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MEASURING THE GAINS OF TRADEMARK INFRINGEMENT

Dennis S. Corgill*

Table of Contents

Introduction .................................................. 1910
I. The Rationales Underlying an Accounting of Profits ........................................ 1915
   A. The Mechanism of an Accounting .................. 1915
   B. The Use of an Accounting to Compensate .......... 1917
   C. Expanding the Rationales for an Accounting .... 1924
      1. Deterrence .................................... 1926
      2. Unjust Enrichment ............................ 1931
   D. The Shortcomings of Current Remedies ............ 1934
II. Expanding Views of the Infringer's Gains .......... 1937
   A. The Costs Avoided by Infringing a Trademark .... 1938
   B. The Benefits of Infringing a Trademark .......... 1941
      1. Sales to Consumers ............................ 1941
      2. Sales to Retailers ............................. 1942
   C. Benefits Without Profiting During Infringement ... 1949
III. Brandnames and Product Life Cycles ............... 1951
   A. Product Life Cycles ............................. 1951
      1. Successful Products ........................... 1953
      2. Unsuccessful Products .......................... 1956
   B. The Role of Trademarks in Product Success ...... 1958
   C. The Life Cycle of an Infringing Product ........ 1962
IV. Calculating the Infringer's Gains ................. 1965
   A. Formulating a New Approach ...................... 1965
   B. Benefiting Throughout the Life Cycle .......... 1969
      1. Actual and Estimated Life Cycles Successful ... 1969
      2. Actual and Estimated Life Cycles Unsuccessful .. 1972
      3. Actual Life Cycle Successful; Estimated Unsuccessful .... 1974
   C. Taking the Difference Between Life Cycles ...... 1976
   D. Estimating the Noninfringing Alternative ........ 1978
Conclusion .................................................. 1985

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INTRODUCTION

THE practice of allowing trademark holders to recover the gains of trademark infringers has a long and accepted history in trademark law. Before the merger of law and equity, a trademark holder who brought an action at law for damages could seek to recover the infringer's profits as a surrogate measure of the trademark holder's own injury for lost profits on diverted sales. Even when a trademark holder sought an injunction in equity, early courts allowed the trademark holder to obtain, in the same action, an accounting of the infringer's profits. Today, after the merger of law and equity, these practices continue. In fact, the infringer's profits are among the categories of monetary relief specifically authorized when the trademark holder elects to proceed under the Lanham Act.

Of course, not every remedy available to a trademark holder is designed to recover the gains of infringers. For example, the most commonly sought remedy is an injunction to halt further unauthorized use of a confusingly similar brandname. In addition, some monetary

1. For an historical overview of the development of trademark remedies, see James M. Koelemay, Jr., Monetary Relief for Trademark Infringement Under the Lanham Act, 72 Trademark Rep. 458 (1982).
3. See generally 1A Jerome Gilson, Trademark Protection and Practice § 8.08[3] (1995) (discussing the balancing “of equitable factors in determining whether to award an accounting of profits”); 4 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition §§ 30.25-26 (4th ed. 1996) (discussing courts’ ability to augment compensatory damages by exercising their equity power to grant remedial relief); Restatement Third, supra note 2, § 37(i) (stating that an infringer is “liable for net profits . . . resulting from the unlawful conduct”). Of the remedies typically available in trademark actions, the one that measures the gains of trademark infringement is an accounting of profits. Id. § 35-37.
4. 15 U.S.C. § 1117(a) (1994) (codifying section 35(a) of the Lanham Act). Section 35(a) is quoted, in pertinent part, infra in the text accompanying note 33. Unless specifically noted, this Article examines the award of an accounting of profits without distinguishing actions for deceptive marketing from actions for trademark infringement; nor does this Article distinguish actions at common law from actions under legislation, whether the Lanham Act or state legislation. See Restatement Third, supra note 2, § 37 cmt. a (stating that analogous rules apply in all contexts).
5. Injunctive relief is popular, not only because an injunction halts continuing infringement, but also because compensatory damages may be unavailable: The equitable remedy of an injunction was traditionally available only when the remedy of damages was inadequate . . . . Frequently, the harm is not reparable by an award of monetary relief because of the difficulty of proving the amount of loss and a causal connection with the defendant’s wrongful conduct. Thus, the judicial preference for injunctive relief in unfair competition cases is not an exception to ordinary remedial principles, but rather an application of those principles in a context in which injunctive relief is ordinarily the most appropriate remedy.

Restatement Third, supra note 2, § 35 cmt. a (citation omitted); see also id. § 36 cmt. b (“Because of the difficulty of establishing the fact and extent of loss attributable to [trademark infringement], the equitable action for injunctive relief became the pre-
When a trademark holder seeks to recover the gains of a trademark infringer, trademark law provides the remedy of an accounting of the infringer's profits. The rules that govern an accounting evolved in different contexts to serve a variety of rationales. For example, while the historical origins of an accounting are usually thought to lie in equity, accounting also have independent origins in common

10. Sands, 34 F.3d at 1350 (providing that a reasonable royalty “reflect[s] the actual loss” of the trademark holder); Ramada Inns, 804 F.2d at 1565 (stating that a reasonable royalty measures the loss of royalty payments during the period of infringement). Some courts erroneously approach the award of a reasonable royalty as though the award measures the defendant's profits. See, e.g., United States Olympic Comm. v. Union Sport Apparel, 220 U.S.P.Q. (BNA) 526, 531 (E.D. Va. 1983) (“Defendants' wrongful profits also may be measured alternatively by the amount of money that would have been charged by plaintiff for the authorized association of goods in the categories of defendants' goods, since this is the amount which defendants, by their infringement, have saved.”)

11. The Restatement Third describes an accounting in terms which suggest that an accounting provides a comprehensive measure of the gains of trademark infringement. See Restatement Third, supra note 2, § 37 cmt. a (“An accounting of profits measures and transfers to the plaintiff the gains resulting to the defendant from the wrongful conduct.”).

Although an accounting of the infringer's profits has sometimes been used as “an approximate measure of the plaintiff's damages,” id., the conceptual distinction between monetary remedies that measure the gains of trademark infringers and those that measure the harm to the trademark holders is clear and accepted. See 15 U.S.C. § 1117(a) (1994) (listing separately “defendant's profits” and “any damages sustained by the plaintiff”); Minnesota Pet-Breeders, Inc. v. Schell & Kampeter, Inc., 843 F. Supp. 506, 511 (D. Minn. 1993) (separately analyzing a “request for an accounting” as distinct from a “request for damages [which] will be considered as a request for actual damages [the trademark holder] may have suffered” (citation and emphasis omitted)); see also Restatement Third, supra note 2, § 36 cmt. a (“Damages measure . . . the loss suffered by the plaintiff. An accounting of profits measures the defendant's gain rather than the plaintiff's loss . . . .”).

12. This is true with regard to monetary remedies in general. For example, because early courts of equity granted monetary relief, “monetary awards were subject to traditional equitable principles” and today those principles “remain applicable to claims for monetary relief at common law.” Restatement Third, supra note 2, § 36 cmt. b; see also id. § 36 cmt. g (providing that “recovery of damages . . . [are] subject to equitable principles both at common law and under the Lanham Act”). Thus, equitable principles guide the award of monetary relief today, regardless of whether the cause of action is styled as one in equity or at law. In fact, all remedies authorized by § 35(a) of the Lanham Act, including monetary awards that compensate, are “subject to the principles of equity.” 15 U.S.C. § 1117(a).

remedies are designed to compensate the trademark holder for injuries that the trademark holder suffered because of infringement. These damages typically measure the injury to the trademark holder in terms of lost profits on diverted sales and injury to goodwill. Another compensatory remedy, the award of a reasonable royalty, is used less frequently. These damages measure the revenues that the

Section 34 of the Lanham Act, 15 U.S.C. § 1116 (1994), authorizes courts to grant injunctions in actions brought under § 43(a) of the Lanham Act, 15 U.S.C. § 1125. Injunctions also are available in actions brought under state common law as well as state trademark registration, unfair competition, and antidilution statutes. See Restatement Third, supra note 2, § 35 cmt. a ("The principles stated in this Section govern the appropriateness and scope of injunctive relief under these various statutory provisions as well as injunctive relief in actions at common law."); see also id. § 36 cmt. a ("[A]ntidilution statutes . . . generally provide only for injunctive relief.").

6. See generally Restatement Third, supra note 2, § 36 (summarizing the rules regarding recovery of "pecuniary loss" to a trademark holder).

7. See id. § 36(2)(a) (including among types of pecuniary loss to a trademark holder, "loss resulting . . . from sales or other revenues lost because of the actor's conduct").

8. See id. § 36(2)(c) (including among types of pecuniary loss to a trademark holder, "harm to the market reputation of the plaintiff's goods, services, business, or trademark"). A modern variant on damages for injury to goodwill is an award which compensates the trademark holder for necessary corrective advertising. Id. § 36(2)(d) (including among types of pecuniary loss to a trademark holder, "reasonable expenditures made by the [holder] in order to prevent, correct, or mitigate the confusion of deception of prospective purchasers resulting from the actor's conduct"). For cases discussing the propriety of a damage award for corrective advertising, see U-Haul Int'l, Inc. v. Jartran, Inc., 793 F.2d 1034, 1041 (9th Cir. 1986); Otis Clapp & Son, Inc. v. Filmore Vitamin Co., 754 F.2d 738, 745 (7th Cir. 1985); Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co., 561 F.2d 1365, 1374-75 (10th Cir. 1977); Cuisinarts, Inc. v. Robot-Coupe Int'l Corp., 580 F. Supp. 634, 640 (S.D.N.Y. 1984). See also Restatement Third, supra note 2, § 35 cmt. g ("[A] defendant will not ordinarily be required [by injunction] to engage in corrective advertising unless the adverse effects of the misconduct are likely to persist in the absence of such measures.").

9. In trademark, calculating a reasonable royalty typically is restricted to cases in which the basis for a royalty rate can be found in either a prior license with the infringer or prior license negotiations with the infringer. Bandag, Inc. v. Al Bolser's Tire Stores, Inc., 750 F.2d 903, 919-20 (Fed. Cir. 1984) (noting that, in the Fifth Circuit, "damages [are] to be awarded for unauthorized trademark usage by reference to a royalty rate under which the trademark was otherwise licensed, or by reference to a royalty rate offered by a party, but rejected by the trademark owner prior to infringement by the party" (citations omitted)); Boston Prof'l Hockey Ass'n, v. Dallas Cap & Emblem Mfg., 597 F.2d 71, 76 (5th Cir. 1979) (basing a reasonable royalty rate on prior negotiations); see also Restatement Third, supra note 2, § 36 cmt. d (explaining that the "royalty rate normally charged for licensing the trademark use made by the defendant . . . is typically invoked in cases involving licensees who continue to use the mark after termination of the license."); Siegrun D. Kane, Trademark Law: A Practitioner's Guide 275 (1991) ("Previous negotiations between the parties or custom in the trade can provide the basis for computing a reasonable royalty."). But see Sands, Taylor & Wood v. Quaker Oats Co., 34 F.3d 1340, 1343-45, 1351 (7th Cir. 1994) (approving a reasonable royalty in a case where the parties had not previously considered a license). Because royalty rates can vary from one license to another, some evidence of prior dealings typically is necessary to overcome an objection that the award is speculative. Ramada Inns, Inc. v. Gadsen Motel Co., 804 F.2d 1562, 1564-65 (11th Cir.
In addition, in trademark actions, courts have allowed accountings where the action is styled as one for the tort of unfair competition, and where the trademark is treated as a form of property right. What has emerged is a complex set of rules and rationales that courts do not apply consistently.

The treatment of trademark rights as property rights is evident in the principle that "unjust enrichment warranting an accounting exists when the defendant's sales 'were attributable to its infringing use' of plaintiff's trademark, and the burden of proving this connection is on the plaintiff." Burndy Corp. v. Teledyne Indus., Inc., 748 F.2d 767, 772 (2d Cir. 1984) (emphasis added) (citations omitted). In Burndy, the plaintiff and the defendant directly competed with products to which each had affixed the certification mark of a third party, Underwriters Laboratory. Some of the defendant's products did not meet the certification standard, and the plaintiff filed a lawsuit establishing liability for unfair competition under § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). Burndy, 748 F.2d at 768-69. On appeal, the Second Circuit addressed issues pertaining to remedies and upheld the district court's denial of an award of profits on the independent ground that the plaintiff did not own the trademark, here, a certification mark, that was infringed. Id. at 771-73.

If it is important to recover the gains of trademark infringers, an accounting of profits is not always the best way to measure those gains. Current accounting rules allow an infringer to escape payment for certain kinds of benefits that may flow from the unauthorized use of the trademark. For example, an accounting allows recovery of the infringer's profits only.\(^{19}\) An infringer who never turned a profit may escape payment of damages, even if unauthorized use allowed the infringer to avoid still greater financial losses. Also, an accounting applies to activity during the period of knowing infringement only.\(^{20}\) An infringer who gained access to the market may escape payment of damages, even if unauthorized use allowed the infringer to retain a greater market presence after the period of infringement.

What is missing from the literature is an analysis that first identifies the rationales courts have used to justify an accounting, and then determines whether a different approach to measuring the gains of trademark infringers would better serve the rationales that make sense. This Article begins with a brief overview of the rationales that courts have used to justify an accounting as a trademark remedy: compensation, deterrence, and unjust enrichment.\(^{21}\) Although originally thought to compensate the trademark holder for lost profits on diverted sales,\(^{22}\) it no longer makes sense to justify an accounting as compensatory.\(^{23}\) Recovery of the infringer's gain is instead consistent with the rationales of deterring infringement and preventing unjust enrichment. These rationales are not adequately served, however, be-

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19. See Restatement Third, \textit{supra} note 2, § 37(1) (stating that the infringer is “liable for the net profits earned on profitable transactions.”).

20. See id. § 37(1)(a) (stating that an accounting is available only if “the actor engaged in the conduct with the intention of causing confusion or deception.”).

21. Many modern opinions continue to recite a litany of all three rationales to justify an accounting. See, e.g., Roulo v. Russ Berrie & Co., Inc., 886 F.2d 931, 941 (7th Cir. 1989) (“Profits are awarded under different rationales including unjust enrichment, deterrence, and compensation.”), \textit{cert. denied}, 493 U.S. 1075 (1990); Burndy Corp. v. Teledyne Indus., Inc., 748 F.2d 767, 772 (2d Cir. 1984) (“Normally an accounting will be ordered only if the ‘defendant is unjustly enriched, if the plaintiff sustained damages from the infringement, or if an accounting is necessary to deter a willful infringer from doing so again.’”) (quoting W.E. Basset Co. v. Revlon, Inc., 435 F.2d 656, 664 (2d Cir. 1970))); United States Olympic Comm. v. Union Sport Apparel, 220 U.S.P.Q. (BNA) 526, 530 (E.D. Va. 1983) (“An accounting of an infringer’s profits should be granted if the infringer is unjustly enriched, if the trademark owner sustained damages from the infringement, or if an accounting is necessary as a deterrent to future infringements.”).

22. Restatement Third, \textit{supra} note 2, § 37 cmt. b (“An award of the defendant’s profits was traditionally justified as compensation to the plaintiff . . . [on] the inference that the profits earned by the defendant represented profits diverted from the plaintiff.”).

23. As is now recognized, “[t]he correspondence [between plaintiff’s and defendant’s profits] is clearly imperfect, however, since in most cases there is no reason to expect that every sale made by the defendant has been diverted from the plaintiff or that the profit margins of the parties are necessarily the same.” \textit{id.} § 37 cmt. b.
cause an infringer can benefit without earning profits during the period of knowing infringement.

The discussion continues by proposing a statistical model that provides a more comprehensive approach to measuring the gains of trademark infringement and, consequently, better serves the rationales of deterrence and unjust enrichment. Graphical depictions of the likely life cycles of successful and unsuccessful products help to illustrate different ways that an infringer can gain from unauthorized use. The graphical depictions suggest a formal statistical model that measures the difference between the infringer's revenues on the actual life cycle that includes infringement and an estimated life cycle that does not include infringement. The proposed model is more comprehensive than a traditional accounting because the model measures not only any increased revenues earned during the period of infringement, but also any additional gains from avoiding greater financial losses or obtaining a market presence that lasts after infringement ceases.

