Righting the Wrong in Reverse Confusion

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Introduction

Reverse confusion has not only confused consumers, it has confused the courts. Since the theory of reverse confusion gained formal recognition in 1977, courts have generally found a cause of action for trademark infringement based on the theory. Trademark infringement centers on whether a likelihood of confusion exists as to the source or affiliation of a good or service. A company or individual establishes a trademark right by using it first in a given market. That company or individual, by virtue of being the first user of the trademark, is deemed the senior user. A company or individual who subsequently adopts a similar mark is termed the junior user. Forward or direct confusion results when a consumer mistakenly believes that the junior user’s products are produced by or associated with the senior user. This generally occurs in cases where a junior user attempts to “pass off” their goods as those of the senior user. Reverse confusion results when a consumer mistakenly believes that both products are manufactured by or associated with the junior user. The junior user in reverse confusion is typically a larger company with more marketing resources who saturates the market with its own product
and swamps the reputation of the senior user. The senior user's trademark no longer serves any of its essential functions, such as designating the source, distinguishing the product, or encapsulating the originator's goodwill. The reverse confusion can destroy the senior user's ability to control its own brand—its mark, reputation, and goodwill—and its ability to enter new product markets, especially those in which the junior user trades.

In traditional direct confusion cases, the junior user adopts a similar trademark in order to capitalize on the senior user's goodwill. This practice is termed "passing off." In reverse confusion, neither the junior nor the senior user wants to capitalize on the other's goodwill. The junior user in reverse confusion uses the mark not to benefit from the senior user's goodwill (the senior user is most often lesser known), but because the mark is a good fit with a marketing campaign. Confused consumers who mistakenly buy the senior user's products or services may blame the senior user for passing off, believing that the junior user was first to the mark.

The senior user may benefit from the junior user's goodwill, if it gains sales because of the confused purchases. Nonetheless, any profit attributable to confusion is evidence of the injury to the senior user: consumers meant to buy the junior user's goods, and the senior user loses its ability to distinguish its products with the mark. The confusion turns the senior user's mark from an asset of goodwill into a liability of ill will when customers believe the senior user passes off its products for those of the junior user. In addition, if the junior user's mark develops an unfavorable reputation, the senior user will suffer because confused consumers will associate the unfavorable reputation with the senior user's mark.

6. Id.
7. 1 JEROME GILSON, TRADEMARK PROTECTION AND PRACTICE § 1.03 (release 19, 2003).
9. Long & Marks, supra note 2, at 3.
10. Id. at 2.
11. Id. at 27. Although the junior user's intent is not to trade off the senior user's reputation in reverse confusion, the junior user who adopts a mark with knowledge that the similarity may cause confusion will likely consider the senior user's reputation. If the junior user knows from the outset that the senior mark suffers from an unfavorable reputation, the junior user may chose not to infringe for fear that the unfavorable reputation may be attributed to the junior user by some confused customers.
12. Long & Marks, supra note 2, at 2.
In direct and reverse confusion cases, courts use varied multifactor tests to determine whether a "likelihood of confusion" exists between the senior and junior users' marks. Where a likelihood exists, courts must find that the junior user has infringed.\textsuperscript{15} District courts regularly award injunctions when they find a likelihood of confusion, regardless of whether the junior user infringed willfully.\textsuperscript{16} In cases where damage to the plaintiff or profit to the defendant due to infringement seems slight, an injunction alone serves as appropriate relief.\textsuperscript{17} If an injunction will satisfy the equities of the case, courts deny damages.\textsuperscript{18}

When awarding damages, an additional issue facing the court in reverse confusion cases is whether the junior user willfully infringed upon the mark. Courts have disagreed about how to identify willful infringement, and some circuits misunderstand the motivation behind reverse confusion cases. In reverse confusion cases, the junior user typically infringes because the mark fits with its own marketing plan. The junior user wants to retain its own goodwill and use the senior user's mark to convey that goodwill.\textsuperscript{19} The motivation differs from direct confusion cases, where the junior user intends to trade on the goodwill of the senior user. Courts that look for an intent to trade on the senior user's goodwill in reverse confusion cases fail to recognize this appreciable difference.

This Note focuses on a second problem in reverse confusion cases: the standard for awarding damages. Courts have failed to articulate a reasoned and consistent standard for awarding damages. Section 35(a) of the Lanham Act, which governs monetary damages in infringement cases, provides little guidance for courts to assess and enhance damages.\textsuperscript{20}

\textsuperscript{15} Id.
\textsuperscript{16} See, e.g., Minn. Pet Breeders, Inc. v. Schell & Kampeter, Inc., 41 F.3d 1242, 1247 (8th Cir. 1994); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 35 cmt. b (2002).
\textsuperscript{17} See, e.g., Champion Spark Plug Co. v. Sanders, 331 U.S. 125, 131 (1947). Although decided before Congress enacted the Lanham Act, Champion Spark Plug is often cited by courts for the proposition that relief in a Lanham Act case should be limited to an injunction where it is sufficient to achieve equity.
\textsuperscript{18} Id.
\textsuperscript{19} Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co., 408 F. Supp. 1219, 1236 (D. Colo. 1976). The court explained the motivation and harm of reverse confusion:

The logical consequence of [failing to recognize reverse confusion] would be the immunization from unfair competition liability of a company with a well established trade name and with the economic power to advertise extensively for a product name taken from a competitor. If the law is to limit recovery to passing off, anyone with adequate size and resources can adopt any trademark and develop a new meaning for that trademark as identification of the second user's products.

\textsuperscript{20} Lanham Act § 35(a), 15 U.S.C § 1117(a) (2000).
Section 35(a) specifies that a monetary award and any enhancement thereto must not constitute a penalty.

