity. *Lindy Pen Co. v. Bic Pen Corp.*, 982 F.2d 1400, 1404 (9th Cir. 1993), *abrogated on other grounds by SunEarth, Inc. v. Sun Earth Solar Power Co.*, 839 F.3d 1179, 1181 (9th Cir. 2016).
8. *Skydive Ariz., Inc. v. Quattrocchi*, 673 F.3d 1105, 1112 (9th Cir. 2012) (finding fact of damage from plaintiff’s expenditures to estimate harm to reputation); *Robi v. Five Platters, Inc.*, 918 F.2d 1439, 1443 (9th Circuit 1990) (and citations contained therein); *Lindy Pen Co. v. Bic Pen Corp.*, 982 F.2d 1400, 1404 (9th Cir. 1993), *abrogated on other grounds by SunEarth, Inc. v. Sun Earth Solar Power Co.*, 839 F.3d 1179, 1181 (9th Cir. 2016).
9. See *Break-Away Tours v. British Caledonian Airways*, 704 F. Supp. 178 (S.D. Cal. 1988) (no evidence of lost sales) (citing *Burndy Corp. v. Teledyne Industries, Inc.*, 748 F.2d 767, 771 (2d Cir. 1984) (wrongful profits case); *Can Am Engineering Company v. Henderson Glass, Inc.*, 814 F.2d 253, 257-58 (6th Cir.1987)).
10. H. REP. NO. 116-645, Trademark Modernization Act of 2020, 116th Congress, 2nd Session (2019–2020), at page 17 (text accompanying footnotes 40 and 41 that cite Mark A. Lemley, *Did eBay Irreparably Injure Trademark Law?*, 92 NOTRE DAME L. REV. 1795, 1807, 1808 (2017)). The Report may be found at 2020 WL 8034848.
11. *Id.* at page 17 (text accompanying footnotes 38 and 39).
12. See, e.g., *United States v. Spitzer*, 800 F.2d 1267, 1275 (4th Cir. 1986).
13. *Aurora World, Inc. v. Ty Inc.*, 719 F. Supp. 2d 1115, 1169 (C.D. Cal. 2009) (quoting *Reebok Int’l Ltd. v. J. Baker, Inc.*, 32 F.3d 1552, 1558 (Fed. Cir. 1994)). See also *TMX Funding, Inc. v. Impero Techs., Inc.*, No. 10-0202 JF, 2010 WL 1028254, at *8 (N.D. Cal. Mar. 18, 2010) (denying preliminary injunction, finding actual damages available and thus no irreparable injury).
14. In simple terms, a plaintiff at trial has the initial burden to produce evidence supporting each element of its claim. The burden of production then shifts to defendant regarding asserting defenses or rebutting plaintiff’s prima facie case. The ultimate burden of persuasion on liability rests with plaintiff and on defenses with defendant. See *Nissan Fire & Marine Ins. Co. v. Fritz Cos.*, 210 F.3d 1099, 1102–3 (9th Cir. 2000) (and cases cited therein); *Reeves v. Sanderson Plumb. Prods.*, 530 U.S. 133, 142, 120 S. Ct. 2097 (2000).
15. *Romag Fasteners, Inc. v. Fossil, Inc.*, 590 U.S. ___, 140 S. Ct. 1492, 1497 (2020).
16. *Stone Creek Inc. v. Omne Italian Design*, 875 F.3d 426 (9th Cir. 2017.)
17. 533 F. Supp. 3d 928 (C.D. Cal. 2021).
18. *Harbor Breeze Corp. v. Newport Landing Sportfishing, Inc.*, 28 F.4th 35, 38–39 (9th Cir. 2022).
19. *Eko Brands, LLC v. Adrian Rivera Maynez Enters.*, Nos. 20-35369, 20-35556, 2021 WL 3630225 (9th Cir. 2021) (not for publication).
20. *Advantus, Corp. v. Sandpiper of Cal., Inc.*, Case No. 19cv1892-CAB (NLS), 2020 WL 6271028 at *4, Dkt No. 165 (S.D. Cal. Oct. 26, 2020).
21. *PlayNation Play Sys. v. Vex Corp.*, No. 20-12978, 859 Fed. Appx. 384 (11th Cir. 2021) (not for publication).
22. *Guantanamo Cigars Co. v. SMCI Holding, Inc.*, No. 21-cv-21714, 2022 WL 1288742 (S.D. Fla. Apr. 29, 2022).
23. See *RVC Floor Decor, Ltd. v. Floor & Decor Outlets of Am., Inc.*, 527 F. Supp. 3d 305 (E.D. N.Y. 2021); *Variety Stores, Inc. v. Walmart Inc.* (4th Cir. 2021); *Weems Indus., Inc. v. Teknor Apex Co.*, 540 F. Supp. 3d 839 (N.D. Iowa 2021); *Am. Dairy Queen Corp. v. W.B. Mason Co.*, 543 F. Supp. 3d 695 (D. Minn. 2021); *Poulin Ventures, LLC v. MoneyBunny Co.*, No. 1:19-cv-01031-JCH-GBW, 2022 WL 326286 (D. N.M. Feb. 3, 2022); *Lontex Corp v. Nike, Inc.*, No. 18-5623, 2022 WL 622321 (E.D. Pa. Mar. 3, 2022); *Vitamins Online, Inc. v. HeartWise, Inc.*, No. 2:13-cv-00982-DAK, 2020 WL 6581050 (D. Utah Nov. 10, 2020); *Bruce Kirby, Inc. v. LaserPerformance (Eur.) Ltd.*, No. 3:13-cv-00297, 2021 WL 328632 (D. Conn. Feb. 1, 2021).
24. See *Ruolo v. Russ Berrie & Co.*, 886 F.2d 931, 941 (7th Cir. 1989) (awards of profits in discretion of judge, subject only