I. THE RATIONALES UNDERLYING AN ACCOUNTING OF PROFITS

The law of remedies serves a variety of rationales.24 The law of trademark remedies is no different.25 For example, an accounting of profits has served at least three rationales: compensation, deterrence, and unjust enrichment.26 To determine whether the traditional limitations on an accounting make sense today, this Part will first determine which of the traditional rationales continue to make sense today.

A. The Mechanism of an Accounting

Regardless of the rationale advanced, the mechanism for an accounting follows a consistent pattern that was established long ago. The initial burden falls upon the trademark holder to show the infringer's gross revenues from profitable transactions attributed to the unauthorized use.27 Unprofitable transactions are not included, and those losses do not offset the gains on profitable transactions.28 The

24. See generally 1 Dobbs, supra note 14, at 1-11 (providing an introductory discussion of four major categories of remedies, and rationales for each).
25. See generally 4 McCarthy, supra note 3, § 30.58 (providing an introductory discussion of factors considered in monetary remedies, and noting that the “public policy and theoretical basis underlying [remedies] have received inadequate judicial attention and have remained confused and undefined” (citation omitted)).
27. Restatement Third, supra note 2, § 37 cmt. d (“The plaintiff has the burden of proving the defendant's gross profits with reasonable certainty; mathematical precision is not required.”).
28. Burger King Corp. v. Mason, 855 F.2d 779, 781 (11th Cir. 1988) (per curiam) (“Of the thirteen restaurants found to infringe . . ., the profits on the six restaurants could not be offset by the losses incurred at the other seven restaurants . . . .”); Restatement Third, supra note 2, § 37 cmt. d (“[E]ach sale is an independent wrong to
burden then shifts to the trademark infringer to show allowable deductions.\textsuperscript{29} For example, the infringer can deduct production and marketing costs\textsuperscript{30} as well as any sales that can be attributed to any enhanced product qualities provided by the infringer.\textsuperscript{31} The result of this accounting is a damage figure that measures, with reasonable certainty, profits attributable to the unauthorized use of the trademark.\textsuperscript{32}

An accounting of the infringer’s profits has become a preferred remedy, especially after enactment of the Lanham Act. Indeed, an accounting is the first of the specific categories of monetary relief authorized by section 35(a):

When a violation of any right of the registrant of a trademark . . . shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, . . . 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. The court shall assess such profits and damages or cause the same to be assessed under its direction. \textit{In assessing profits the plaintiff shall be required}

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\item The result of this accounting is a damage figure that measures, with reasonable certainty, profits attributable to the unauthorized use of the trademark.
\item See generally Restatement Third, supra note 2, § 37 cmts. g, h (describing the kinds of costs that are deductible and how those deductions are measured).
\item Id. § 37 cmt. d (“Although a court will ordinarily infer that all sales of goods bearing an infringing designation are attributable to the infringement, the inference may be rebutted by evidence establishing . . . that the sales resulted solely from the inherent merits of the defendant’s product without regard to its source or sponsorship.”).
\item See Restatement Third, supra note 2, § 36 cmt. b (“[U]pon proof of the defendant’s gross sales the burden shifts to the defendant to prove [deductions].”). The shifting of the burden of proof often is justified by pointing out that any uncertainties were created by the infringer’s own activities. As one court explained: \textit{[I]n a trademark infringement case where the trademark owner seeks to recover the infringer’s unjust profits, “[a]ll the inconvenience and loss from the confusion is thrown upon the party who produces it; and this rule applies, even though the innocent victim’s share in the property wrongfully and inextricably commingled may apparently be a small part of the total.” } Wynn Oil Co. v. American Way Serv. Corp., 943 F.2d 595, 606 (6th Cir. 1991) (citation omitted).
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to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed.\textsuperscript{33}

An accounting has not been allowed for every instance of trademark infringement, although the circumstances under which an accounting is available have changed over time. For example, accountings were granted originally only where the infringer and the trademark holder directly competed.\textsuperscript{34} Now, accountings are available in a broader range of contexts that go beyond direct competition.\textsuperscript{35} In addition, accountings were granted originally only where the infringer engaged in willful or knowing infringement.\textsuperscript{36} This restriction remains today, although there is authority that the requirement of willful infringement may be relaxed.\textsuperscript{37} To understand why these rules of an accounting were imposed or relaxed, it is necessary to examine the rationales that courts have used to justify an accounting.

\subsection*{B. The Use of an Accounting to Compensate}

Historically, monetary relief was originally meant to compensate the trademark holder for lost profits on diverted sales and injury to goodwill. Early courts tended to restrict compensatory damages to fact situations in which the infringer competed directly with the trademark holder. Only in these fact situations did early courts believe that the trademark holder could show that infringer's unauthorized use diverted sales from the trademark holder's customers.\textsuperscript{38} Similarly, only

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\item 15 U.S.C. § 1117(a) (1994) (emphases added). Because § 35(a) of the Lanham Act subjects monetary relief to "the principles of equity," the enumerated remedies are not available as a matter of right. As one court explained: "The defendant is not entitled to an accounting to recover the plaintiff's profits. An accounting for an infringer's profits is an equitable remedy. The federal statute provides that the trademark owner's right to recover damages, profits and costs is "subject to the principles of equity." " Borg-Warner Corp. v. York-Shipley, Inc., 293 F.2d 88, 95 (7th Cir. 1961) (quoting 15 U.S.C. § 1117(a)). See generally Restatement Third, supra note 2, § 37 cmt. f (discussing general reasons for declining to award an accounting).
\item See Restatement Third, supra note 2, § 37 cmt. b ("The [historical] view of an accounting as a surrogate for plaintiff's lost profits resulted in a rule that an accounting was appropriate only in cases involving directly competing goods, since noncompeting goods could not divert sales from the plaintiff.").
\item See Roulo v. Russ Berrie & Co., Inc., 886 F.2d 931, 941 (7th Cir. 1989) ("Other than general equitable considerations, there is no express requirement that the parties be in direct competition . . . ."), cert. denied, 493 U.S. 1075 (1990).
\item See Restatement Third, supra note 2, § 36 cmt. b ("[P]roof of an intent to deceive is a prerequisite to an award of the defendant's profits . . . .").
\item See Roulo, 886 F.2d at 941 ("Other than general equitable considerations, there is no express requirement . . . that the infringer wilfully infringe the trade dress to justify an award of profits."); Restatement Third, supra note 2, § 37 cmt. c ("An award of defendant's profits, however, is ordinarily reserved for cases of intentional misconduct." (emphasis added)). See generally id. § 37 cmt. e (discussing reasons for imposing requirement of willful infringement).
\item See Restatement Third, supra note 2, § 37 cmt. b ("The view of an accounting as a surrogate for plaintiff's lost profits resulted in a rule that an accounting was ap-
in these fact situations did early courts believe that the trademark holder could show that the infringer's unauthorized use tarnished the trademark holder's business reputation among its customers.

Common law courts first granted accountings by reasoning that an infringer's profits are a surrogate measure of the trademark holder's own lost profits. This practice might be attributed to the difficulties of proof. There are many reasons for lack of success in the marketplace, only one of which is trademark infringement. Indeed, the problems of proving, with reasonable certainty, the amount and cause of lost profits or an injury to goodwill have long been recognized. Consequently, courts began looking to the infringer's success as an indirect measure of the trademark holder's loss. Accountings were justified by inferring that the infringer's profits derive entirely from sales that were diverted from the trademark holder. Even with this inference, an accounting is not a complete measure of the trademark holder's potential injuries; an infringer's profits bear no logical relation to damages for injury to the trademark holder's goodwill.

Courts of equity may have first awarded accountings because of concerns for judicial economy, but these courts also justified the recovery of the infringer's profits as compensatory. Before the merger of law and equity, courts recognized that a trademark holder might bring two actions, one in law for past damages and one in equity to enjoin future infringement. To avoid a multiplicity of lawsuits, courts of equity allowed trademark holders to seek, in a single action, proprie
t only in cases involving directly competing goods, since noncompeting goods could not divert sales from the plaintiff.

39. See id. § 36 cmt. b ("The plaintiff's sales are subject to a variety of forces, including business cycles, shifts in consumer demand, and the legitimate marketing strategies of competitors."). For a case in which the trademark holder did not show that its lack of success was due to unfair competition in violation of § 43(a) rather than the efforts of third party competitors, see Burndy Corp. v. Teledyne Indus., Inc., 748 F.2d 767, 769, 773 (2d Cir. 1984).

40. See Restatement Third, supra note 2, § 36 cmt. b (noting the "difficulty of establishing the fact and extent of loss attributable to a competitor's unfair competition").

41. Plaintiffs may have also preferred an accounting of profits because of the relative ease of satisfying the burden of proof. See id. § 36 cmt. b ("An accounting of the defendant's profits was thus often advantageous to the trademark owner, since upon proof of the defendant's gross sales the burden shifts to the defendant to prove [deductions]."); id. § 37 cmt. b ("[T]he accounting remedy is an attractive alternative to plaintiffs who otherwise must bear the burden of proving the fact and amount of loss . . . .").

42. See id. § 36 cmt. b ("Some courts assumed that the sales made by the defendant had been diverted from the plaintiff and thus regarded the defendant's profits as a measure of the plaintiff's damages.").

43. See id. ("The early preference for the action in equity blurred the distinction between a recovery of the plaintiff's damages and an award of the defendant's profits.").

44. See id. ("Prior to the merger of law and equity, a plaintiff alleging trademark infringement . . . could bring an action at law for damages or an action in equity for injunctive relief.").
an accounting of profits as well as an injunction. Some courts allowed these accountings by analogy to the established action, in equity, for an accounting of the profits of a trustee. Just as often, however, courts identified the purpose as compensatory and followed the lead of common law courts by using the infringer’s profits as a surrogate measure for the trademark holder’s own injury for lost profits.

From an economic perspective, the practice of using the infringer’s profits as a surrogate to compensate the trademark holder for lost profits on diverted sales is, at best, suspect. Historically, this remedy was limited to situations in which the infringer competed with the trademark holder. Where there is direct competition, the inference is that the infringer made and profited from sales that, but for the diversion caused by the infringement, would have yielded the same profits for the trademark holder. As discussed next, a more complex chain of inferences is necessary for this reasoning to make economic sense. Examining the additional limitations required by the additional infer-

45. See id. (“Courts of equity, in order to avoid the need for a separate action at law, sometimes awarded damages or an accounting of the defendant’s profits in addition to injunctive relief.”); id. § 37 cmt. b (“Accountings of profits in unfair competition cases were initially granted as ancillary relief in actions in equity, thus permitting an award of monetary and injunctive relief in the same action.”).

46. Cf. 1 Dobbs, supra note 14, at 608 (explaining that an accounting “reaches monies owed by a fiduciary or other wrongdoer, including profits produced by property which in equity and good conscience belonged to the plaintiff”).

47. See Restatement Third, supra note 2, § 36 cmt. b (“Many courts, however, did not recognize a sharp distinction between cases in which the plaintiff offered direct proof of actual loss such as diverted sales or harm to reputation and cases in which the plaintiff instead sought a recovery measured by the amount of the defendant’s gain.”).

48. Although this insight is not new, see id. (“[D]efendant’s profits may bear only a slight relationship to the loss sustained by the plaintiff . . . .”), courts and commentators have not taken the implications so far as to reject the compensatory rationale for an accounting of profits. In fact, even the Restatement Third continues to urge that an award of the infringer’s profits can be used to compensate the trademark holder. Id. § 36 cmt. c (“[I]n the absence of contrary evidence the court may conclude that the defendant’s profits adequately reflect the sales lost by the plaintiff.”). This view is reflected in the rule that courts may “permit[] . . . recovery of both damages . . . and an accounting of the defendant’s profits . . . , with the caveat that the plaintiff may not recover twice for the same loss.” Id. Double recovery is possible only if courts believe that defendant’s profits correspond, at least in part, to sales diverted from the plaintiff.

49. As a simple definition of competing products, this inference has a superficial appeal:

Product forms [or brands of the same product] can also be direct competitors in the sense that they serve as alternatives in satisfying the same need. Because product forms are close substitutes, a buyer of one product form is unlikely to be interested in a competing product form. Thus, the market gain of one product form usually comes at the expense of another.

Sak Onkvisit & John J. Shaw, Product Life Cycles and Product Management 11 (1989). As the text explains next, the inferences are more complex than the simple definition of competing products suggests. Id. at 11-18.
ences discloses that an infringer's profits are rarely, if ever, a reliable evidentiary surrogate for the trademark holder's lost profits.

Implicit in the practice of using the infringer's profits as an evidentiary surrogate is the inference that each sale of an infringing product must correspond to a lost sale of the trademarked product. Economic theory suggests that this limitation of a one-to-one correspondence is not likely. An infringer who enters a market with a typical, downward-sloping demand curve must offer a lower price to sell the additional quantity. Consequently, the infringer's sales result not only from existing sales diverted from the trademark holder, but also from new sales induced by the lower price.50 Rather than a one-to-one correspondence, the infringer likely will sell more products than the trademark holder will lose.51 Thus, if the accounting is calculated over all of the infringer's sales, the trademark holder's recovery is likely calculated over a greater number of sales than those actually diverted because of the infringement.52

Further, even if there is a one-to-one correspondence between infringing and diverted sales, using the infringer's profits as an evidentiary surrogate makes sense only if the infringer's profit margin is identical to the trademark holder's profit margin on diverted sales.53 This limitation on the infringer's price-cost margin is problematic.54 Because the infringer likely will lower its price to sell the additional quantity, the infringer's price likely will be lower than what the trademark holder would have charged had the added quantity not been on

50. Again, this insight is not new. See Restatement Third, supra note 2, § 36 cmt. c (“[N]ot all of the defendant's sales may represent sales diverted from the plaintiff . . . .”); id. § 37 cmt. b (“[I]n most cases there is no reason to expect that every sale made by the defendant has been diverted from the plaintiff . . . .”).

51. This is a concern in an analogous context whenever a company introduces a new product that competes with the company's existing products. The company wants to assure that the new product will sell more than existing products will lose. See Onkvisit & Shaw, supra note 49, at 33-35 (citing examples including the introduction of diet Coke; while 48% of sales were diverted from Coca-Cola's existing products, 52% came from new customers).

52. This bias might be offset by the future sales that the trademark holder may lose. In markets where customers develop brand loyalty and make frequent repeat purchases, one diverted sale may represent a diverted customer and the future purchases of that customer. If this is the case, however, the proper measure of compensatory damages is not the infringer's profits during infringement. Rather, the proper measure would be the present value of profits that would have been made from diverted customers.

53. Here, profit margin refers to what are commonly called "rents," that is, the difference between price and all costs, including a reasonable payment for fixed costs and other capitalized expenses that must be recovered over time to assure long-term financial success. David Ricardo, The Principles of Political Economy and Taxation, 33-45 (J. M. Dent & Sons ed. 1977) (n.p. n.d.).

54. See Restatement Third, supra note 2, § 36 cmt. c (“[T]he parties may have different profit margins . . . .”); id. § 37 cmt. b (“[I]n most cases there is no reason to expect that . . . the profit margins of the parties are necessarily the same.”).
the market. Moreover—and, as explained in greater detail below—because the infringer avoids the largely fixed costs of developing a trademark into a valuable marketing asset, the infringer's costs that are capitalized and recovered over time likely will be lower than those of the trademark holder. Thus, there is little reason to believe that the infringer's price-cost margin will mirror the trademark holder’s profits on lost sales.