Courts face a particular challenge in assessing damages in reverse confusion cases because the injury primarily amounts to lost control of the senior user's mark, reputation, and goodwill, which inherently requires speculation as to the dollar value of these intangibles. Despite the difficulties in calculation, courts must find some monetary measurement to compensate the senior user for its losses and the corresponding unjust gain to the willful infringer.

Damages traditionally serve to compensate for wrongdoing, to deter future wrongdoing, and to prevent unjust enrichment. Although courts have shied away from compensating the senior user by putting a value on the loss of goodwill and control of the mark, courts have also failed to agree on whether the junior user in reverse confusion enjoys unjust enrichment from the infringement. Some courts have reasoned that the junior user's use of the infringing trademark itself does not confer a benefit upon the junior user. Rather, it is the selling power of the junior user that makes the trademark profitable for the junior user. Thus, in reverse confusion cases the junior user is not unjustly enriched. This conclusion ignores the fact that the junior user has enjoyed a license without permission. The senior user has a legal interest in the right to exclude others from using the mark and to decide whether and to whom to assign, license, or franchise the mark. The free use of a licensable trademark is unjust enrichment.

Another problem in the current patchwork of damage awards for reverse confusion cases comes from the courts that use a purely deterrence-motivated rationale for damages. Courts generally award an injunction in all cases, whether the infringement was innocent or willful, and award damages only where the junior user willfully infringed on the

\[\text{Id.}\]


\[\text{See, e.g., Sands, Taylor & Wood Co. v. Quaker Oats Co., 978 F.2d 947, 961 (7th Cir. 1992); Banff, Ltd. v. Colberts, Inc., 996 F.2d 33, 35 (2d Cir. 1993), cert. denied, 510 U.S. 1010 (1993).}\]

\[\text{Compare A\&H Sportswear, 2002 U.S. Dist. LEXIS 233, at *16 (attributing the junior user's success to its own strength, not use of the senior user's mark), with Sands, Taylor & Wood, 978 F.2d at 963 (upholding a monetary award based on the theory of unjust enrichment to the junior user).}\]

\[\text{A\&H Sportswear, 2002 U.S. Dist. LEXIS 233, at *16.}\]

\[\text{See, e.g., Sands, Taylor & Wood, 978 F.2d at 963 (stating that the junior user enjoyed unjust enrichment by using the senior user's mark without paying for it and a royalty award would reflect the unjust enrichment).}\]

\[\text{See, e.g., Minn. Pet Breeders, Inc. v. Schell & Kampion, Inc., 41 F.3d 1242, 1247 (8th Cir. 1994); Banff, 996 F.2d at 35.}\]
mark. Although deterrence is a natural by-product of any monetary award, the Lanham Act indicates that penalizing the junior user should not be the sole rationale for awarding or enhancing damages. When courts award or enhance damages solely for the purpose of deterrence, the award is akin to a penalty, and the award violates Congress's express proscription of penalty awards in Lanham Act cases.

This Note proposes that in cases of willful infringement involving reverse confusion, courts should use a royalty rate to determine damages, and pair them with an injunction, as is typically awarded in cases of infringement. Courts should also award attorneys' fees, as provided for by the Lanham Act for cases of willful infringement. A "reasonable royalty rate," for purposes of this discussion, refers to the rate upon which parties would mutually settle if they willfully negotiated a royalty deal. Courts should enhance the reasonable royalty rate in cases of willful infringement to reflect the fact that the junior user enjoys what is essentially a forced license, because the senior user was not able to negotiate the terms of the trademark use and the court cannot undo the past infringement.

A royalty rate represents the unjust gain to the infringer—the value of the use of the trademark—but avoids disgorging the junior user of profits attributable to its own goodwill. The royalty rate correspondingly compensates the senior user for what the license was worth, without requiring the calculation of the intangible values of goodwill, reputation, and control of one's mark.

28. Minn. Pet Breeders, 41 F.3d at 1247.
29. Id.
30. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 35(1)(b) (1995) (stating that "injunctive relief will ordinarily be awarded against one who is liable to another for... infringement of the other's trademark").
32. See Integra Lifesciences I, Ltd. v. Merck KGaA, 331 F.3d 860, 869-70 (D.C. Cir. 2003). The court explained that
[a] reasonable royalty calculation envisions and ascertains the results of a hypothetical negotiation between the patentee and the infringer at a time before the infringing activity began. Thus, the reasonable royalty calculus assesses the relevant market as it would have developed before and absent the infringing activity. Although an exercise in approximation, this analysis must be based on "sound economic and factual predicates." Royalties, like lost profits, are compensatory damages, not punitive.
Id. (internal citations omitted).
33. There may be cases where the junior user's use of the mark hurts the senior user's sales because the junior user develops an unfavorable reputation. If the senior user can sufficiently show lost earnings because of the confusion, courts should allow the senior user to collect damages based on credible evidence, if it amounts to more than a reasonable royalty rate.
Part I of this Note examines the purpose of trademark law and the relief available under the Lanham Act. It also discusses the unique harm of reverse confusion and why reverse confusion requires courts to fashion different remedies than those involved in direct confusion. Part II further explains the reverse confusion theory and draws examples from case law showing how courts differ in their definition of willful infringement and assessment of relief for reverse confusion claims. Part III suggests that an award of royalty-based damages, along with an injunction\textsuperscript{34} and attorneys' fees, makes willful infringement unprofitable without violating the Lanham Act's specific prohibition on penalty awards.