to principles of equity, to make violations unprofitable). See also for non-IP case treatment *Meister v. Mensinger*, 230 Cal. App. 4th 381, 398 (2014) (where “the enrichment of the defendant would be unjust” but also references to a defendant’s “conscious wrongdoing”).

25. See Robert W. Payne, “Actual Confusion and Trademark Damages: Through the Looking Glass,” <https://www.bobpayne.com/publications-presentations> (last accessed 2 June 2022).

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14-hours of CLE credit for educational programming on hot topics and updates on IP law, including patent, trademark, copyright, privacy, IP transactions, ethics, and more. In addition, there will be ample opportunities to network and to kick back over the welcome reception, speed-networking, yoga and meditation, and a relaxing evening cruise in the harbor. This is a not-to-be-missed event, so put it in your calendars, and stay tuned for more details.

Next year, the IP Law Section has planned 5 exciting in-person programs. These include our flagship programs—the **Entertainment and Media conference** in May 2023, the **Trademark Office Comes to California** in June 2023, and the annual **IP Institute** in November 2023. We are also adding two new programs by popular demand: (1) a full-day symposium on **Cannabis IP Law** in April 2023,

and (2) a full-day **IP Litigation Summit** in September 2023. Of course, the IP Law Section will continue providing other educational CLE opportunities through our webinars and online programs, as well as through articles published in *New Matter*.

We welcome your continued feedback and comments, so please reach out to any of our Executive Committee and Interest Group officers and let us know if the section is meeting your need and how it can serve you better.

Enjoy your summer, stay safe, and hope to see you at one of our upcoming in person programs! ✨

Sanjesh Sharma

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The Plaintiffs in this case chose to renew. Such a renewal does not prevent Paramount from continuing to distribute works created during the 35 years in which they owned the copyright for the original *Top Gun*, but it would require the studio to obtain the rights again if it wanted to produce any other films.

According to the lawsuit, Paramount responded by arguing that the film was “sufficiently completed” by January 24, 2020, before the copyright was renewed by Plaintiffs, and Paramount further argued that *Top Gun: Maverick* was not derivative of Plaintiff’s magazine story. The Plaintiffs argued back that work on *Top Gun: Maverick* didn’t wrap up until

2021, one year after they claim the film rights were no longer owned by Paramount.

Will a copyright lawsuit be successful against Paramount for *Top Gun: Maverick*? Will such a lawsuit prevent another *Top Gun* sequel? Stay tuned.

For further *New Matter* news, the *New Matter* editorial staff has been renewed for another year. A change to the staff will be that Leaf Williams will be Co-Production Editor along with Anthony Craig. Amanda Nye will continue to be Acquisition Editor, Dabney Eastham will continue to be Senior Articles Editor and I will continue as Editor-In-Chief.

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