Finally, using the infringer's profits to measure the trademark holder's lost profits implies that the trademark holder did not lose profits on sales that were not diverted. This limitation on the trademark holder's continuing price-cost margin is most problematic. Faced with the infringer's additional quantity and lower price, the trademark holder likely will lower the price of the trademarked product. If the trademark holder continues to sell the same quantity, gross revenues will decrease while costs stay the same, resulting in lower profits on sales that were not diverted. But, the infringer's additional quantity likely will divert some sales and lower the trademark holder's quantity. If the trademark holder has more than insignificant fixed costs, the lower quantity translates into higher average total costs which, in turn, further lower profits on sales that were not diverted. Here, there is little reason to believe that the trademark holder will not lose profits on sales that were not diverted.

The award of an accounting for compensatory purposes makes even less sense if the infringer does not directly compete with the trademark holder. The test of liability for trademark infringement—"a likelihood of confusion"—is not limited to contexts in which the infringer and trademark holder directly compete. For example, in—

55. Id. § 36 cmt. d ("[D]efendant's wrongful conduct may sometimes compel the plaintiff to sell its goods at a lower price.").
56. See infra text accompanying notes 137-38 & 173-74.
57. Of course, there is the possibility that the infringer's price will be less than the trademark holder's price by exactly the same amount that the infringer's costs are less than the trademark holder's costs. While theoretically possible, there is little reason to believe that this relation will, in fact, result. Indeed, different market forces determine the price that consumers will pay and the costs that producers will incur. See Onkvisit & Shaw, supra note 49, at 76-82 (explaining that marketers cannot control consumer variables but can influence and promote product characteristics.).
58. This likelihood is explicitly noted by the Restatement Third, which includes among the types of pecuniary loss to the trademark holder, "loss resulting from sales made by the plaintiff at prices that have been reasonably reduced because of the actor's conduct." Restatement Third, supra note 2, § 36(2)(b).
59. Perhaps this is why modern courts continuing to justify an accounting of profits as compensatory tend to restrict the accounting to transactions that were made in direct competition with the trademark holder. Minnesota Pet-Breeders, Inc. v. Schell & Kampeter, Inc., 843 F. Supp. 506, 514 (D. Minn. 1993) ("[A]ny award of profits under the theories of unjust enrichment, deterrence or sustained damages (compensation) [are limited] to those profits resulting from sales in the geographical area of plaintiff's actual product market penetration." (quotation omitted)).
60. A case commonly cited for its listing of the factors relevant to a determination of a likelihood of confusion includes in its list two factors which apply only if the
Fringement can be found if the infringer operates in a separate product market or geographic market that is within the natural zone of expansion for the trademark holder. Or, infringement can be found if the infringer operates in a separate market that is sufficiently proximate to the trademark holder's market. Provided that the use of a confusingly similar brandname on the infringing product is likely to lead consumers to believe that the infringing product comes from the same source as the trademarked product, it matters not whether the two products directly compete.

Where the infringer and trademark holder do not directly compete, it makes no economic sense to justify monetary relief as compensating the trademark holder for lost profits on diverted sales. If the infringing product is a complementary good whose purchase and use enhances the value of the trademarked product, the added competition in the market for the complementary good may actually benefit the trademark holder. The added competition likely will lower the price of the complementary good which, in turn, will lower the overall price that consumers pay for a package that includes both the complementary good and the trademarked product. This will increase demand for the trademarked product, even if the price of the trademarked product does not change. If, however, the infringing product is neither a substitute good that competes with, nor a complementary good that enhances, the trademark holder's product, there is no reason to believe that the trademark holder will lose sales, much less profits.

infringer and the trademark holder are not directly competing: "the proximity of the products" and "the likelihood that the prior owner will bridge the gap." Polaroid Corp. v. Polarad Elecs. Corp, 287 F.2d 492, 495 (2d Cir.), cert. denied, 368 U.S. 820 (1961); see also 3 McCarthy, supra note 3, § 27.32 ("With the possible exception of the Ninth Circuit, the courts have held that the plaintiff and the defendant need not be in direct competition with each other for the plaintiff to have standing to sue for injunctive relief under § 43(a).")

Cf. Restatement Third, supra note 2, § 35 cmt. c ("In determining the appropriate scope of injunctive relief, the court may also consider the extent to which the plaintiff has invested in planned expansion under the mark into other products or other geographic markets.").

Cf. id. § 35 cmt. f ("Courts may give relatively broader geographic protection when there is substantial similarity between the products and marketing methods of the plaintiff and the defendant.").

See supra note 35.

See Restatement Third, supra note 2, § 36 cmt. c.

An award of the defendant's profits in a case involving noncompeting products cannot reflect diverted sales; the purpose of the award ordinarily is to deprive the defendant of unjust enrichment and to deter future misconduct. In such circumstances the defendant's profits are awarded to the plaintiff notwithstanding the fact that they do not directly reflect any harm caused by the infringement or deceptive marketing.

Id.

See Onkvisit & Shaw, supra note 49, at 6-8 (stating that one competitive strategy is to bundle different products together and sell as a unit).
While compensating the trademark holder for lost profits on diverted sales and injury to goodwill is an important rationale for some trademark remedies, recovery of the infringer's profits is not geared to serve that rationale. To begin, the infringer's profits bear no logical relation to an injury to the trademark holder's goodwill regardless of whether the infringer and the trademark holder directly compete. In addition, an infringer's profits bear no logical relation to the trademark holder's lost profits on diverted sales if the infringer and the trademark holder do not directly compete. The only possibility for an accounting to serve a compensatory rationale is as a measure of the trademark holder's lost profits on diverted sales where the infringer and the trademark holder directly compete.

Even where the infringer and the trademark holder directly compete, it makes economic sense to use an accounting as a surrogate measure of the trademark holder's lost profits on diverted sales in limited contexts that rarely, if ever, make economic sense. The infringer must not only compete directly with the trademark holder, but there must also be a one-to-one correspondence of infringing sales to lost sales, an identity of profit margins on those sales, and no lost profits on the trademark holder's continuing sales. Economic theory teaches that such a limited context is not likely to be found. Consequently, to justify the recovery of an infringer's profits, a rationale other than compensating the trademark holder must be found.

A more fundamental point to be drawn from this discussion is that any remedy designed to recover the gains of infringers will not likely serve a compensatory rationale. Any injury to the trademark holder is logically and factually distinct from the gains of trademark infringement. A compensatory rationale is directed towards remedying inju-

66. See Restatement Third, supra note 2, § 37 cmt. b ("[i]n most cases there is no reason to expect that every sale made by the defendant has been diverted from the plaintiff or that the profit margins of the parties are necessarily the same." (emphasis added)).

67. This much can be drawn from the Seventh Circuit's opinion in Sands, Taylor & Wood v. Quaker Oats Co., 34 F.3d 1340 (7th Cir. 1994). There, the district court initially awarded 10% of the infringer's profits as an estimate of the trademark holder's actual loss. The Seventh Circuit thought this approach "methodologically flawed," id. at 1350, and its reasoning discloses that an award of the infringer's gains does not serve a compensatory rationale:

Based solely on an estimation of the amount of profits attributable to the illegality, such an award was not the most accurate possible reflection of the actual loss incurred by STW [the trademark holder]. We therefore required the district court to undertake a reassessment of its award that would require it to address more precisely the actual loss of STW. Accordingly, we held that the district court ought to begin with the one measure of actual damages that, if ascertained with reasonable certainty, could be said to reflect the actual loss of STW—the cost of a reasonable royalty.

Id.
ries to the trademark holder.\textsuperscript{68} There is little reason to believe, however, that the monetary damages suffered by the trademark holder will inexorably mirror the gains of the infringer. Consequently, to justify a remedy that recovers the gains of trademark infringement, a rationale other than compensating the trademark holder must be found.

C. Expanding the Rationales for an Accounting

The development of alternative rationales for trademark remedies did not begin with a modern understanding that the infringer's profits are not likely to indicate the trademark holder's own injury for lost profits on diverted sales. Wholly apart from the economic critique of using an accounting for compensation, courts have justified accountings to deter trademark infringement and to prevent unjust enrichment. Sometimes, these rationales are characterized as post-Lanham Act developments.\textsuperscript{69} The intellectual foundations for the deterrence and unjust enrichment rationales, however, were laid much earlier.\textsuperscript{70} Those foundations help to explain the rules of an accounting that remain today.

The rationales of deterrence and unjust enrichment seem implicit in the analogies that courts have drawn to other areas of law when discussing trademark infringement. Trademark law did not evolve from a single source. Trademark infringement can trace its lineage to tort

\textsuperscript{68} Cf. Badger Meter, Inc. v. Grinnell Corp., 13 F.3d 1145, 1157 (7th Cir. 1994) (holding that a monetary award based either on the loss of the plaintiff or the benefit to the defendant and "plaintiff's provable damages are the benchmark for . . . compensation.").

\textsuperscript{69} See Koelemay, supra note 1, at 487. In Koelemay's words:

Since the enactment of Section 35 in 1946, the law of monetary recovery has seen two major developments. First, the courts have enunciated two new rationales for awards of monetary relief, in addition to the traditional goal of compensating the trademark owner: prevention of unjust enrichment, and deterrence of future infringement.

\textit{Id.}

\textsuperscript{70} According to the Restatement Third, the application of these rationales to justify an accounting of profits was prompted by the extension of trademark liability to noncompeting goods:

[\textit{D}]eliberate infringement on noncompeting goods may not be sufficiently deterred if the plaintiff's inability to prove damages leaves an injunction as the only available remedy. Thus, courts gradually adopted the view that in an appropriate case an accounting of the defendant's profits could be awarded to prevent unjust enrichment and to deter future infringement. This perspective emphasizes the gains earned by the defendant rather than the losses incurred by the plaintiff.

Restatement Third, \textit{supra} note 2, § 37 cmt. b.
and, in particular, to actions for unfair competition. In unfair
competition, the focus of liability is upon wrongful conduct that in-
juries the consuming public, and remedies that deter wrongful conduct
are appropriate. In addition, trademark rights have historically been
characterized as a kind of property right. In property, the focus of
liability is upon the unauthorized use of the owner's exclusive rights.
There, remedies that recover the benefits of unauthorized use are
appropriate.

The analogies to tort and property, and the corresponding deter-
rence and unjust enrichment rationales, suggest different implications
for an accounting, but those implications are often intertwined and
difficult to separate. One reason is that modern courts typically apply
both rationales simultaneously and without distinguishing the separate
implications. Another is that both rationales suggest the same rules
of an accounting, although for different reasons. When courts inter-
pret or apply those rules, courts do not always distinguish the rationale
that suggests a particular interpretation or application. To
appreciate the rationales that are served by an accounting, it is useful
to try to separate the different implications of those rationales for cur-
rent accounting rules.

71. This conceptual analogy is evident in the inclusion of trademark law in the first
Restatement of Torts, see Restatement of Torts §§ 711-56 (1938), and the many refer-
ces to tort law that are found in the discussion of trademark law in the Restatement
(Third) of Unfair Competition. See, e.g., Restatement Third, supra note 2, § 35 cmt. a
(“The general rules relating to injunctive relief stated in Restatement, Second, Torts,
Chapter 48, apply in actions for unfair competition.”); id. § 36 cmt. a (“The general
rules relating to the recovery of compensatory damages in tort actions apply in actions
for unfair competition.”).

72. This historical origin is recognized today by the inclusion of the law of trade-
marks in the Restatement of the Law of Unfair Competition. Restatement Third,
supra note 2, §§ 9-37.

73. See supra note 16.

74. For example, both the unfair competition and property analogies are present
in the following summary of Lanham Act policies:

The purposes underlying the Lanham Trademark Act of 1946 are to protect
the public so it may buy a product bearing a particular trademark with confi-
dence that it will get the product it wants and to protect the holder of the
mark's investment in time and money from its misappropriation by pirates
and cheats.

Getty Petroleum Corp. v. Bartco Petroleum Corp., 858 F.2d 103, 105 (2d Cir. 1988)
(emphasis added), cert. denied, 490 U.S. 1006 (1989).

75. An example can be found in a case involving a trademark protected by the
Amateur Sports Act of 1978, Pub. L. No. 95-606, 92 Stat. 3045, where the court im-
plicitly referred to both property and unfair competition when justifying an account-
ing because the infringer's conduct was intentional. United States Olympic Comm. v.
Union Sport Apparel, 220 U.S.P.Q. (BNA) 526, 530 (E.D. Va. 1983) (“Where the
infringement is deliberate and willful, even if the products are non-competitive, both
the trademark owner and the buying public are slighted, if the court provides no
greater remedy than an injunction.” (emphasis added)).
1. Deterrence

In tort actions, the need to provide deterrence shifts the focus of monetary remedies from the victim's injuries to the tortfeasor's wrongful conduct. Compensation is provided by way of actual damages that measure the harm to the victim. Deterrence is provided by way of punitive or exemplary damages that provide a warning not to engage in tortious conduct. Exemplary damages are not awarded as a matter of right to the victim. Rather, exemplary damages are awarded in the public interest and to set an example that deters. The decision to award exemplary damages and the amount of the award are determined by examining the tortfeasor's conduct. Exemplary damages are reserved for egregious conduct, evidenced by the tortfeasor's wrongful intent. The amount of exemplary damages is geared to provide the necessary incentives to deter that kind of wrongful conduct.

Not surprisingly, courts have used the deterrence rationale to justify the recovery of a trademark infringer's profits: An accounting requires the same shift of focus as an award of exemplary damages in tort. In trademark, compensation is provided by way of other remedies that measure directly the trademark holder's lost profits on diverted sales, injury to goodwill, or lost royalty revenues. Deterrence in trademark is provided by way of an accounting that makes infringement unprofitable. Accountings are not awarded as a matter of right. They may be denied if, for example, an injunction is sufficient to halt further unauthorized use. The decision to award an accounting and the amount of the award are determined by examining the infringer's conduct. Accountings are reserved for instances of wilful

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76. See Restatement Third, supra note 2, § 36 cmt. n (stating that the purpose of punitive damages is to punish the wrongdoer for egregious conduct and that normally proof of malice or wilful misconduct is required).

77. Numerous courts have recognized that deterrence is achieved by making infringement unprofitable. See, e.g., Roulo v. Russ Berrie & Co., Inc., 886 F.2d 931, 941 (7th Cir. 1989) (stating that the trial court's primary function is to ensure that violating the Lanham Act is unprofitable), cert. denied, 493 U.S. 1075, (1990); Louis Vuitton S.A. v. Lee, 875 F.2d 584, 588 (7th Cir. 1989) (awarding treble damages for using the plaintiff's trademark); Otis Clapp & Son, Inc. v. Filmore Vitamin Co., 754 F.2d 738, 744 (7th Cir. 1985) (upholding a trial court's award of 15% of the defendant's sales); Playboy Enters., Inc. v. Baccarat Clothing Co., Inc., 692 F.2d 1272, 1274-1275 (9th Cir. 1982) (discussing the importance of deterrence in general); Masterpiece of Pa., Inc. v. Consolidated Novelty Co., Inc., 186 U.S.P.Q. (BNA) 134, 137 (S.D.N.Y. 1975) (“[T]he only way the courts can fashion a strong enough deterrence is to see to it that a company found guilty of willful infringement shall lose all its profits from its use of the infringing mark.” (quoting W.E. Bassett Co. v. Revlon Co., 435 F.2d 656, 664 (2d Cir. 1970))). If a trademark owner proceeds in common law but not under the Lanham Act, punitive damages may be awarded to achieve deterrence. See U-Haul Int'l, Inc. v. Jartran, Inc., 793 F.2d 1034, 1037 (9th Cir. 1986) (noting, but not reviewing, award of punitive damages on common law cause of action).

78. For an early case in which an injunction was granted but an accounting denied, see N.K. Fairbank Co. v. Luckel, King & Cake Soap Co., 116 F. 332 (9th Cir. 1902).
infringement. The amount is measured by the profits earned during the period of knowing infringement.