I. TRADEMARK LAW AND THE LANHAM ACT

Trademarks designate the source or origin of a product, symbolize a particular standard of quality, identify a product and distinguish it from another's products, symbolize the goodwill of the trademark owner, and motivate consumers to purchase the product.\textsuperscript{35} They represent a substantial advertising investment and protect the public from confusion and deception.\textsuperscript{36} The primary piece of trademark legislation is the Trademark Act of 1946, commonly referred to as the Lanham Act.\textsuperscript{37} Congress recognized two groups who need trademark protection, consumers and trademark owners.\textsuperscript{38} Trademark protection assures that consumers receive an item from the intended originator, and that trademark owners retain the value of the resources they commit to building their mark and associated goodwill without others misappropriating their mark.\textsuperscript{39}

If a junior user misappropriates or infringes on a senior user's trademark, the Lanham Act allows a plaintiff to recover damages, in addition to an injunction and attorneys' fees. Although injunctions are the primary remedy in an infringement case because of the irreparable harm and inadequacy of monetary damages,\textsuperscript{40} an injunction alone is not enough in cases of willful infringement. An injunction fails to provide complete relief because it only addresses future harm and fails to address

\textsuperscript{34} Courts using a royalty rate for damages could easily assess an appropriate value for a conditioned injunction, which would set the price at which the junior user could buy or license the mark, if the senior user agrees to sell. A conditioned injunction, unlike a traditional injunction, appropriately caps the senior user's bargaining power for the sale or licensing of its mark.

\textsuperscript{35} 1 Gilson, supra note 7, § 1.03[1].

\textsuperscript{36} Id.

\textsuperscript{37} Trademark Act of 1946 (Lanham Act), 15 U.S.C. §§ 1051–1127 (2000). Congressman Fritz Lanham, after whom the Act was named, was the principal force behind the legislation.


\textsuperscript{39} Id.

\textsuperscript{40} See Processed Plastic Co. v. Warner Comm., 675 F.2d 852, 858 (7th Cir. 1982) (assuming irreparable harm, an inadequacy of damages, and a balance of equities in favor of the plaintiff where trademark infringement occurred).
the past loss and unjust gain. Even when paired with attorneys' fees, the injunction still misses the harm caused up to the point of litigation.

In general, damages serve to compensate the plaintiff's loss, prevent the defendant's unjust enrichment, or deter future illegal behavior. Section 35(a) of the Lanham Act, which governs remedies for common law and registered trademark infringement, explicitly reflects the first two purposes. That section allows a plaintiff to recover the damages sustained and/or an amount of the defendant's profits, subject to the principles of equity, as well as the costs of the action. Section 35(a) makes clear that either an award of damages or profits must constitute compensation and not a penalty. This section calls into question whether courts should justify awards on the rationale of deterrence alone. Part I of this Note considers whether damages or enhancements based on a deterrent rationale equate to a penalty and concludes that damages or enhancements based solely on a deterrent rationale are akin to a penalty. This Note suggests that awards in reverse confusion should represent the costs of a forced license, and deterrence should remain only a natural accompanying purpose, not a sole justification.

Section 35(a) leaves the assessment of profits and damages to the discretion of the court, with little guidance on the rationale for award enhancement. With a profit-based award, section 35(a) requires that the plaintiff prove only the defendant's sales, and then the defendant may prove claimed costs or deductions. The resulting challenge for the court is how much of the profit reasonably relates to the use of the trademark, not the defendant's own goodwill. Section 35(a)'s guidance in this assessment directs courts on when to deviate from the proven sales: "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

41. See, e.g., W.E. Bassett Co. v. Revlon, Inc., 435 F.2d 656, 664 (2d Cir. 1970), and cases cited therein.
42. 15 U.S.C. § 1117(a). Section 1117(a) states:
   When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, or a willful violation under section 1125(a) of this title, shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 of this title, and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action.
Id. A plaintiff may recover both damages and profits, although the combination must not double count.
43. Id. ("Such sum in either of the above circumstances [an award of damages or profits] shall constitute compensation and not a penalty.").
44. Id.
for such sum as the court shall find to be just, according to the circumstances of the case."

With a damage-based award, section 35(a) directs the court to assess any amount up to three times the proven damages, "according to the circumstances of the case." Plaintiffs face a challenge in proving and quantifying actual damages where the harm centers on the intangible values of goodwill, reputation, and control of one's mark. Plaintiffs in direct confusion cases may be able to show lost sales, but plaintiffs in reverse confusion may gain sales. A gain in sales due to reverse confusion (where customers buy the senior user's goods believing them to be the junior user's) actually evidences the harm done to the senior user: its lost ability to distinguish its mark.

In either a profit- or damage-based calculation, the court may alter the award according to the circumstances of the case. Congressional debates surrounding the Lanham Act fail to clarify the circumstances that call for an enhancement or reduction. Nonetheless, an indication of congressional intent may lie in the difference in treatment between profit and damages awards—courts may increase or decrease profits, but only increase damages, for award amounts.