The use of a deterrence rationale by analogy to exemplary damages in tort has become problematic because of troublesome language in the Lanham Act. Section 35(a) provides that damages "shall constitute compensation and not a penalty." But, the same section also authorizes a trebling of compensatory damages, attorneys' fees in exceptional cases, and the enhancement of an award based upon the infringer's profits. Some courts have resolved this conflict by arguing that these measures are necessary to compensate the trademark holder when damages are difficult to prove. This argument is deficient when applied to an accounting of profits because, properly understood, an award of an infringer's profits is not compensatory. Thus, the requirement that damages must compensate conflicts with

79. Another reason for the requirement of willful infringement is that courts, recognizing that an accounting may not approximate damages and perhaps overcompensate the trademark holder, reserved an accounting for egregious instances of infringement. See Restatement Third, supra note 2, § 36 cmt. b (explaining that an accounting can produce "a potential windfall" to the plaintiff, and was therefore "generally reserved for cases of wilful infringement").

80. Courts and commentators have recognized that § 35 contains "problematic" and "troublesome" language. See, e.g., Zazu Designs v. L'Oreal, 979 F.2d 499, 507 (7th Cir. 1992) ("Punitive damages are problematic because the Lanham Act, although providing for the trebling of compensatory damages, forbids other penalties."; Ralph S. Brown, Civil Remedies for Intellectual Property Invasions: Themes and Variations, 55 Law & Contemp. Probs. 45, 74-76 (1992). Of course, if a trademark holder pursues a common law cause of action for unfair competition, there is no statutory impediment to an award of punitive damages to achieve deterrence. See Restatement Third, supra note 2, § 36 cmt. n ("A successful plaintiff in an action for unfair competition may recover punitive damages under the rules generally applicable to awards of punitive damages in tort actions.").


82. One court has pointed out, rather bluntly, the illogic of authorizing the trebling or enhancing of compensatory damages but, at the same time, forbidding penalties: "It is anomalous to say that an enhancement of damages, which implies an award exceeding the amount found 'compensatory,' must be 'compensatory' and not 'punitive.'" Taco Cabana Int'l, Inc. v. Two Pesos, Inc., 932 F.2d 1113, 1127 (5th Cir. 1991), aff'd on other grounds, 505 U.S. 763 (1992).

83. Id. ("[E]nhancement could, consistent with the 'principles of equity' promoted in section 35, provide proper redress to an otherwise undercompensated plaintiff where imprecise damage calculations fail to do justice, particularly where the imprecision results from defendant's conduct."); ALPO PetFoods, Inc. v. Ralston Purina Co., 913 F.2d 958, 970 (D.C. Cir. 1990) ("This provision gives the court discretion to enhance damages, as long as the ultimate award qualifies as 'compensation and not [as] a penalty.'"); see also Sands, Taylor & Wood v. Quaker Oats Co., 34 F.3d 1340, 1351 (7th Cir. 1994) ("Enhancement of the damages attributable to a lost royalty in order to ensure that the malefactor, and not the victim, bears the burden of any uncertainty in its calculation is a permissible way of achieving [compensation]."); Boston Professional Hockey Ass'n, Inc. v. Dallas Cap & Emblem Mfg., Inc., 597 F.2d 71, 77 (5th Cir. 1979) ("[W]e might agree that increased damages may be justified by defendant's withholding or misrepresenting available sales records, which would have the effect of making much more difficult, if not impossible, plaintiffs' proof of damages or profits.").
an award of the infringer's profits, and the prohibition against a penalty conflicts with an enhancement of an award of those profits.

The better explanation is provided by courts that resolve the tension in the statutory language by arguing that Lanham Act remedies, like tort remedies in general, should protect the public interest and deter future misconduct.\(^{84}\) Courts following this view caution, for example, that "monetary relief . . . must be great enough to [deter] infringement but must not be so large as to constitute a penalty."\(^{85}\) An accounting seems well suited to strike this balance. By depriving infringers of the profits of unauthorized use, an accounting makes infringement unprofitable and takes away any incentive to infringe.\(^{86}\) Moreover, by limiting an accounting to the gains of unauthorized use, the award leaves the infringer no worse off than if the infringer had not infringed in the first place.

Deterrence is now an accepted rationale for an accounting of a trademark infringer's profits,\(^{87}\) and that rationale implies its own constraints for monetary relief. For example, whereas remedies that compensate the trademark holder for lost profits on diverted sales are needed only where there is direct competition, remedies that provide deterrence are needed wherever an infringer engages in wrongful con-

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84. See Sands, 34 F.3d at 1351 ("[I]n some circumstances, an enhancement might be necessary to ensure that the victim will not once again experience a second loss at the hands of the malefactor.").

85. Otis Clapp & Son, Inc. v. Filmore Vitamin Co., 754 F.2d 738, 744 (7th Cir. 1985). This certainly is the prevailing argument in the Seventh Circuit, see Sands, 34 F.3d at 1346-51 (reviewing caselaw), although the Seventh Circuit still seems to cling to the view that enhancement may serve a compensatory rationale. Id. at 1349-50 ("[E]nhancement of an award under this section as a method by which a fair recovery might be approximated when damages and profits are not easily ascertainable.").

86. See supra note 77.

87. United States Olympic Comm. v. Union Sport Apparel, 220 U.S.P.Q. (BNA) 526, 530 (E.D. Va. 1983) ("An accounting of profits should be awarded as a deterrent against future infringements."); Restatement Third, supra note 2, § 37 cmt. f ("[T]he need for an effective deterrent also remain[s] important in determining whether an accounting is appropriate."). The general acceptance of the deterrence rationale for an accounting of profits is indicated by the preference of an accounting to an award of a reasonable royalty. A reasonable royalty is a compensatory remedy designed to measure the revenues that the trademark holder lost because the infringer failed to obtain a license and to pay a royalty. An accounting, however, is better suited for deterrence. Awarding a reasonable royalty, which should have been paid anyway, leaves the infringer in the same position as had the infringer obtained a license and may even allow the infringer to retain some profits and thereby gain from unauthorized use. Sands, 34 F.3d at 1351 ("There is no incentive to engage in protracted, expensive, and perhaps unsuccessful licensing negotiations when the consequence of getting caught for trade piracy is simply to pay what should have been paid earlier."); see also Restatement Third, supra note 2, § 36 cmt. d ("[D]amages measured by a reasonable royalty rate provide little disincentive against infringement since they leave the infringer no worse off than one who properly obtains a license . . . ."). An accounting, which deprives the infringer of all profits, is better suited to deter unauthorized use by providing incentives either to avoid infringement or to obtain a license. See Sands, 34 F.3d at 1350 ("When profits are the appropriate measure of damages, . . . the deterrence objective of the [Lanham] Act has been satisfied.").
Deterrence focuses, not upon any injury to the trademark holder, but upon the wrongful conduct of the infringer. Thus, an accounting need not be limited to fact situations in which the infringer deprives the trademark holder of the benefits of using the trademark in the trademark holder's own market. Rather, an accounting becomes a potential remedy to address wrongful conduct in any context and regardless of any injury to the trademark holder.  

The deterrence rationale also implies constraints that mirror both the rules of an accounting and the circumstances in which exemplary damages are awarded in tort. For example, exemplary damages are typically allowed where the tortfeasor intended the wrongful conduct. Similarly, accountings are typically allowed where the infringer wilfully infringed. The inference in both situations is that the prospect of monetary relief will not deter innocent conduct, even if ultimately determined illegal. Consistently with this view of deter-

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88. This approach seems implicit in the basic orientation now taken by the Restatement Third: “An accounting of profits measures and transfers to the plaintiff the gains resulting to the defendant from the wrongful conduct.” Restatement Third, supra note 2, § 37 cmt. a.  
89. Indeed, one court has gone so far as to base an award of profits on the need to deter wilful infringement, even though neither the public's interests in promoting fair competition nor the need to prevent unjust enrichment were present: Although we have seen no evidence that the defendant has been unjustly enriched specifically by the use of [the infringing brandname,] and no evidence that the public has suffered confusion, an accounting and award of defendant's profits from the sale of the infringing article will be granted “to deter a willful infringer from doing so again.” Masterpiece of Pa., Inc. v. Consolidated Novelty Co., Inc., 186 U.S.P.Q. (BNA) 134, 137 (S.D.N.Y. 1975) (quoting W.E. Bassett Co. v. Revlon Co., 435 F.2d 656, 664 (2d Cir. 1970)); see also Web Printing Controls Co., Inc. v. Oxy-Dry Corp., 906 F.2d 1202, 1205 (7th Cir. 1990) (stating that recovery of profits under § 35(a) “flow not from the plaintiff's proof of its injury or damage, but from its proof of the defendant's unjust enrichment or the need for deterrence.”); Roou v. Russ Berrie & Co., Inc., 886 F.2d 931, 941 (7th Cir. 1989) (“[A]n award of profits was appropriate under either a deterrence or unjust enrichment theory even if plaintiff's actual sustained losses may have been less.”), cert. denied, 493 U.S. 1075 (1990).  
90. See generally 1 Dobbs, supra note 14, at 455. As Dobbs explains: Punitive damages are sums awarded in addition to any compensatory or nominal damages, usually as a punishment levied against a defendant found guilty of particularly aggravated misconduct, coupled with a malicious, reckless or otherwise wrongful state of mind. Sometimes those damages are called exemplary damages in reference to the idea that they make an example of the defendant. Id. (citations omitted).  
91. See id. at 468 (“Punitive damages are awarded when the defendant is guilty of both a bad state of mind and highly serious misconduct.”).  
92. In fact, the intent of the infringer is a factor that is considered when determining whether an award for compensatory purposes is appropriate. See Restatement Third, supra note 2, § 36(3)(c) (stating that the appropriateness of “damages for pecuniary loss” depends upon factors which include “the intent of the actor and the extent to which the actor knew or should have known that the conduct was unlawful.”).  
93. In the economics literature, it has long been recognized that, for deterrence to work, a potential wrongdoer must know of the potential remedy and account for that
rence, courts limit an accounting to the period of knowing infringement.94 The accounting period begins when the infringer becomes aware, or should have become aware, of the rights of the trademark holder and the need for deterrence arises. The accounting period ends when infringement and the need for deterrence ceases.

The deterrence rationale implies another constraint that mirrors both a factor that is used to calculate exemplary damages in tort and one of the rules of an accounting. One factor that affects the amount of exemplary damages in tort is the wealth of the tortfeasor.95 A smaller award is thought sufficient to deter a tortfeasor with less wealth. Similarly, an accounting looks only to profitable transactions in which, by analogy, the infringer obtains wealth. Losses on unprofitable transactions are arguably sufficient to deter infringement. Consistent with this view of deterrence, courts limit an accounting to only profitable transactions. The accounting does not include unprofitable transactions, which market forces are thought to deter.96 Moreover, and seemingly to assure adequate deterrence on profitable transac-

remedy in its profit-maximizing calculus. Cf. Restatement Third, supra note 2, § 37 cmt. b (“The deterrence justification also suggests that an award of profits is inappropriate in cases of innocent infringement.”). Courts recognize as much when they note that, for deterrence to work for trademark infringers, remedies must deprive the infringer of all profit. Playboy Enters., Inc. v. Baccarat Clothing Co., Inc., 692 F.2d 1272, 1274-75 (9th Cir. 1982) (“The judicial penalties imposed under such an approach would be simply factored into the infringer’s profit and loss statement. If after deducting this ‘judicial expense’ the entrepreneur still earns a suitable return on his investment he will continue the infringing activities.”); see also Burndy Corp. v. Teledyne Indus., Inc., 748 F.2d 767, 773 (2d Cir. 1984) (“[W]ith the absence of any willful false representations on [the infringer’s] part, which is a relevant factor, no need for deterrence is shown.” (citation omitted)).

94. In addition, the infringer’s wilfulness is used to justify other remedies that serve the deterrence rationale. Gorenstein Enters., Inc. v. Quality Care-USA, Inc., 874 F.2d 431, 436 (7th Cir. 1989) (“These provisions [treble damages, attorney’s fees, and prejudgment interest under § 35(a)] are properly invoked when, as in this case, the infringement is deliberate.”).

Technically, however, there is nothing in the § 35(a) authorization of remedies or, for that matter, common law precedent, that mandates a finding of wilfulness to justify an accounting. See Roulo v. Russ Berrie & Co., Inc., 886 F.2d 931, 941 (7th Cir. 1989) (“Other than general equitable considerations, there is no express requirement . . . that the infringer willfully infringe the trade dress to justify an award of profits.”). Rather, the requirement seems to flow from equitable considerations and inferences from the logic of deterrence.

95. See 1 Dobbs, supra note 14, at 485-86 (cautioning that the theory behind punitive damages is that “the trier must know something about the defendant’s financial condition in order to inflict a liability [of punitive damages] that will have an appropriate sting, and proof may show either a wealthy defendant or a poor one” (footnotes omitted)).

96. Of course, to the extent the infringer can benefit from unauthorized use on unprofitable transactions, the infringer is not deterred. This aspect of an accounting actually provides incentives to infringe. See infra text accompanying notes 228, 233, 236-38, 240.
tions, losses on unprofitable transactions may not offset the gains on profitable transactions.97

2. Unjust Enrichment

The rationale of preventing unjust enrichment in trademark originates from characterizations of trademark rights as a kind of property right.98 Certainly, the rationale of unjust enrichment is not restricted to disputes over property rights.99 Where property rights are at issue, however, principles of unjust enrichment dictate that the defendant should disgorge any gains that would be unjust to retain. This remedy is not compensatory because a defendant may be required to disgorge gains that go beyond any injury to the plaintiff for the loss of exclusive rights to the property.100 Rather, the rationale of preventing unjust enrichment shifts the focus of monetary remedies from the plaintiff’s injuries to the character of the defendant’s unauthorized use. Where an accounting was allowed for the profits of the trustee, for example, the unjust character of retaining the gains from an unauthorized use of the beneficiary’s property was established because the trustee breached a fiduciary duty.101

Here as well, courts have not surprisingly used the unjust enrichment rationale to justify recovery of a trademark infringer’s profits: An accounting requires the same shift of focus as an award of unjust enrichments. In trademark, compensation is provided by other remedies that directly measure the trademark holder’s lost revenues on diverted sales, injury to good will, or lost royalty revenues. Unjust enrichment in trademark is prevented by the remedy that requires the infringer to disgorge profits that would be unjust to retain. Not every unauthorized use of a trademark, however, results in gains that are deemed unjust. Whether the infringer is unjustly enriched is determined by examining the infringer’s conduct. Where the infringer

97. Of course, to the extent the infringer can benefit from unauthorized use on unprofitable transactions, market forces do not deter those transactions, and this limitation on an accounting actually provides incentives to infringe.
98. See supra note 16. Of course, one can find judicial statements to the effect that, because the primary purpose of the Lanham Act is consumer protection, a property analogy is inapposite. See Sands, Taylor & Wood v. Quaker Oats Co., 34 F.3d 1340, 1355 (7th Cir. 1994) (Cudahy, J., concurring in part and dissenting in part) (“[R]estitution, a property based measure of damages, is inconsistent with the nature of a trademark holder’s rights.” (emphasis omitted)). Even if this restrictive view of the Lanham Act is accepted, it does not thereby apply to trademark actions that proceed under the common law or state antidilution statutes.
99. See 1 Dobbs, supra note 14, at 552-54 (summarizing the contexts in which the principles of unjust enrichment applied through the remedy of restitution).
100. Indeed, in trademark infringement, an unjust enrichment rationale may justify damages that go beyond any amount needed to compensate the trademark holder. Roulo v. Russ Berrie & Co., 886 F.2d 931, 941 (7th Cir. 1989) (“[A]n award of profits was appropriate under . . . unjust enrichment theory even if plaintiff’s actual sustained losses may have been less.”).
101. See supra note 46.
wilfully infringes, the gains of trademark infringement are deemed unjust and an accounting is warranted.

Unjust enrichment is now an accepted rationale for an accounting of the infringer's profits, and that rationale implies its own constraints for monetary relief. For example, whereas remedies that compensate the trademark holder for lost profits on diverted sales are needed only where there is direct competition, remedies that prevent unjust enrichment are needed wherever it would be unjust for the infringer to retain the gains of unauthorized use. Unjust enrichment focuses, not upon any injury to the trademark holder, but upon the character of the gains of the infringer. Thus, an accounting need not be limited to fact situations in which the infringer deprives the trademark holder of the benefits of using the trademark in its own market. Rather, an accounting becomes a potential remedy to deprive an infringer of the unjust gains of unauthorized use in any context, regardless of any injury to the trademark holder.

The unjust enrichment rationale also implies constraints that mirror both the characterization of enrichments as unjust and the rules of an accounting. For example, in unjust enrichment, the character of the defendant's conduct determines whether it is unjust for the defendant to retain the enrichments. Similarly, in trademark infringement, the character of the infringer's conduct determines whether it is unjust for the infringer to retain the gains of infringement. Accountings are typically allowed where the infringer wilfully infringed. The inference is that whereas an innocent infringer does not retain gains unjustly, an

102. Restatement Third, supra note 2, § 37 cmt. f ("The extent to which the defendant would otherwise be unjustly enriched . . . remain[s] important in determining whether an accounting is appropriate.").

103. Indeed, at least one court has noted that a reasonable royalty, which is a compensatory remedy, is not well suited to deprive the infringer of unjust enrichments. Sands, Taylor & Wood v. Quaker Oats Co., 34 F.3d 1340, 1350 (7th Cir. 1994) ("[R]oyalty payments pose difficult problems with respect to the need to ensure that the defendant has been divested of its ill-gotten gain.").

104. Nonetheless, some courts continue to justify accountings in terms of the unjust enrichments that flow from diverted sales. See Burndy Corp. v. Teledyne Indus., Inc., 748 F.2d 767, 772 (2d Cir. 1984) (noting that accounting "appears to have been limited to situations in which the defendant's profits represent unjust enrichment derived from diversion of business that clearly would otherwise have gone to the plaintiff.").

105. See Web Printing Controls Co. v. Oxy-Dry Corp., 906 F.2d 1202, 1205 (7th Cir. 1990) (noting that recovery of profits under § 35(a) "flow not from the plaintiff's proof of its injury or damage, but from its proof of the defendant's unjust enrichment or the need for deterrence."); ALPO PetFoods, Inc. v. Ralston Purina Co., 913 F.2d 958, 968 (D.C. 1990) ("The unjust-enrichment theory, which emerged in trademark cases in which the infringer and the infringed were not competitors, holds that courts should divest an infringer of his profits, regardless of whether the infringer's actions have harmed the owner of the infringed trademark.").

106. See 1 Dobbs, supra note 14, at 557-62. ("The fundamental substantive basis for restitution is that the defendant has been unjustly enriched by receiving something, tangible or intangible, that properly belongs to the plaintiff. Restitution rectifies unjust enrichment by forcing restoration to the plaintiff.").
intentional infringer does.\textsuperscript{107} Consistent with this view of unjust enrichment, courts limit an accounting to the period of knowing infringement. The accounting period begins when the infringer becomes aware, or should have become aware, of the rights of the trademark holder and the retention of any gains become unjust. The accounting period ends when infringement and the unjust character of the infringer’s conduct ceases.

The unjust enrichment rationale implies another constraint that mirrors both a characteristic of the rules of an accounting and a characteristic of unjust enrichment. The rationale of preventing unjust enrichment is implicated only if the defendant gained from the unauthorized use.\textsuperscript{108} Similarly, an accounting looks only to profitable transactions. Indeed, at first glance it seems intuitive that an infringer is not enriched if the infringer suffers a loss by incurring costs without recovering a profit. Consistent with these views of unjust enrichment, courts limit an accounting to profitable transactions. The accounting does not include unprofitable transactions from which the infringer is not thought to be enriched.\textsuperscript{109} Moreover, losses on unprofitable transactions may not offset the enrichments from profitable transactions.

The deterrence and unjust enrichment rationales seemingly have led to the same constraints for an accounting, albeit for different reasons. An accounting is not restricted to contexts in which the infringer and the trademark holder directly compete. The need to deter wrongful conduct or to prevent unjust enrichment is not gauged by injuries to the trademark holder or restricted to contexts in which the trademark holder suffers lost profits on diverted sales. In addition, an accounting is limited to the period of knowing infringement because monetary relief will not deter innocent infringement and because an innocent infringer does not unjustly retain gains. An accounting is also limited to profitable transactions arguably because market forces already deter unprofitable transactions and because an infringer is not enriched by unprofitable transactions.

\textsuperscript{107} See Burger King Corp. v. Mason, 855 F.2d 779, 781 (11th Cir. 1988) (per curiam) ("Nor is an award of profits based on either unjust enrichment or deterrence dependent upon a higher showing of culpability [than knowing and deliberate use of another’s trademark] on the part of the defendant, who is purposely using the trademark."); United States Olympic Comm. v. Union Sport Apparel, 220 U.S.P.Q. (BNA) 526, 530 (E.D. Va. 1983) ("Defendants were unjustly enriched by their acts which deliberately appropriated to themselves plaintiff’s goodwill.").

\textsuperscript{108} See supra note 106.

\textsuperscript{109} Of course, to the extent the infringer can benefit from unauthorized use on unprofitable transactions, the infringer is enriched, and this approach to an accounting actually provides incentives to infringe. See infra text accompanying notes 228, 233, 236-38, 240.
D. The Shortcomings of Current Remedies

After the merger of law and equity, theoretical analogies became of less importance as courts expanded the use of an accounting. Whether trademark rights are characterized by analogy to tort or property seems of less concern today.\textsuperscript{110} The deterrence\textsuperscript{111} and unjust enrichment rationales are now accepted as trademark law principles in their own right,\textsuperscript{112} and modern courts readily use those rationales to justify an accounting of profits to measure the gains of trademark infringement.\textsuperscript{113} Following these rationales, an accounting no longer is limited to fact situations in which the infringer competes directly with the trademark holder. Today, a likelihood of confusion establishes liability, and profitable transactions during the period of knowing infringement opens the door to an accounting of the infringer’s profits.\textsuperscript{114}

Courts have expressed concerns, however, that the current structure of trademark remedies may not adequately serve the rationales of deterrence and unjust enrichment.\textsuperscript{115} Courts have explicitly voiced this concern with respect to deterrence. For example, one court has noted:

\begin{quote}
It seems scarcely equitable . . . for an infringer to reap the benefits of a trade-mark he has stolen, force the registrant to the expense and delay of litigation, and then escape payment of damages on the theory that the regis-
\end{quote}

\textsuperscript{110} See Restatement Third, supra note 2, § 35 cmt. a (“With the merger of law and equity, courts are now generally free to select the remedy or combination of remedies that most effectively protects the interests threatened by the defendant’s misconduct.”).

\textsuperscript{111} Sands, Taylor & Wood v. Quaker Oats Co., 34 F.3d 1340, 1348 (7th Cir. 1994) (“Our circuit has recognized that the need for deterrence is an important dimension of section 35(a).”).

\textsuperscript{112} In fact, the deterrence rationale is used as a guiding principle with regard to other trademark remedies. Sands, Taylor & Wood v. Quaker Oats Co., 978 F.2d 947, 963 n.19 (7th Cir. 1992) (“[I]n determining the appropriate award [based on a reasonable royalty], the court may take into account the possible need for deterrence . . . .”), cert. denied, 507 U.S. 1042 (1993).

\textsuperscript{113} See, e.g., Burger King Corp. v. Mason, 855 F.2d 779, 781 (11th Cir. 1988) (per curiam) (“An accounting for profits [makes] infringement unprofitable, and is justified because it deprives the defendant of unjust enrichment and provides a deterrent to similar activity in the future.”(citations omitted)); Maltina Corp. v. Cawy Bottling Co., Inc., 613 F.2d 582, 585 (5th Cir. 1980) (“This accounting serves two purposes: remedying unjust enrichment and deterring future infringement.”). Some courts continue, however, to add the compensatory rationale as one that justifies an accounting. See supra note 21. The Restatement Third, treats deterrence and unjust enrichment as among the factors that will determine whether an accounting is appropriate. Restatement Third, supra note 2, § 37(2)(c).

\textsuperscript{114} See Burger King, 855 F.2d at 781 (per curiam). It is “well settled that a plaintiff need not demonstrate actual damage to obtain an award reflecting an infringer’s profits under § 35.” Id. (citing both deterrence and unjust enrichment rationales); see also Minnesota Pet-Breeders, Inc. v. Schell & Kampeter, Inc., 843 F. Supp. 506, 511-12 (D. Minn. 1993) (“A plaintiff need not prove actual damage or injury to obtain an injunction [under common law or Lanham Act]; it need only establish a likelihood of confusion among consumers.” (citation omitted)).

\textsuperscript{115} This concern is not one of recent vintage, as is apparent from the following remarks in a 1956 opinion:

\begin{quote}
It seems scarcely equitable . . . for an infringer to reap the benefits of a trade-mark he has stolen, force the registrant to the expense and delay of litigation, and then escape payment of damages on the theory that the regis-
that, where current remedies fail to provide monetary relief, "an award of little more than nominal damages would encourage a counterfeiter to merely switch from one infringing scheme to another as soon as the infringed owner became aware of the fabrication."116 Certainly, the trademark holder might succeed in obtaining an injunction. But, as another court noted, "[t]o impose on the infringer nothing more serious than an injunction when he is caught is a tacit invitation to other infringement."117

Courts have been less direct when voicing concerns that the current structure of trademark remedies may not adequately prevent unjust enrichment. This concern, however, may help explain a portion of the oft-criticized opinion in U-Haul International, Inc. v. Jartran, Inc.118 There, Jartran engaged in false comparative advertising in violation of common law and section 43(a) of the Lanham Act.119 An element of damages awarded to U-Haul was the cost of Jartran's advertising campaign.120 The district court did not award this amount as compensation for injuries to U-Haul. Rather, the court reasoned that the advertising campaign benefited Jartran, and the benefits were at least equal to the amount that Jartran expended on the advertising campaign.121

On appeal in U-Haul, the Ninth Circuit seemed to realize that an infringer can be unjustly enriched even if the infringer does not profit. In fact, Jartran objected to the award of its advertising costs because, during the advertising campaign, Jartran had not been profitable as a whole. The Ninth Circuit rejected this argument but did not focus this element of damages upon the infringer's profitable transactions or, for that matter, justify the cost of the advertising campaign as a surrogate measure of the infringer's profitable transactions. Rather, the court

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118. 793 F.2d 1034 (9th Cir. 1986).
119. Id. at 1038.
120. The district judge had calculated damages using two, distinct methods:
    The first method relied on revenue projections for the U-Haul System as a whole [which] indicated that the U-Haul System experienced a substantial revenue shortfall of $20 million in actual damages. The second theory relied on the cost of the advertising campaign to Jartran, $6 million, and the cost of corrective advertising by the U-Haul System, $13.6 million [which] also produced an award of $20 million.
U-Haul, 793 F.2d at 1037. The Ninth Circuit reviewed and affirmed only "the calculation of the award based on advertising expenditures and the doubling of the award under Section 35 of the Lanham Act." Id.
121. Id. at 1042.
upheld the award as a measure of "the financial benefit Jartran received because of the advertising." Implicitly, the court recognized that an infringer can benefit from unauthorized use in ways that are not measured by an accounting of profits.

A hypothetical example might help to illustrate how the current structure of trademark remedies may not adequately serve the rationales of deterrence and unjust enrichment. The hypothetical is designed, perhaps dramatically, to demonstrate how an infringer can benefit by using a confusingly similar brandname, and yet pay no damages whatsoever. The contours of the hypothetical are not meant to imply limitations on fact situations in which these concerns might arise. In fact, when a more comprehensive approach to measuring the gains of trademark infringement is introduced later, the contours of the hypothetical will be noted and relaxed.

To illustrate, consider a company that begins producing a new product knowing that operations will not become profitable until a minimum quantity is sold each month. To select a brandname, the company examines and mimics the trademark of an established and successful firm. Or, perhaps the company unwittingly designs a brandname that is confusingly similar to a strong and valuable trademark. The company does not, however, directly compete with the trademark holder or, for that matter, operate in a manner that tarnishes the trademark holder's goodwill. Therefore, compensatory damages for lost profits on diverted sales or injury to goodwill are not available. In addition, the company and the trademark holder have had no prior dealings with respect to licensing. Consequently, the calculation of a reasonable royalty is likely to be speculative and, for that reason, not available.

During infringement, the infringer's sales are slow at first, because retailers have not previously dealt with the company. Gradually, sales increase as the company becomes known to retailers and consumers associate the confusingly similar brandname with the quality and image that is symbolized by the established trademark that the company is infringing. Before our hypothetical company becomes profitable, however, the trademark holder files an action for infringement, estab-

122. Id.
123. This aspect of the illustration is not all that hypothetical, for surprisingly large numbers of new products are introduced each year, see Onkvisit & Shaw, supra note 49, at 19-21 (providing selected statistics and notable examples), and many of those new products will fail to reach profitability. See id. at 21-24 ("Of thousands of new products introduced each year, the overwhelming majority will fail.").
124. Cf. Restatement Third, supra note 2, § 36 cmt. c, illus. 3 (measuring injury to consumer perception of high quality by lost revenues on reduced number of sales).
125. See supra note 9.
lishing liability and obtaining injunctive relief.\textsuperscript{126} The company immediately discontinues use of the infringing brandname.\textsuperscript{127}

After infringement ceases, the company adopts a new and clearly dissimilar brandname. When the infringer changes its brandname, sales fall, but not because retailers have no experience with the company. Retailers continue to select and feature the infringer's product as they did prior to the lawsuit. Rather, sales temporarily decline primarily because production slows to await new labels and packaging with the new brandname. Sales subsequently increase, but at a lower rate of increase. Consumers need more time to associate the new and noninfringing brandname with the same quality and image that the established trademark conveyed.

In the hypothetical, an accounting of profits provides no relief for the trademark holder or, for that matter, any deterrence or recovery of unjust enrichment. The infringer never had a profitable transaction before discontinuing unauthorized use and, consequently, never had profits for which to account. That does not mean, however, that the infringer did not benefit from the unauthorized use. In the hypothetical, the infringer enjoyed increasing sales both during and after the period of infringement. To understand how unprofitable transactions during the period of infringement can actually provide benefits to an infringer, it is important to appreciate the marketing roles of trademarks and how those roles are different, depending upon the effective point of sale.

II. Expanding Views of the Infringer's Gains

A trademark is a marketing tool.\textsuperscript{128} Thus, a trademark infringer usurps the marketing benefits of another's trademark. To appreciate

\textsuperscript{126} Trademark holders with strong evidence of liability do not need to wait for a final judgment to obtain injunctive relief but, instead, typically obtain preliminary injunctive relief. See Restatement Third, supra note 2, § 35 cmt. h ("Absent special circumstances, courts will ordinarily grant a preliminary injunction in a trademark infringement action if there is strong evidence of a likelihood of confusion.").

\textsuperscript{127} See id. § 36 cmt. c ("An injunction is often insufficient, however, if the plaintiff has suffered a pecuniary loss or if the defendant has been unjustly enriched by the wrongful conduct.").

\textsuperscript{128} See generally J. Paul Peter & James H. Donnelly, Jr., Marketing Management: Knowledge and Skills 119 Highlight 6-4 (2d ed. 1989) (summarizing advantages of branding). Indeed, a popular brandname is a powerful marketing tool that participants in the chain of distribution cannot ignore:

To the extent that a manufacturer has developed strong customer [loyalty] through advertising and promotion, a particular retailer's control over that manufacturer's brand may be reduced or negated. Virtually every grocery store in the United States carries Heinz and Hunt's ketchups because of strong customer loyalty to those brands. Few retailers would be willing to risk loss of customer patronage by failing to carry such widely demanded products.

Donald J. Bowersox et al., Management in Marketing Channels 273-74 (1980) (footnote omitted). Retailers and wholesalers also recognize the value of trademarks as a
the gains of trademark infringement, this part will first explore the costs of developing a trademark into a valuable asset to demonstrate how infringement creates benefits at different points of sale, regardless of whether particular transactions are profitable.