The profits that a senior user attributes to confused sales may overstate the harm in direct and reverse confusion cases. Profits are easier to prove than damages: A plaintiff can easily quantify the profits of the junior user, but cannot easily evidence the damage to its own mark, goodwill, and reputation. But although profits are easy to prove, they are not necessarily an accurate reflection of the harm. In a classic direct confusion case, not every sale to a junior user represents a diverted sale; therefore, the junior user's profits do not absolutely or proportionately reflect the harm. In reverse confusion cases, the profits made by the senior user as a result of the confusion reflect the selling power of the junior user, not the value of the trademark or the senior user's goodwill associated with the mark. Again, the profits fail to reflect the harm. Congress drafted and enacted section 35(a) before courts recognized the reverse

47. Id.
48. See A&H Sportswear, 2002 U.S. Dist. LEXIS 233, at *11 (noting that the plaintiff failed to evidence pecuniary damage, while acknowledging the plaintiff's lost control over its name, quality, products, and reputation in the marketplace).
49. See id. at 1642 (noting "the lack of any lost sales, lost profits, or any other actual damage to Plaintiffs; and [] the possibility that Plaintiffs might have actually gained business as a result of the reverse confusion"). There may be cases where the junior user's use of the mark hurts the senior user's sales because the junior user develops an unfavorable reputation. In these cases, the senior user faces a difficult challenge in proving lost sales due to the confusion (as is true in direct confusion cases).
confusion theory, but the disconnection between profits and the harm in reverse confusion cases is even greater and more applicable than in direct confusion cases, which the statute was meant to address.\textsuperscript{51}

By comparison, proven damages often underestimate the extent of harm because the senior user cannot adequately quantify and prove the lost goodwill and lost control of the mark. In passing off cases, the plaintiff faces the challenge of proving the amount of diverted sales due to the infringement. In reverse confusion cases, the best proof of the damage, the inability to distinguish one’s mark, comes from confused sales. But rather than viewing the confused sales as a loss, courts may view them as a benefit to the senior user. This view undermines the decision to recognize reverse confusion because the confused sales indicate the extent to which the senior user cannot control its own mark.\textsuperscript{52} The statutory allowance for enhanced damages reflects that Congress recognized the difficulty senior users would have in proving damages. Proving damages is even more difficult in the reverse confusion context, and thus, the need for enhanced damages is even greater.

Courts may enhance or reduce an award, depending on the extent to which the proven harm likely mirrors the actual harm. Congress recognized that proven profits may over- or underestimate the harm and allowed for enhancement or reduction of proven profits. In contrast, proven damages consistently underestimate the harm, and Congress allowed only for enhancement of proven damages. Congress allowed for enhancements primarily to help cure inexactitude in measuring relief, not solely to deter infringement.

The conclusion that enhanced damage-based awards go to the inability to measure full damages and not to deter willful infringement garners support from the Senate report explaining the attorneys’ fees provision. Congressional notes explain the “exceptional” cases in which courts may award reasonable attorneys’ fees for a Lanham Act violation.\textsuperscript{53} Exceptional cases involve malicious, fraudulent, deliberate, or willful behavior by one of the parties.\textsuperscript{54} Congress added the attorneys’ fees provision more than thirty years after the Lanham Act took effect in response to the Supreme Court’s unwillingness to award attorneys’ fees for deliber-
ate trademark infringement where the Act did not specifically provide for them.\(^{55}\)

The congressional report notes that attorneys’ fees encourage trademark owners to enforce their rights and thereby help prevent purchaser confusion. They also serve as a penalty, discouraging “deliberate and flagrant infringement.”\(^{56}\) The report also notes that section 35(a) allows for treble damages where such an enhancement encourages the enforcement of trademark rights.\(^{57}\) Frequently, where the plaintiff promptly brings an action against flagrant infringement, the plaintiff is only able to show a nominal amount of damages.\(^{58}\) A trebling of damages accounts for the intangible harms not accounted for by the nominal damages and makes it worthwhile for the plaintiff to bring suit. Treble damages are meant to compensate, assuring trademark owners that despite their inability to prove actual damages in line with their loss, courts will consider enhancing the award to reflect incalculable but real injuries and make the investment for trademark defense worthwhile.

By comparison, Congress decided that treble damages should automatically follow in counterfeit cases\(^{59}\) explicitly to serve as a deterrent. Section 35(b) of the Lanham Act applies only to counterfeit trademark infringement cases and orders three times proven profits or damages, whichever amounts to more, unless the court finds extenuating circumstances in favor of the defendant.\(^{60}\) The Senate report accompanying the enactment of section 35(b) explains that for every counterfeiter brought to court, many counterfeiters evade punishment, and treble damages serve a general deterrent purpose.\(^{61}\)

The Senate committee recognized the uniqueness of counterfeit cases covered by section 35(b), and limited the need for automatic treble damages only to those cases. Although the Senate committee recognized the general Lanham Act policy against penalty awards, it argued that treble damages were necessary to take the profit out of counterfeiting and serve as a “potent deterrent.”\(^{62}\)

It is unclear when an award’s value as a deterrent makes the award a penalty. The Supreme Court recognizes that the “very idea of treble

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55. Id. at 5; Fleischmann Distilling Corp. v. Maier Brewing Co., 386 U.S. 714, 721 (1967).
57. Id.
58. Id.
59. In a counterfeit case, the junior user “produc[es] or sell[s] a product with a sham trademark that is an intentional and calculated reproduction of the genuine trademark.” 4 McCarthy, supra note 14, § 25:10.
62. Id.
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damages reveals an intent to punish past, and to deter future, unlawful
conduct,\textsuperscript{63} and other courts reflect that notion in their decisions.\textsuperscript{64} Also, the Supreme Court describes deterrence as a traditional goal of punish-
ment.\textsuperscript{65} American Law Reports describes statutory enhancements of
proven damages as punitive damages.\textsuperscript{66} Every award of damages serves a
deterrent rationale, but when a court assesses damages based solely on a
justification of deterrence, the award is akin to a penalty. Given that
Congress allows for treble damages under section 35(a), but prohibits
penalty awards, Congress must intend for an award justification based on
more than deterrence alone.