A. The Costs Avoided by Infringing a Trademark

Historically, trademarks served the marketing function of identifying a single source for a product, even if consumers did not know the identity of the source. Today, however, trademarks do much more. Courts now recognize that trademarks also signal the quality of a product or the styled image associated with a particular line of goods. Information about the quality and image of a product is im-

marketing tool, and consequently, have started to develop their own. Id. at 273 (noting “[i]ncreasing use of private brands by retailers”); id. at 277 (“Adoption of distributor brands is another means through which wholesalers have been able to increase retailer dependence.”); id. at 278 (noting use of “private labels” by voluntary organizations of independent retailers such as Independent Grocers Association, Western Auto, and Ben Franklin Stores).

129. Today, courts continue to recognize this function of trademarks: “[W]hile the public is not required to identify the actual name of the manufacturer/trademark owner, the public must perceive that the product emanates from a single source.” Ginger Group, Ltd., v. Beatrice Co., 678 F. Supp. 555, 560 (E.D. Pa. 1988) (citing Premier Dental Prods. v. Darby Dental Supply Co., 794 F.2d 850, 856 (3d Cir. 1986)).


131. See L.L. Bean, Inc. v. Drake Publishers, Inc., 811 F.2d 26, 30 (1st Cir. 1987) (“ ‘Famous trademarks offer a particularly powerful means of conjuring up the image of their owners, and thus become an important, perhaps at times indispensable, part of the public vocabulary.’ ” (quoting Robert C. Denicola, Trademarks as Speech: Constitutional Implications of the Emerging Rationales for the Protection of Trade Symbols, 1982 Wis. L. Rev. 158, 195-96)).

In some cases, the brandname itself may become an implicit but desired attribute because the brandname is itself the style that consumers want: A product, however, also possesses implicit characteristics which are for the most part intangible. These implicit characteristics, although less obvious and often overlooked, can be just as, if not more, important than their tangible counterparts. Such implicit attributes may include brand name . . . . These implicit attributes offer implicit performance in the sense that they provide certain rewards that are associated with some brands but not with others. While all cars offer the same basic and obvious benefit (i.e., transportation), some offer a greater number of implicit benefits. A Cadillac is certainly different from a Yugo or a Hyundai in terms of implicit performance (e.g., prestige). Sony, likewise, consciously emphasizes the brand’s implicit aspects by proclaiming “It’s a Sony.”

See Onkvisit & Shaw, supra note 49, at 4-5.
important to purchasers, and much of marketing focuses upon conveying these kinds of information to market participants. Thus, a trademark can be a valuable marketing tool, especially if the trademark signals important information more efficiently than other forms of marketing, such as general advertising or point of sale promotions.

A trademark, however, does not become a valuable marketing tool overnight. A new brandname with which market participants have little experience may not signal much, if anything, to retailers who select products to carry or to consumers who purchase particular products. Gradually, however, market participants may come to associate the trademark with a particular source, level of quality, or stylized image. When these associations become fixed in the minds of market participants, the trademark signals important marketing information about the product to market participants. Only then does

132. Trademarks may go even further and create an “aura” that surrounds a product or the context in which the product is sold. For example, the trademark of a franchise may signal the atmosphere at the franchise as much as the source, quality, or style of the food:

Consumers buy ice cream not because of the physical ingredients but because they expect much more. As explained by Irvin Robbins of Baskin-Robbins, “We don’t sell ice cream; we sell fun.” Baskin-Robbins’s variety of ice cream flavors is a reflection of this statement. Among the flavors offered are Nutcracker Sweet, Jack Lemmon, Hold That Lime, and Here Comes the Fudge.

Onkvisit & Shaw, supra note 49, at 3-4; see also id. at 5 (stating that because “[o]ne can get just as drunk drinking cheap stuff,” a distiller “is really selling . . . the glamour and prestige that is found in a bottle of Seagram”). For additional examples of brands that are associated with status and prestige, see Michael E. Porter, Competitive Advantage: Creating and Sustaining Superior Performance 143 (1985) (citing as examples, Smirnoff vodka and the Gulfstream III business jet).

133. As one author has noted, because buyers have incomplete knowledge, buyers often look to a variety of “signals of value”: “Buyers use such indications as advertising, reputation, packaging, the professionalism, appearance, and personality of supplier employees, the attractiveness of facilities, and information provided in sales presentations to infer the value a firm will or does create.” Porter, supra note 132, at 139. Trademarks can be added to this list. See Peter & Donnelly, supra note 128, at 119 (“A good brand speeds up shopping for the customer and thus reduces the marketer’s selling time and effort.”).

134. Trademarks are not the only ways that producers signal value to market participants. See Porter, supra note 132, at 144-46 (1983) (listing twelve typical signalling criteria).
the trademark gain strength\textsuperscript{135} and become a valuable marketing tool.\textsuperscript{136}

As a marketing asset, a valuable or strong trademark is best characterized as a fixed cost. To be sure, each sale of a product to which the trademark is affixed helps market participants associate the trademark with a unique marketing message. But, from the perspective of the trademark holder, the variable costs of affixing the trademark to each product are minimal. The significant costs of developing the trademark lie elsewhere. One cost is in the initial selection and design of a trademark, a process that may involve market surveys and other research efforts.\textsuperscript{137} Another cost consists of other marketing efforts, such as general advertising, that prompt consumers to purchase the product so that they can begin associating the trademark with a unique marketing message.\textsuperscript{138} A potentially significant cost includes efforts to investigate and prosecute unauthorized uses. All of these costs are fairly characterized as fixed because these costs do not vary with the quantity of the product that is produced.

Because an established trademark represents a fixed cost marketing asset, unauthorized use enables an infringer to avoid fixed cost marketing efforts. By copying an established trademark—or using a brandname that is confusingly similar—the infringer may avoid many of the initial costs of selecting and designing a trademark. So too, the infringer avoids some of the costs of other marketing efforts that initially prompt consumers to purchase the infringer's product. Almost by definition, an infringer will avoid costs of investigating and prosecuting unauthorized uses. Even if the infringer must defend an action for infringement, the infringer will gain if the infringer can benefit in

\textsuperscript{135} The use of the word "strength" in the text is not unintentional, for the strength of a mark has legal significance:

Thus, the rationale is that the more distinctive, unique and well-known the mark, the deeper is the impression it creates upon the public's consciousness and the greater the scope of protection to which it is entitled. The legal strength of a mark is usually the same as its economic and marketing strength.

\textsuperscript{136} See Onkvisit & Shaw, supra note 49, at 5 ("[C]onsumers often base their purchase of products on symbolic representations within those products such as fashion, value, status, prestige, and so forth.").

\textsuperscript{137} See id. at 26-27 (citing examples of test marketing to determine, among other things, market reaction to brandnames); Douglas J. Dalrymple & Leonard J. Parsons, Marketing Management: Strategy and Cases 346-47 (4th ed. 1986) (describing sources for brandnames and citing example of test marketing).

\textsuperscript{138} Where the type of product is new, as opposed to a new brand of an existing product, some of these marketing efforts may be directed towards creating generic demand so that consumers will try the new kind of product. See Onkvisit & Shaw, supra note 49, at 105 ("[A] market leader can continue to combine both primary [generic] demand and selective [brand-specific] demand in his advertising because he is assured of a large proportion of any increase in demand.").
TRADEMARK GAINS

ways that are not reflected in damage remedies, such as an accounting of profits that is restricted by traditional limitations.

B. The Benefits of Infringing a Trademark

Although trademark infringement allows the infringer to avoid fixed cost marketing efforts, the primary benefits of using an established trademark are the increased sales and revenues that flow from the use of a valuable marketing tool.\(^{139}\) The object of marketing, including the development of a strong and valuable trademark, is to increase sales and gross revenues.\(^{146}\) By using an already established trademark, the infringer also stands to benefit from increased sales. Indeed, this much has been long recognized by courts that use an accounting as a surrogate measure of the trademark holder's loss of sales. The sales lost by the trademark holder and diverted to the infringer are, from the infringer's perspective, sales that increased as a benefit of infringing upon a valuable trademark.

1. Sales to Consumers

The benefits of the increased sales and revenues that flow from infringement can be appreciated on two levels, each of which suggests a different effective point of sale in the chain of distribution. One, and perhaps the most obvious, is the level of consumer purchases. In modern commerce, consumers often do not have the time, expertise, or opportunity to inform themselves about products before each purchase.\(^{141}\) When making repeat purchases of the same kind of product, consumers often rely upon trademarks and the reputations associated with trademarks.\(^{142}\) By purchasing the same brand, con-

\(^{139}\) See Peter & Donnelly, supra note 128, at 119 Highlight 6-4 (stating that "[w]hen a customer finds it convenient to repeat purchases by brand, promotion costs are reduced and sales volume is increased").

\(^{140}\) Of course, marketers also strive to lower costs by achieving marketing goals by the most efficient means. Bowersox et al., supra note 128, at 235 ("The goal of a manufacturing operation in channel design is to achieve effective performance of all marketing functions at the minimum total cost expenditure."); Peter & Donnelly, supra note 128, at 185 ("In terms of distribution costs, it generally is assumed that the total system should be designed to minimize costs, other things being equal.").

\(^{141}\) See Chester R. Wasson, Dynamic Competitive Strategy & Product Life Cycles 37 (3d ed. 1978) ("The buyer hopes to find a dependable source for a key item in some use-system and thus avoid further search and experimentation."). The desire to reduce search costs is increasingly true for women, whose growing participation in the work force limits the amount of time available for consumer activities. See Onkvisit & Shaw, supra note 49, at 46-48 (noting that "modern working women find it difficult to shop during regular shopping hours" and that "[m]arketers have now begun to recognize the changing role of women").

\(^{142}\) See Peter & Donnelly, supra note 128, at 119 ("[B]rand loyalty provides protection from competition because the brander, in effect, is given a customer franchise."); Wasson, supra note 141, at 33 ("[A]ssociations and experience can often affect the reception and sales of a product more strongly than anything done directly by current advertising or in terms of current product itself.").
sumers strive to assure that they obtain the same level of quality or stylized image with each purchase. So too, when trying a new product or new brand of a product, consumers may rely upon established trademarks with which they are well acquainted, even if consumers became acquainted with those trademarks on a different kind of product. Consequently, unauthorized use benefits infringers through increased sales where the effective point of sale is at the level of consumer purchases.

2. Sales to Retailers

Consumers are not the only market participants, and infringers may benefit on the level where sales are made to retailers. It is not

143. Here, the benefit of a valuable trademark as a marketing tool is with inducing not so much the initial or trial purchase, but rather repeat purchases or adoption: Adoption should not be considered the equivalent of a trial purchase. A one-time purchase is not an adoption, but continued purchases do constitute an adoption. A consumer's adoption involves the conviction that the purchased product is desirable, and this conviction involves an acceptance or commitment on the part of the consumer as related to the product. Onkvisit & Shaw, supra note 49, at 62.

144. See Onkvisit & Shaw, supra note 49, at 124 (“Brand extension is the strategy to extend a brand, usually a popular one, by putting the name on new products.”); Peter & Donnelly, supra note 128, at 119 Highlight 6-4 (“Good brands can enhance the company's name, simplifying the introduction of additional products.”). This consumer characteristic suggests a competitive strategy for an established firm that is not the first to market a new kind of product: “By extending an established and popular name to a new product, a company can minimize the strategic advantage of the first entrant.” Onkvisit & Shaw, supra note 49, at 113.

145. Courts recognize the marketing role of trademarks where the effective point of sale is to consumers. United States Olympic Comm. v. Union Sport Apparel, 220 U.S.P.Q. (BNA) 526, 529 (E.D. Va. 1983) (The development of a strong and valuable trademark “creates the opportunity for others to ride on the goodwill of [the trademark holder] in the effort to attract customers to goods and services which may be thought by consumers to be in some way associated with [the trademark holder].” (quotation and citations omitted)).

146. The discussion in the text follows a rather simplified view of distribution and omits the consideration of other kinds of channel participants, such as wholesalers, who may play significant roles. See Bowersox et al., supra note 128, at 194-96 (“Small manufacturers usually must rely on wholesalers for product distribution.”); Peter & Donnelly, supra note 128, at 179-85 (describing variety of channels of distribution for consumer and industrial goods); see also id. at 176 (“[P]roducers use marketing intermediaries [such as wholesalers and retailers] because the intermediary can perform functions more cheaply and more efficiently than the producer can.”). This simplification does not detract from the central point being made in the text, that to the extent the effective point of sale is not at the level where sales are made to consumers, trademark infringement may produce benefits that linger after infringement ceases.

147. The importance of distribution policy, where sales are made to retailers with the hopes of obtaining the best distribution services, is now well recognized. See Wasson, supra note 141, at 241-43 (recognizing that “distribution policy is just as sensitive to the phases of the product life cycle as any other element of the mix”); Porter, supra note 132, at 123 (noting how a producer can advantageously differentiate its products through selection of distribution channels); Bowersox et al., supra note 128, at 189 (“Effective and efficient market performance is directly related to the structure of the distribution channel.”).
feasible for retailers to carry every brand of every product available. Of course, retailers who specialize in particular kinds of products will not purchase products outside of their area of specialization. Beyond that, however, retailers may select products or brands of products depending upon the reputation that the retailer seeks to foster for its outlet. Retailers who emphasize low prices may seek out brands that cost the least. Retailers who emphasize quality may carry brands that meet minimum product standards. And, retailers who emphasize fashion may carry brands that are associated with a particular stylized image.

Even when a retailer has selected particular brands for its outlet, a retailer does not treat every brand equally. Not every product is favored with a prime location, such as preferred shelf space, where the product can be displayed advantageously to consumers. In fact, some manufacturers today pay significant fees to retailers to assure that retailers place their products on preferred shelf space. Similarly, not every brand is favored by inclusion in the outlet's own marketing efforts. Here as well, some manufacturers today provide financial support to retailers to assist in the outlet's marketing efforts, even though those efforts may feature or promote the outlet as much as any particular brand.

To the extent that consumers shop by choosing a particular outlet and then purchasing a product made available by the retailer, the effective point of sale is the decision by the retailer to select and feature a product. Interestingly, when manufacturers test market a new product, they seek to determine, among other things, "distribution acceptance" or the willingness of retailers to select and feature the new product. See id. at 26-28 (Minnetonka found that Softsoap "gained retailers' acceptance easily because it was the first product form of its kind, offering retailers higher gross margins without product duplication."). Indeed, a retailer has every incentive to develop a marketing strategy that develops a loyalty among consumers to shop at that particular retail outlet. Of course, such a loyalty among consumers bestows market power upon the retailer. See Bowersox et al., supra note 128, at 272-74 (discussing sources of market power for retailers). See id. at 349 (noting that, when resale price maintenance was no longer available to manufacturers, discount houses emerged in retailing).

See generally Howard P. Marvel & Stephen McCafferty, Resale Price Maintenance and Quality Certification, 15 Rand J. Econ. 346 (1984). From the manufacturer's perspective, this is sometimes known as a "push" strategy: "The manufacturer may encourage channel members to carry the product by offering high margins, free cases, 'buy five, get one free,' trade promotions such as retail displays and cooperative advertising allowances, and sales-force training and aids." Id. at 237.

See Wasson, supra note 141, at 93-94 (citing food store example where price-quality relationships on some items attract consumers who then purchase other items); id. at 181 ("[E]ven when the availability is comparable, buyers usually have
ture the product at its outlet. To be sure, the decision to carry a product is influenced by the cost of the product to the retailer. Just as significant are other factors that can be best characterized in terms of the personal reputation of the producer. Retailers may prefer producers with a reputation for independently promoting their own brands. Or, retailers may prefer producers with a reputation for working with retailers, either to design products that consumers prefer or to resolve warranty problems after sales. Retailers may also prefer producers with a reputation for filling orders promptly.

156. As one author has noted:

The decision maker may not necessarily be the person who pays for the product (e.g., the doctor, not the patient, chooses drugs) and may be different from the user (e.g., the purchasing agent chooses a product used in the plant). The [distribution] channel may also make its own decision . . . to stock a firm's product and whether the firm is a desirable supplier. Porter, supra note 132, at 140-41 (1985). And, as others noted, "The supporting concept [for one kind of marketing strategy] is that profitable volume can be added if products can be exposed to any point-of-sale location patronized by the desired target market clientele." Bowersox et al., supra note 128, at 238. See generally id. at 336-35 (noting that all channel participants seek to develop customer loyalty and engage in "competition for differential advantage").

157. As one author has noted: "In addition, [distribution] channels will have their own use criteria that measure sources of value in a firm's dealings with them. For example, channels will often want credit, responsiveness to inquiries, or technical support that the end buyer may not notice at all." Porter, supra note 132, at 143-44; see also id. at 125 (noting that "channel linkages" are ways to coordinate and jointly optimize activities with dealers).

158. From the manufacturer's perspective, this is sometimes known as a "pull" strategy:

One outstanding example of a channel pull strategy is the marketing practice followed by breakfast cereal processors. Major cereal companies utilize all forms of mass communications to create a brand preference among consumers. The objective of a pull strategy is to stimulate sufficient consumer desire for the brand to encourage or force retailers to stock that as well as other products sold by the same manufacturer.

Bowersox et al., supra note 128, at 237.

159. One group of authors noted that, where retailers become powerful, they can sometimes take the lead in product development:

Ultimately the [retail] chain [of stores] may become so powerful that it can dictate product designs and innovations to manufacturing firms. Some grocery chains have their own test kitchens which constantly look for new formulations and products to satisfy consumers. Once these products are developed, the chain seeks a manufacturer to act as a source of supply for the item. Other examples can be found in many industries ranging from apparel to furniture where leading retail chains employ their own staff designers and have products manufactured to specification.

Id. at 275.

160. See Wasson, supra note 141, at 243 (explaining that a "specialty manufacturer [selects] a few outlets in order to make it interesting to that outlet to continue to handle and to work with the manufacturer").

161. See generally Bowersox et al., supra note 128, at 210-13 (discussing importance of transportation, warehousing, and inventory costs in channel design). This factor is important to toy retailers. Id. at 266 ("All [toy] retail outlets, however, were very
or providing flexible payment terms.\textsuperscript{162} Finally, retailers may prefer producers with a reputation for maintaining a particular level of quality or stylized image.\textsuperscript{163}

In fact, one of the most difficult tasks of marketing a new product to consumers today is to convince retailers to select and feature a particular brand.\textsuperscript{164} Gaining a toehold in a retail outlet is not an easy task,\textsuperscript{165} especially for a new producer who does not already enjoy a

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\textsuperscript{162} See id. at 269 ("[Toy] manufacturers might offer retailers quantity discounts, prepayment of shipping charges, promotional allowances and deferred payment terms."); id. at 313 ("[To finance increased inventories] working capital can be raised... by leaning on one's suppliers and delaying payment on accounts payable, thereby losing any discount terms...").

\textsuperscript{163} See Wasson, supra note 141, at 32 ("Similarly, products distributed through prestige channels and outlets, initially at least, tend to gain a prestige image. And a premium product cannot be sold in an outlet associated with low-end products.").

\textsuperscript{164} This is especially true for a new kind of product or product innovation. See Onkvisit & Shaw, supra note 49, at 62 (explaining that a new kind of product "is relatively useless to consumers unless marketers are willing to assume risks in introducing the new item."). Other commentators have expressed the same:

If customers are inclined to demand a particular brand, retailers and, consequently, wholesalers will be anxious to participate in marketing new products because of potential benefits. On the other hand a small manufacturer of a new product may find it difficult to attract potential channel partners because the manufacturer cannot offer market power as an incentive in channel negotiation.

Bowersox et al., supra note 128, at 194; see generally Wasson supra note 141, at 264-68 (discussing general ways for a manufacturer to buy distribution services).

\textsuperscript{165} Of course, an established and strong trademark might be the difference in gaining that toehold:

If the product is a new offering of a recognized brand-name manufacturer and significant introductory advertising is planned, customer acceptance will most likely be high and middlemen will be eager to add the new product. However, for new products with little market acceptance and low brand identification, aggressive selling at each level of the channel will be necessary.

Bowersox et al., supra note 128, at 205. Even so, a retailer with local monopoly power may be the one with the upper hand in negotiations:

Related to local monopoly is the concept of retail customer franchise. The ability of a retail firm to develop strong and/or large customer following can make that firm a critical channel link to a supplier. In effect, the process of developing such loyalty serves to enhance that retailer's monopoly position.

\textit{Id.} at 273; see also Peter & Donnelly, supra note 128, at 181 Highlight 10-2 ("In some instances [the intermediary's] local strength is so great that a manufacturer is virtually unable to tap that market, except through [that intermediary].").
favorable reputation among successful retailers.\textsuperscript{166} To carry the new product, a retailer likely will displace other products. If the retailer is successful, which is why a new producer wants a retailer to carry the new product in the first place,\textsuperscript{167} the displaced products are likely profitable for the retailer to carry.\textsuperscript{168} Thus, retailers who take on a new product are gambling, on the basis of hopes and promises, that the new product will generate more retail profits than the displaced products generated.\textsuperscript{169}

When retailers decide to carry a product that holds every promise of increasing sales and revenue, retailers may not know that the brandname infringes a trademark. For example, retailers may not know that trademark protection extends into product and geographic markets in which the trademark holder does not compete. And, retailers may not be aware of some of the more technical aspects of trademark law. For example, sometimes a producer may not be permitted to use the producer's personal name as a trademark. A trademark holder who is the first to register can prevent a prior but unregistered user from expanding. And, specialized kinds of trademarks, such as group marks or certification marks, have their own, technical requirements. Retailers may be sophisticated market participants, but they may not be so sophisticated that they understand the nuances of trademark law.\textsuperscript{170}

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\textsuperscript{166} By contrast, manufacturers who already enjoy a favorable reputation with retailers enjoy a tremendous advantage. For example:

Playtex, by using its existing distribution network to market its Jhirmack shampoo, was able to eliminate heavy startup costs. Tambrands, with 220,000 retail outlets in place to carry its Tampax tampons and Maxithins pads, found it relatively easy to utilize this distribution system for its new over-the-counter products which allowed home testing for ovulation and pregnancy.

Onkvisit & Shaw, supra note 49, at 31; see also id. at 105 ("A strong distribution network of loyal and competent members can provide a competitive advantage.").

Moreover, manufacturers who already enjoy a favorable reputation with retailers can employ a defensive strategy to "make[ ] it more difficult for a challenger to gain access to distribution channels." Porter, supra note 132, at 489-90 (including tactics of filling or expanding product lines and supplying private label sellers).

\textsuperscript{167} See generally Bowersox et al., supra note 128, at 196 ("The degree of customer preference a retailer enjoys in a specific area will have a direct bearing upon channel negotiation. The retailer's financial capability and size can be expected to influence the degree of vertical integration desired in channel design."); id. at 242 (noting the importance of estimating costs and revenues in channel selection); Peter & Donnelly, supra note 128, at 184 (providing that in selective distribution, a "manufacturer limits the use of middlemen to the ones believed to be the best available").

\textsuperscript{168} See generally Bowersox et al., supra note 128, at 299-321 (discussing factors that indicate profitability of retailers and other channel members).

\textsuperscript{169} See id. at 313 (noting that a retailer might finance inventory of one product by "invest[ing] released capital in inventory of other product lines").

\textsuperscript{170} Sometimes, even sophisticated manufacturers may run afoul of the trademark laws. For example, "[s]everal years ago, Colgate introduced a liquid cleaner called Gene and was surprised to find another company was already selling a cleaner under the registered name Jenie. Although the names were spelled differently, Colgate was
TRADEMARK GAINS

A benefit of infringement, then, is the enhanced opportunity to convince successful retailers to select the product for their customers and, hopefully for the infringer, increase sales even more by featuring the product. The enhanced opportunity is not likely created by any confusion as to the source of the new product. Presumably, retailers know the producers with whom they are dealing or, at the very least, ascertain the source of the products they, the retailers, carry. Nonetheless, the infringing brandname may help create the opportunity in one of at least two ways. First, by mimicking an established trademark that is associated with a particular quality or stylized image, the infringer may signal to the retailer that the new product will have the same quality and stylized image. Second, by mimicking an established trademark of a successful product, the infringer may more easily convince the retailer that the new product likely will generate sales and profits for the retailer.

If the enhanced opportunity leads to long-term relations with successful retailers, the producer's reputation among successful retailers is itself a valuable marketing tool. Like a trademark, that reputa-

forced to withdraw its product from the market at a substantial financial loss.” Dal-
rymple & Parsons, supra note 137, at 317.

171. Where a retailer does not deal directly with a producer, however, the retailer may not know the source of the product or, for that matter, whether the product carries an infringing brandname. For example, a retailer may purchase products from a distributor who purchased gray market goods that were imported in violation of the exclusive trademark license of a domestic distributor. Or, a retailer may purchase products from a source that, for whatever reason, is selling counterfeit goods.

172. For a new kind of product or product innovation that represents the greatest risk, retailers may carry the product only where an initial group of venturesome consumers already accepts the product, thereby signalling that other groups of consumers will also accept the product. See Onkvisit & Shaw, supra note 49, at 70 (noting that without the initial consumers' support, “retailers will not carry or continue to carry the new product.”).

173. Interestingly, to the extent that trademark protection provides incentives to create brandnames as valuable marketing assets, the resulting proliferation of brands only increases the value of developing favorable relations with retailers. As one study notes:

Ironically, as new products are marketed, these new products force companies to come up with even more new products. The massive proliferation of new consumer goods shortens the life cycle of existing products while increasing marketing costs. With more choices, consumers are readily inclined to become less brand loyal. Such brand indifference only forces manufacturers to create new products to keep their customers.

Id. at 21. The proliferation of brands thus provides incentives to increase marketing efforts at the level where sales are made to retailers. Indeed, one author suggests that, over time, the benefits of established relations with retailers will outweigh the benefits of the brandname:

As the growth proceeds and the growth rate begins to level off, intensified attention should be paid to getting and maintaining as intensive and extensive distribution as possible. Continued concern with dealer service is a must. . . . [D]istribution becomes an important element in brand differentiation because . . . consumers begin to see less and less difference between makes.
tion is best characterized as a fixed cost marketing asset. Although a producer's reputation among successful retailers is built over time as sales are made, that reputation, once earned, does not vary with the quantity of the product that is thereafter produced. Unlike a trademark, however, this fixed cost marketing asset does not reside in any particular brandname. Indeed, a producer of several products, all with different brandnames, may enjoy a favorable reputation among successful retailers that includes any product or any brandname. Rather, given that retailers presumably know the identity of producers, the long-term relation is an asset that resides in the personal reputation or personality of the producer.

Of course, a producer can lose the favorable reputation on which the long-term relationship is built, and one way to tarnish that reputation is to use a brandname that infringes a trademark. In fact, a retailer who carries infringing products faces potential liability. Nonetheless, the extent to which infringement will, in practice, disrupt the relation between the infringer and its retailers is not altogether clear. The trademark holder may not have strong incentives to pursue remedies against retailers, especially if those retailers also carry the trademark holder's products or the trademark holder wants to avoid a reputation in the trade for filing lawsuits against retailers. The infringing producer may take steps to minimize any adverse consequences by, for example, characterizing the infringement as technical and unknowing or, perhaps, promising to hold the retailer harmless. In any event, if the producer's reputation is based upon other factors, such as prompt shipments or flexible payment terms, trademark infringement may be only a temporary setback in sales of the product that carried the infringing brandname.

Wasson, supra note 141, at 242-43.

174. See Bowersox et al., supra note 128, at 203 (“Manufacturers sometimes use multiple brands to offer exclusive distribution to more than one retailer or distributor.”); Onkvisit & Shaw, supra note 49, at 10-15 (citing examples of successful companies, such as General Mills, Proctor & Gamble, and R.J. Reynolds, whose products include a diverse mix of unrelated products sold under different brandnames).

175. See Restatement Third, supra note 2, § 36 cmt. k. The Restatement Third states:

Retailers who sell goods bearing an infringing mark or who republish a misrepresentation originating with the manufacturer of the goods are subject to liability, but the extent to which the resale or republication was innocent and the extent to which monetary relief is available from the initial source of the goods are relevant in determining whether an award of damages against the retailer is appropriate.

Id.; see also 15 U.S.C. § 1116(d) (1994) (authorizing court to order ex parte seizure of goods bearing counterfeit marks); Restatement Third, supra note 2, § 35 cmt. g (“The court may require, for example, the recall of infringing goods or the recall or destruction of deceptive promotional materials.”).

The initial unauthorized use thus may help to establish long-term relations with successful retailers, and the resulting benefits of the unauthorized use may likely continue after infringement ceases. These long-term benefits, however, may not obtain in every market. These benefits are most plausible where the effective point of sale is the decision by the retailer to carry the product and where the long-term relation is an asset that resides in the personal reputation or personality of the producer. Where the effective point of sale is to the retailer, benefits of increased sales flow from the retailer’s decision to select and feature a particular product. And, where the long-term relation is an asset that resides in the personal reputation or personality of the producer, those benefits likely will linger after infringement ceases.

C. Benefits Without Profiting During Infringement

The insights of the preceding discussion help explain how unauthorized use in the hypothetical illustration produced benefits, even though the infringer never had a profitable transaction during the period of infringement. When infringement started, the infringer gained from an enhanced opportunity to establish relations with retailers. Although retailers had not previously dealt with the company, the infringing brandname likely signalled that the new product would have the same quality and stylized image of the trademarked product, which was already established and successful. Believing that the new product would therefore generate profits, retailers carried more of the new product and provided more promotional efforts than if the product had a brandname that did not yet signal quality or image.

During the period of infringement, the infringer also gained from increased sales. To the extent that the effective point of sale is the level where sales are made to retailers, the infringer benefitted from the retailer’s decision to select and feature the new product: Consumers purchase more of the infringer’s product because consumers select outlets and then purchase products made available by the retailer. To the extent that the effective point of sale is the level where sales are made to consumers, the infringer likely benefited from increased interest among consumers: Consumers purchase more of the infringer’s product because the infringing brandname signalled to consumers that the new product would have the same quality and stylized image of the trademarked product. And, sales at both levels likely increased at a faster rate than if the product had a brandname that market participants did not previously associate with a level of quality or a stylized image.

In the hypothetical, the charges of infringement resulted in a decline in sales, but it was a temporary setback only. No doubt production slowed when the infringing company selected a new and dissimilar brandname and then waited for new labels and packaging. Sales did not drop precipitously, however. By now, the infringer’s re-
lations with established retailers is an asset that primarily resides in the personal reputation or personality of the company, but not as much in a particular brandname. Consequently, those retailers continued to select and feature the infringer's product, albeit one with a new brandname. And, consumers who shop by choosing a particular outlet will continue to purchase the infringer's product at those retailers's outlets. Aside from the production delay, the inability to resume the previous rate of sales probably resulted more from the use of a brandname with which consumers and new retailers were not yet acquainted. A new brandname does not become a strong and valuable trademark overnight. Rather, the infringer must wait for market participants to associate the new brandname with a favorable marketing message.

After the unauthorized use ceased, the infringer continued to reap some of the benefits initially gained during the period of infringement. At the level where sales are made to consumers, benefits likely ceased when the new brandname was selected. The favorable associations signalled by the infringing brandname reside in the successful trademark, and thus do not transfer to a new and dissimilar brandname. At the level where sales are made to the retailers, however, benefits continue. The opportunity to establish relations with retailers was initially created, in part, by the favorable associations of the infringing brandname. But because that asset, once established, resides primarily in the personal reputation or personality of the company, the benefit of established relations continues after the change in brandname. If the unauthorized use helped create valuable relations that last after infringement ceases, the benefits of unauthorized use also last after infringement ceases.