In deciding infringement awards, some courts repeat the Lanham
Act prohibition on penalties but then justify their awards with a deter-
rence rationale.\textsuperscript{67} Although neither Congress nor the Supreme Court has
spoken on the role of deterrence in awarding or enhancing damages un-
der the Lanham Act, the plain language of the Act, combined with the
common definition of deterrence, weighs against damages or an en-
hancement supported only by the need for deterrence.

Section 35(a) of the Lanham Act discusses only damage- or profit-
based calculations. Nonetheless, a royalty rate-based award would not be
inconsistent with the statute, because it would represent both the damage
to the senior user—the lost licensing revenue for use of the mark—and
the profit to the junior user—the free use of the mark. If courts were
consistently to use a royalty rate method, they could discourage willful
reverse confusion without disregarding the Lanham Act's intent to base a
monetary award on the need to correct the harm, not to punish infringe-
ners.

II. THE REVERSE CONFUSION THEORY AND RELIEF GRANTED

The first court case to recognize reverse confusion as an actionable
theory was \textit{Big O Tire Dealers, Inc. v. Goodyear Tire \& Rubber Co.} in
1977.\textsuperscript{68} Since the seminal \textit{Big O Tire} decision, every circuit that has con-
sidered reverse confusion recognizes it as a form of trademark infringe-

\textsuperscript{64} See, e.g., Wilson v. Union Tool Co., 275 F. 624, 631 (S.D. Cal. 1921); Va. Panel Corp. v. Mac
\textsuperscript{66} V. Woerner, \textit{Punitive or Exemplary Damages as Recoverable for Trademark Infringement or
\textsuperscript{67} See, e.g., Sands, Taylor & Wood Co. v. Quaker Oats Co., 34 F.3d 1340, 1352–53 (7th Cir.
1994).
\textsuperscript{68} Big O Tire Dealers, Inc. v. Goodyear Tire \& Rubber Co., 561 F.2d 1365 (10th Cir. 1977).
Although courts have grown more comfortable with the reverse confusion cause of action, not one has articulated an appropriate standard for fashioning a complete remedy under the Lanham Act.

At the time of the decision, section 35(a) remedies did not clearly apply to common law trademarks,70 and the district court used state law to guide the remedies decision. The jury awarded compensatory damages for corrective advertising, plus six times the compensatory damages as punitive damages.71 The Tenth Circuit reduced the compensatory damages but maintained the six-to-one punitive damages ratio.72 After the 1988 Trademark Law Revision Act, courts have applied section 35(a) to both registered and unregistered trademarks. Section 35(a) prohibits punitive damages such as those found in Big O Tire, and, because the Big O Tire award was based on corrective advertising and punitive damages only, the decision set an example for finding reverse confusion but not for assessing damages.73

Almost all the circuits have developed a test by which to evaluate a reverse confusion claim, based on the test traditionally used to find liability in direct confusion cases.74 A plaintiff who establishes senior status in the relevant market and claims reverse confusion must show that a "likelihood of confusion" exists among the relevant class of customers.75 Circuit courts approach a likelihood of confusion analysis with different multifactor tests. Courts commonly consider a combination of the following factors: (1) the degree of similarity between the senior and junior users' marks; (2) the comparative strength of the marks; (3) the price of the goods and other factors that indicate the care and attention expected of purchasers; (4) the length of time the junior user used the mark without evidence of actual confusion arising; (5) the junior user's intent in adopt-

69. See 3 MCArTHV, supra note 14, § 23:10 n.4 (detailing reverse confusion cases in each circuit that has considered the issue).
70. Id.
71. Big O Tire Dealers, No. 1 F.2d at 1374-75.
72. Id. The Tenth Circuit Court of Appeals likely applied state law remedies because before the Trademark Law Revision Act of 1988 ("TLRA"), the applicability of section 35(a) remedies to cases involving unregistered trademark violations (such as the Big O violation) was unclear. William G. Barber, Recovery of Profits Under the Lanham Act: Are the District Courts Doing Their Job, 82 TRADEMARK REP. 141, 143 (1992).
73. A corrective advertising award gives the senior user a portion of the advertising budget that the junior user spent on promoting the infringing mark. An award of damages based on corrective advertising fails to adequately redress willful infringement because it inappropriately places the burden on the senior user to correct customer confusion. See, e.g., A&H Sportswear, Inc. v. Victoria's Secret Stores, Inc., No. 94-cv-7408, 2002 U.S. Dist. LEXIS 233, at *25 n.7 (E.D. Pa. Jan. 9, 2002) (refusing to order the senior mark holder to use a disclaimer for corrective advertising purposes because "such an order would place the burden of preventing the confusion on the wronged, not the wrongdoer").
74. Long & Marks, supra note 2, at 3-4.
ing the mark; (6) evidence of actual confusion; (7) whether the goods are marketed through the same channels of trade and advertised through the same media; (8) the extent to which the users’ marketing targets are the same; (9) the relationship of the goods in the minds of consumers because of the similarity of function; and (10) other facts suggesting that the consuming public might expect the senior user to manufacture both products or expand into the junior or other user's market.76

In direct confusion cases, the circuit courts almost uniformly hold that a finding of the defendant's willful infringement or bad faith justifies an award of profits.77 The United States Supreme Court held in Champion Spark Plug Co. v. Sanders in 1947 that the intent of an infringer bears on the issue of whether and in what amount to award damages.78 Courts look to whether the infringement was willful or in bad faith to determine the amount of damages that appropriately redresses the inequities of the case.79 Courts differ in their definition of willful infringement and the degree to which it bears on an award.80

Consistency in reverse confusion awards depends upon consistency in defining willfulness. In order to appropriately define willfulness for the purposes of reverse confusion, courts must recognize the motivation behind a junior user’s decision to infringe. The junior user in reverse confusion enjoys a better-known brand and uses the mark because it fits well with the branding plan, not because the junior user wants to benefit from the senior user’s goodwill.81 This motivation differs from a passing off case, where the junior user adopts the mark to trade on the senior user’s goodwill.82 Any definition that involves the intent to deceive consumers or enjoy the goodwill of the senior user fails to fit with the reverse confusion doctrine. Generally, courts should find willfulness where a junior user infringes on a senior user’s mark without a reasonable belief that the use was lawful.83

77. Barber, supra note 72, at 145.
78. 331 U.S. 125, 131–32 (1947).
79. Barber, supra note 72, at 145.
80. Long & Marks, supra note 2, at 27.
81. Id.
Although most courts reserve damages for cases of willful infringement, damages do not automatically follow. The inconsistent awards in reverse confusion cases reflect a general failure to account for the harms caused, rather than a calculated consideration of the unique equities presented in each case. In some instances, courts fail to properly define willful infringement in the reverse confusion context, as discussed above. Whether or not courts have properly defined willful infringement, they have also failed to properly justify the relief awarded. An examination of two notable reverse confusion cases indicates the rationale that courts use either to justify or deny monetary damages in cases of willful infringement.

The protracted litigation of A&H Sportswear v. Victoria's Secret traces the Third Circuit's recognition of the reverse confusion doctrine and its ensuing struggle to appreciate the harm from reverse confusion. The plaintiff, A&H Sportswear, registered the trademark Miraclesuit in 1992 for its swimsuits that create a slimming effect. A&H manufactured about ten percent of the swimsuits made in the United States. Victoria's Secret started to sell women's lingerie under the name Miracle Bra in 1993 and registered the mark for lingerie in 1994. Also in 1994, Victoria's Secret introduced the Miracle Bra swimsuit, which created confusion between the two companies' swimwear.

In its first bench trial, the district court found that, regarding swimwear, there was a possibility, but not a likelihood, of confusion, and ruled that Victoria's Secret could use its Miracle Bra mark with swimwear only if it used a disclaimer and paid A&H a reasonable royalty. On appeal, the Third Circuit, en banc, held that likelihood of confusion, not possibility of confusion, was the correct standard, remanded for a likelihood determination, and reversed the damages award. On remand, the district court found no likelihood of confusion, and thus, no grounds for reverse confusion. The parties both appealed, and the Third Circuit articulated a revised standard for likelihood of confusion in cases where the goods

84. Champion Spark Plug Co. v. Sanders, 331 U.S. 125, 131–32 (1947) (proposing that relief is limited to an injunction in infringement cases where an injunction satisfies the equities involved); Williamson-Dickie Mfg. Co. v. Davis Mfg. Co., 251 F.2d 924, 927 (3d Cir. 1958).
87. Id.
88. Id.
89. Id.
91. Id. at *2–*3.
92. Id. at *3.
are directly competing, then remanded for fact-finding in accordance with the new standard.\textsuperscript{93} Applying the new test, the district court found that Victoria's Secret's Miracle Bra mark, when used to sell swimsuits, created a likelihood of confusion, and therefore infringed on A&H's Miraclesuit mark.\textsuperscript{94} Finding that Victoria's Secret innocently infringed, the district court granted an injunction on use of the name Miracle Bra in conjunction with swimwear, but denied A&H any monetary relief.\textsuperscript{95}

To begin, the district court used an inappropriate standard to determine whether the junior user's infringement was innocent. The court defined the willfulness question as "whether the junior user intended to usurp the goodwill of the senior user by deliberately seeking to cause consumer confusion and thereby destroy [the] senior user's business identity."\textsuperscript{96} This definition misses the basic goal of recognizing reverse confusion, which is to keep well-established trade names with the economic power to swamp a lesser-known senior user from usurping a desirable trademark.\textsuperscript{97} The point is that the junior user wants to use the name because it fits with its brand, not that the junior user wants to interfere with the business of the senior user. If courts are willing to recognize reverse confusion, they must adopt a standard that reflects the motivation of infringing junior users.

Regardless of whether the district court correctly found an absence of willfulness or bad faith, the dicta indicate the district court's, and the Third Circuit's, discomfort with remedying any reverse confusion case, even those in which it finds willful infringement. The court listed six reasons why an award of damages would be inequitable.\textsuperscript{98} The first three focused on the innocent infringement finding of the court.\textsuperscript{99} The last three addressed the harm, if any, caused by the infringement: A&H's increased profits on its Miraclesuit swimwear throughout the period of infringement; A&H's failure to show lost sales or profits, or other damage; and A&H's potential increase in sales attributable to the confusion.\textsuperscript{100} The court's reasons for denying monetary relief indicate that the court ac-

\textsuperscript{93} Id. at *3-*4. Prior to this decision, the Third Circuit cases lacked uniformity in their evaluation of likelihood of confusion involving directly competing goods; the established likelihood-of-confusion standard applied only to noncompeting goods. A&H Sportswear, Inc. v. Victoria's Secret Stores, Inc., 237 F.3d 198, 211 (3d Cir. 2000).

\textsuperscript{94} A&H Sportswear, 2002 U.S. Dist. LEXIS 233, at *4-*6.

\textsuperscript{95} Id.


\textsuperscript{99} Id.

\textsuperscript{100} Id.
The court suggested three potential ways to calculate damages, but rejected all of them. First, the court discussed royalty payments for past and future infringement. The Third Circuit reversed the district court's initial award of royalty payments for two reasons: a royalty for future use of the mark imposed a license that neither party requested or negotiated, and royalty awards for previous infringement are typically used in patent and trade secret cases, not trademark cases. The district court adopted this rationale and denied royalty payments.

Second, looking at Victoria's Secret's profits, the district court noted that its swimwear profits did not relate to the value of A&H's mark, and used that point as another reason not to award damages. The court found an award of profits inappropriate because Victoria's Secret's success with the infringing Miracle Bra swimwear line reflected Victoria's Secret's own selling power, not the strength of A&H's mark or the confusion created. Although the court correctly concluded that Victoria's Secret's profits should not be used as a measure of the harm caused by infringement, the conclusion does not mean that Victoria's Secret's benefit, or A&H's loss, was either inappreciable or incalculable.

Third, the court found that A&H did not suffer any pecuniary loss due to the infringement and may even have gained sales because confused customers intended to buy Victoria's Secret's suit but took home A&H's suit. The court's analysis fails to recognize that A&H lost its ability to distinguish its mark from Victoria's Secret's mark, and the monetary benefit from the confused sales does not redress that harm. The profits resulting from confusion evidence the extent to which Victoria's Secret overwhelmed A&H's mark and hampered A&H's ability to differentiate its product. The confused sales go to both of the Lanham Act's concerns: customers confused the origin of A&H's swimsuits, and A&H lost its brand identity. To offset A&H's potential for relief with the revenue gained from confused sales—the very money that reflects loss of brand identity—undercuts the decision of courts to recognize reverse confusion claims in the first place.

By comparison, the Seventh Circuit's treatment of the reverse confusion doctrine shows the court's appreciation of the harm to the senior
user and the need to compensate that harm. In *Sands, Taylor & Wood Co. v. Quaker Oats Co.*, the senior user held the rights to the registered trademark Thirst-Aid. The previous mark holder had used the mark on a wide variety of beverages and a third party had licensed the mark at another time for use in conjunction with soft drinks.\(^{107}\) The junior user, Quaker, kicked off a major marketing campaign, using "Thirst Aid" as a description of its Gatorade isotonic beverage product: "Gatorade is Thirst Aid for That Deep Down Body Thirst."\(^{108}\)

When the senior user saw the first "Gatorade is Thirst Aid" commercial, it contacted Quaker and claimed trademark infringement.\(^{109}\) Litigation ensued.\(^{110}\) The district court held that Quaker willfully infringed on the senior user's trademark and awarded ten percent of Quaker's Gatorade profits for the period during which Quaker used Thirst Aid in advertising. The court also awarded attorneys' fees.\(^{111}\) The court of appeals upheld the appropriateness of a monetary award, but remanded on the amount, instructing the district court to explain the ten percent award and its relation to the unjust benefit Quaker enjoyed from use of the trademark, as compared to the amount attributable to Quaker's own selling power.\(^{112}\)

The court of appeals suggested that a reasonable royalty most accurately reflected the benefit of use of the mark.\(^{113}\) Unlike the *A&H Sportswear* case, the senior user in *Sands, Taylor & Wood* had at one time negotiated licensing of the trademark, and the court felt comfortable using that royalty rate as a basis for assessing the value of the use of the mark.\(^{114}\) Although the decision of the court of appeals in *Sands, Taylor & Wood* validates the use of a royalty-based award to compensate the senior user, it wrongly suggests that an enhancement of the reasonable royalty rate may be necessary for deterrence.\(^{115}\) A better rationale for the enhancement is that the original royalty rate represents what the senior user willingly negotiated with a third party. Thus, an award for infringement should reflect the value of the forced license imposed because of the infringement, which will be more than the reasonable rate settled upon by willing parties.

\(^{108}\) *Id.* at 950.
\(^{109}\) *Id.* at 950–51.
\(^{110}\) *Id.*
\(^{111}\) *Id.* at 951.
\(^{112}\) *Id.* at 963.
\(^{113}\) *Id.*
\(^{114}\) *Id.* at 950.
\(^{115}\) *Id.* at 963 n.19.
III. Royalty-Based Damages Right the Wrong

The Lanham Act allows recovery through the profits of the defendant and/or the damages to the plaintiff.116 Traditional measurement of either damages or profits fails in cases of reverse confusion. The damage to a senior user in a reverse confusion case is loss of control of its mark, reputation, and goodwill.117 The intangible nature of goodwill and reputation make them hard to measure or compensate fully.118 In direct confusion cases, courts can measure damages by the loss of profits due to any sales diverted by the junior user. In reverse confusion cases, lost sales are not at issue. A&H Sportswear shows that, if anything, the senior user has gained sales because confused customers bought the senior user's product thinking it originated from the better-known junior user.119

Where measuring damages based on lost goodwill or lost sales in reverse confusion cases is inappropriate, measuring damages based on a share of the junior infringer's profits is also inappropriate because the profits reflect not the value of the trademark itself, but the goodwill of the junior user. Therefore, basing the award on the junior user's profits misses the mark.

A royalty-based award takes into account the junior user's profits, but focuses on the senior user's loss because it represents what the plaintiff should have received for use of the mark. It acknowledges a calculable part of the senior user's loss without trying to calculate the other losses, such as control of one's mark, reputation, and goodwill. The Third Circuit Court of Appeals, in remanding A&H Sportswear v. Victoria's Secret, discouraged the district court's initial award of a royalty for past infringement because most royalty awards arise in patent and trade secret cases or where a licensing party's use of a trademark turns into infringement.120 The Seventh Circuit in Sands, Taylor & Wood approved a generous approximation of royalties as a measure of the junior user's unjust enrichment, as well as the senior user's infringed-upon trademark rights.121 Although the history of licensing in Sands, Taylor & Wood provided the court with a reliable measure for a reasonable royalty rate,

120. See, e.g., A&H Sportswear, Inc. v. Victoria's Secret Stores, Inc., No. 94-cv-7408, 2002 U.S. Dist. LEXIS 233, at *19–*20 (E.D. Pa. Jan. 9, 2002) (noting "the lack of any lost sales, lost profits, or any other actual damage to Plaintiffs; and . . . the possibility that Plaintiffs might have actually gained business as a result of the reverse confusion").
121. Id. at *10.
courts should not decline to use a royalty rate in cases, such as *A&H Sportswear*, where there is no history of a license.

Finding a reasonable royalty is not a new issues for courts. The statutory relief for patent infringement, codified at 35 U.S.C § 284, allows for royalty rates. Section 284 instructs courts to award damages that adequately compensate for the infringement, which should be no less than a reasonable royalty for the use made of the invention by the infringer. To determine the royalty rate, the court may receive expert testimony. Although § 284 addresses the patent context, the idea that an infringed party's damages are assessable according to a royalty rate works in the trademark context as well.

Section 284 also allows the court to treble damages in cases of patent infringement. If courts use a royalty rate in trademark infringement cases to compensate the senior user (or, alternatively, make the junior user pay for use of the mark) they must enhance the reasonable rate. Without an enhancement, the royalty rate only equals the price upon which willing parties would settle and it forces the senior user into a license deal it never intended.

The need for royalty enhancement received notice in *Sands, Taylor & Wood* with the Seventh Circuit Court of Appeals advocating a "generous approximation" of a royalty rate. Judges Cudahy and Ripple agreed that the district court should use a reasonable royalty as a "baseline." The judges seemed to base the need for enhancement on a deterrence theory. A better enhancement justification, more in line with the Lanham Act prohibition on penalties, focuses on the fact that a reasonable royalty rate undervalues the forced license. A reasonable royalty does not suit a situation in which the senior user does not want to sell the use of its mark to the junior user. Especially in cases where the parties directly compete, the senior user would place a higher value on licensing its mark than it would in cases of willing negotiations with a non-competitor. Enhancements account for the forced nature of the license.

Under the Lanham Act, an appropriate rationale for enhancements is compensation for the senior user's loss; it is not appropriate to justify

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124. Id.
125. Id.
126. Id.
128. Id. at 969.
129. Id. (expressing Judges Cudahy and Ripple's agreement that the district court should use a reasonable royalty as a baseline and "take into account the possible need for deterrence").
130. See, e.g., *Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.*, 561 F.2d 1365, 1368 (10th Cir. 1977).
enhancements solely for deterrence purposes. Enhancements properly justified still promote deterrence. If courts consistently award a reasonable royalty for willful infringement, the junior user is not deterred.\textsuperscript{131} The junior user can try to negotiate for use of the mark; if the senior user refuses, the junior user knows that, at worst, it only faces paying a reasonable royalty rate, equal to what it would have paid in a negotiated license. In essence, the court condones the infringement by assessing what willing parties would have struck in negotiations.\textsuperscript{132} The enhancement can deter and compensate, but should be justified primarily as compensation, not deterrence.

\section*{Conclusion}

An enhanced royalty rate award best addresses the unjust enrichment in a case of willful, reverse confusion. Comparatively, other remedy measures available under the Lanham Act prove inappropriate. An assessment of profits in reverse confusion cases reflects the selling power of the junior user, not the gain to the infringer or the loss to the infringed. An assessment of damages requires the plaintiff to prove intangibles such as the loss of control of its mark, reputation, and goodwill, which sets the burden of proof too high to effectively address reverse confusion.

Although injunctions are the primary remedy in an infringement case because of the irreparable harm and inadequacy of monetary damages alone,\textsuperscript{133} an injunction alone is not enough in cases of willful infringement. An injunction fails to provide complete relief because it only addresses future harm and fails to address the past loss and unjust gain. Even when paired with attorneys' fees, the injunction still misses the harm caused up to the point of litigation.

Congress allows enhanced damages only because it recognizes the inexactitude of measuring damages in infringement cases and that the amounts arrived at by courts will often under-compensate the trademark holder. A reasonable royalty rate, which reflects the amount upon which willing parties would settle, needs enhancement to reflect the un-negotiated license forced upon the senior user.

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\bibitem{131} Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 575 F.2d 1152, 1158 (6th Cir. 1978) (deciding what constitutes a reasonable royalty in the context of patent infringement).
\bibitem{132} See Playboy Enters., Inc. v. Baccarat Clothing Co., 692 F.2d 1272, 1275 (9th Cir. 1982) (reversing an award of a reasonable royalty in favor of an accounting of profits because the reasonable royalty failed to make willful infringement unprofitable).
\bibitem{133} See Processed Plastic Co. v. Warner Comm., 675 F.2d 852, 858 (7th Cir. 1982) (assuming irreparable harm, an inadequacy of damages, and a balance of equities in favor of the plaintiff where trademark infringement occurred).
\end{thebibliography}
Courts must focus on the appropriate rationale for monetary relief, and they should recognize that properly justified awards still deter willful infringement. If courts fail to appropriately award infringed-upon senior trademark holders, companies with enough resources can adopt any desirable trademark as their own with little consequence. On the other hand, overly generous reverse confusion awards also present a problem. If awards represent windfalls to the senior user, rather than just compensation, junior users looking to extend their own mark may stay out of new markets because of a chilling effect from the windfall awards. The amount of the enhancement awarded by a court should reflect the need to compensate, and not the desire to deter. An enhanced royalty rate, with a conditioned injunction and attorneys' fees, prevents unjust enrichment in willful infringement cases without serving as a chilling penalty.