In the hypothetical illustration, and in theory, the unauthorized use of a strong and valuable trademark allows an infringer to avoid the fixed costs of creating valuable marketing assets. As explained above, a trademark is a fixed cost marketing asset, and the reputation earned by the producer also is a fixed cost marketing asset. Consequently, unauthorized use allows the infringer to avoid some of the fixed costs of creating these marketing assets. For example, by mimicking an established and successful trademark, the infringer lowers the costs of selecting and designing a trademark which might otherwise require market surveys or other research efforts. Similarly, by mimicking an established and successful trademark, the infringer lowers the costs of establishing relations with successful retail outlets which might otherwise require, for example, payments for preferred shelf space.177

177. These benefits of infringing a valuable trademark are analogous to those of an innovator who creates a more valuable product and, thus, has a relative advantage in marketing to retailers:

One way of supporting a unique image and skimming pricing is by having a strong distribution network in place. This is highly practical and appropri-
The true benefits of trademark infringement, however, are revenues from sales that increased more than if the product had a brandname with which market participants were not previously acquainted. By using a brandname that is confusingly similar to an established and successful trademark, the infringer avoids costs that do not vary with the quantity of the product that is produced. But, infringement helps create marketing assets whose benefits vary with the quantity of the product that is sold to retailers and then to consumers. Even if the increased sales do not result in one profitable transaction, the increased revenues only defray other costs. In this sense, unauthorized use produces gains by allowing an unprofitable infringer to avoid even greater financial losses. To show how to measure these gains, the discussion will next examine the pattern of revenues earned during a product's typical life cycle.

III. Brandnames and Product Life Cycles

The significant gains of trademark infringement lie in the benefits of increased sales and gross revenues. These benefits are not necessarily restricted to the period of infringement. To be sure, where consumers rely upon trademarks to select products, benefits likely are limited to the period when the infringer used the confusingly similar brandname. But, where retailers initially rely upon trademarks to select and feature particular products, benefits likely last as long as the infringer maintains the favorable reputation established during infringement. Potentially, the gains of trademark infringement last well into the life cycle of a product that started with an infringing brandname but then switched to a new and dissimilar brandname.

A. Product Life Cycles

Those who study a typical product's life cycle commonly use the following graph to depict sales and gross revenues:

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178. See Porter, supra note 132, at 139 (“A firm that delivers only modest value but signals it more effectively may actually command a higher price than a firm that delivers higher value but signals it poorly.”).
179. E.g., Bruce L. Bowerman & Richard T. O’Connell, Forecasting & Time Series 17 (1979); Dalrymple & Parsons, supra note 137, at 37-38; Onkvisit & Shaw, supra note 49, at 90, 115; Peter & Donnelly, supra note 128, at 117-21; see also Wasson, supra note 141, at 61 (providing depictions of four basic life cycle forms: high learning introductions, low learning introductions, fads, and fashion cycles); id. at 243 (“The label, ‘product life cycles,’ has been variously used to cover both product category life cycles, and competitive brand life cycles, no matter where introduced in the basic category life cycle.”). Of course, this typical depiction is not meant to exclude the
In addition, those who study a typical product's life cycle describe different portions of the graph in terms that are consistent with the preceding discussion. The initial period is labelled "Introduction." This portion of the curve is the initial range that has a positive slope but does not yet demonstrate significant or dramatic growth in sales and gross revenues. An intuitive explanation of the introduction period of the product centers around the fact that, in this phase, neither retailers nor consumers are acquainted with the producer or its product's brandname. Consequently, few retailers carry the product, and few consumers purchase the product. Sales and gross revenues are low but begin to increase as retailers and consumers begin to associate the new brandname with a particular source, level of quality, or stylized image.

possibility that a single product's life may have more than one cycle. See Onkvisit & Shaw, supra note 49, at 72-73, 98-99 (citing examples, including coal, which, as an energy source, became relatively obsolete and then regained popularity). And, this typical depiction must incorporate additional complexity to describe marketing in an international context. See id. at 137-57. This same life cycle theory has been used to explain the evolution of retail institutions and channels of distribution. See Bowersox et al., supra note 128, at 340-41 (dividing cycle into four stages of innovation, accelerated development, maturity, and decline).

180. See Onkvisit & Shaw, supra note 49, at 89 ("A few authors go beyond these usual stages [introduction, growth, maturation, and decline], but their finer, more detailed classifications do not seem to contribute any significant distinctions . . . "); cf. Wasson, supra note 141, at 4-11 (describing eight stages of a life cycle and distinguishing nine kinds of life cycles); see also Onkvisit & Shaw, supra note 49, at 130-33 (discussing marketing strategy of matching product managerial styles with corresponding portions of product life cycle).

181. The discussion in the text, even though it focuses upon the marketing aspects of a trademark, is consistent with the typical description of the introduction period. See Onkvisit & Shaw, supra note 49, at 89-92.
The next period of sales and gross revenues in a typical product’s life cycle is labelled “Growth.” This portion of the curve is the range of the curve that has a positive slope and demonstrates the most significant or dramatic growth in sales and gross revenue. An intuitive explanation of the growth period centers around the fact that, in this phase, retailers and consumers are becoming acquainted with the producer and its product’s brandname, and the producer builds a favorable reputation. An increasing number of retailers and consumers associate the brandname with a particular source, level of quality, or stylized image. Consequently, during growth, the rate of increase in sales and gross revenues is the most dramatic.

After the growth period, the typical product’s life cycle enters into “Maturity.” This portion of the curve is the range where a significant market presence has been achieved but nowhere do sales and gross revenues exhibit the significant or dramatic growth that was achieved during the growth period. If the maturity phase is presented as part of a smooth and continuous curve, different intuitive explanations emerge for successful and unsuccessful products.

1. Successful Products

For a successful product, the maturity phase likely will last as long as gross revenues meet or exceed all costs. During this period, the product has obtained a long-term market presence because a stable percentage of retailers have developed a preference for the producer and a stable percentage of consumers have developed a preference for the brandname. Sales and gross revenues may at times appear random due to a variety of market influences, such as seasonal

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182. See id. at 94 (explaining that in growth, “brand loyalty commitment begin[s] to surface [among] retailers and consumers”).
183. See id. at 104 (explaining that during growth, “[d]istributor loyalty is important in light of the fact that the number of distribution outlets will grow rapidly as newcomers want exposure for their products and pioneering firms want to expand their markets”).
184. Again, the discussion in the text, even though it focuses upon the marketing aspects of a trademark, is consistent with the typical description of the growth period. See id. at 91, 92-94.
185. See id. at 122 (“A product will continue growing as long as it can attract new users.”).
186. This does not imply, however, that marketing efforts cease at the level where sales are made to retailers. See Wasson, supra note 141, at 240 (“By this time [maturity] the distributor is as much the target of the promotion as is the final consumer, and with each changing day he becomes more and more important.”).
187. Again, this does not imply an end to marketing. See Wasson, supra note 141, at 240 (explaining that to maintain a market niche, producers must remind buyers “of the value of those product attributes which caused him to choose the brand originally”). Nonetheless, successful products that enter maturity are characterized by stability. See Onkvisit & Shaw, supra note 49, at 94 (noting that the “maturation or saturation stage can be characterized by a stable sales volume for the industry”).
variations in demand or fluctuations in the price of inputs. As a first approximation, however, a reasonable forecast is that sales and gross revenues for the successful product will increase along a linear path whose rate of growth—the slope of the line—is equal to the rate of the growth of demand for the product market as a whole. As long as the market keeps growing and the product is not displaced by new technology, sales and gross revenue likely will continue to grow. The following graph depicts this predicted life cycle, which is the path labelled “Successful Product”:

188. Sales and gross revenues may also appear random due to other influences, such as interest rates and inflation. See Bowerman & O’Connell, supra note 179, at 8 (A product life cycle “might contain a seasonal component... caused by the observance of various holidays [such that] department store sales volume might reach high points in December and April because of shopping for the Christmas and Easter holidays.”); Bowersox et al., supra note 128, at 209 (“Seasonality is a primary concern for manufacturers who experience larger than normal sales at certain times of the year or who have raw materials available for production only at specific times during the year.”); Onkvisit & Shaw, supra note 49, at 50-52 (“Manufacturers and retailers must be extremely cautious with their inventories under the conditions of high inflation, high interest rates, and excessive credit buying.”).

189. See Bowersox et al., supra note 128, at 337 (“At any point in time the market shares of each participant are based on past differentiation. Those participants not content with their market shares will enter into a new round of competitive activities...”); see also Onkvisit & Shaw, supra note 49, at 20 (explaining that it is “possible for a company to grow absolutely in terms of sales volume while losing ground relatively in terms of market share,” and citing an example of a personal computer manufacturer).

190. See Onkvisit & Shaw, supra note 49, at 121 (“As long as mature products are not likely to be replaced by new technologies within the near future, the company should try to make these products work even harder, thereby extending the mature portion of their cycle indefinitely.”).

191. See id. at 120 (“The product does not have to decline; it can become better and not obviously older.”); see also id. at 95 (“Brand loyalty is another important factor, and if it is strong, it will help extend the maturation stage for a particular firm.”).

192. Here as well, the discussion in the text, even though it focuses upon the marketing aspects of a trademark, is consistent with the typical description of the maturity period. See id. at 91, 94-95.
Figure 2 also depicts a horizontal line that has important implications for the introduction and growth periods of a successful product. This line, labelled "Minimum Level for Profitability," indicates the minimum sales and gross revenues that must be achieved before a profitable transaction will take place. When producers build plants and incur other fixed costs, economies of scale dictate that a minimum level of operations must be achieved before gross revenues can meet or exceed all costs.\textsuperscript{193} Only then will operations yield profitable transactions. Implicit in the horizontal line is the recognition that new producers or producers who market new products do not expect to engage immediately in profitable transactions.\textsuperscript{194} Rather, the expectation is that, during the introduction period and perhaps for much of

\textsuperscript{193} When initially selecting an optimal scale on which to operate, the producer needs to be concerned, not just with becoming profitable in the near term, but also with expanding operations in the long term. See id. at 117 ("This pricing strategy[, lowering price to meet competition but remaining profitable,] was preceded by having capital improvement and large, efficient facilities.").

\textsuperscript{194} Manufacturers oftentimes seek to ameliorate the initial losses associated with the introduction of a new product or product design by charging a higher price. See id. at 74 ("[P]rice should be set high in the introductory stage because of the small volume of sales, inefficient production and marketing, frequent product modifications, few competitors, and a desire to recover research and development costs as soon as possible in an uncertain market."). This strategy will be effective where those likely to purchase initially are less price sensitive. See id. at 68 (noting that in the introduction stage, the producer needs to appeal to "venturesome consumers with above average status . . . [who are] more interested in product benefits than prices."). This strategy will backfire, however, if the higher price deters consumers from developing brand loyalty for a new product. See id. at 81 ("Price and innovativeness are negatively related, and high price is a deterrent to adoption.").
the growth period, no transaction will be profitable, even if the prod-
uct ultimately will be successful.195

2. Unsuccessful Products

For a product that is unsuccessful and for which there was never a
profitable transaction, an intuitive explanation of the maturity phase
is problematic. Indeed, it is oxymoronic to describe an unsuccessful
product as having "matured." It is as though the product never
emerged from the initial stages, during introduction and growth, when
profitable transactions were never expected.196 Operations may have
suffered from production difficulties. Marketing efforts may have
been less than successful.197 The producer may have never established
successful relations with retailers.198 Consumers may have never asso-
ciated the brandname with a particular source, level of quality, or styl-
ized image. For whatever reason, a minimum level of sales and gross
revenues was not timely achieved to secure a long-term market
presence.199

The typical depiction, shown in Figure 1, does not forecast much by
way of the pattern of sales or gross revenues for the period after ma-
turity that is labelled "Decline." This portion of the curve is the range
that extends beyond the point where sales and gross revenues begin to
decrease significantly and permanently.200 The standard depiction of
a product's typical life cycle does not indicate the shape of the decline

195. See id. at 92 ("Not surprisingly, a loss (rather than a profit) is the rule instead
of an exception in the introduction stage."). These initial and expected losses are, in
effect, fixed costs that must be capitalized and recovered later when transactions be-
come profitable. The need to incur fixed costs at the outset means that, at least in the
beginning of a product's life cycle, profits are no talisman for success. See Bowersox et
al., supra note 128, at 301 (noting that a "major drawback in relying exclusively on
profit as a measure of performance is that the investment required to achieve a given
sales level is not considered").

196. See Onkvisit & Shaw, supra note 49, at 98 (noting that "some products may go
directly into the decline stage without going through the maturity stage").

197. For example, a product that enters an established market may encounter sig-
nificantly higher marketing barriers if consumers already have brand loyalty for ex-
isting products. See id. at 34-35 ("'Me-too' products, especially those which enter the
market late, usually have difficulty in gaining market acceptance.").

198. While one author recognizes that, during maturity, success "requires establish-
ing strong preference at both dealer and consumer levels," Wasson, supra note 141, at
238-40, maintaining ties at the dealer level may be most important: "With buyers now
less avid and more critical, the slow moving brands begin to disappear from the
shelves, and dealer ties start to become the major factor in competitive strength." Id.
at 240.

199. Of course, the reasons for product failure to go beyond the ones suggested in
the text, and some products seem doomed to failure, even if attached to a strong and
valuable trademark. See Onkvisit & Shaw, supra note 49, at 30 (discussing products
abandoned early in development, including ketchup-flavored ice cream, chocolate
hair-styling gel, and parsnip chips).

200. For a discussion of the reasons why a firm should delete a product instead of
trying to revive it, see id. at 129-30.
period. An intuitive explanation would not suggest that sales and revenues drop to zero immediately.\textsuperscript{201} In the decline phase, the producer and its retailers likely terminate production and marketing operations in as orderly a fashion as possible.\textsuperscript{202} Marketing does not cease, but the producer and the retailers who carry the product gradually curtail promotional efforts until the last of the inventory is sold.\textsuperscript{203} As a first approximation, a reasonable forecast is that the sales and gross revenues during the decline period will be symmetrical with those of the introduction and growth periods.\textsuperscript{204} This predicted life cycle would follow the path in Figure 2 that is labelled “Unsuccessful Product.”\textsuperscript{205}

The two patterns of sales and gross revenues in Figure 2 allow a comparison of the differences between the likely life cycles of successful and unsuccessful products. The successful product timely achieved the minimum level of profitability, and sales and gross revenues continue to grow at a rate that mirrors the growth of the product market as a whole. The unsuccessful product, by contrast, did not timely achieve the minimum level of profitability, and sales and gross revenues decline to zero after the producer and retailers wind up their operations. Other comparisons can be made as well. The introduction period for the unsuccessful product took longer and resulted in less of a market presence in terms of the level of sales and gross revenues. The growth period for the unsuccessful product also exhibits lower rates of growth and also resulted in less of a market presence.

\textsuperscript{201} See id. at 96 (noting that during decline, consumers “tend to be brand loyal” and, towards end, “only a few specialized firms choose to remain”).

\textsuperscript{202} Indeed, one recommended strategy during the decline period is to minimize any adverse impact on market participants:

Product lines should be reduced because market segmentation is no longer a necessity. This does not mean that a declining product should be automatically deleted, but instead that a product should be retained as long as it still contributes something to the firm’s overall fixed costs. Also, any product withdrawal should not be so abrupt as to leave distributors and customers vulnerable; otherwise, hard-earned good will and future cooperation may be lost.

\textsuperscript{203} See id. at 107; see also id. at 130-31 (discussing need for orderly and gradual deletion of a product to maintain good will with retailers and consumers); Wassen, \textit{supra} note 141, at 223 (explaining that the process during decline should be “that of milking the market and withdrawing both physical and managerial resources which can yield greater profits elsewhere, while supplying whatever market remains to be served at a profit”).

\textsuperscript{204} If so, the complete life cycle would resemble a bell curve. Of course, there are a variety of nonlinear curves that could be used to forecast a smooth yet nonsymmetrical path during the decline period that is consistent with discussion in the text.

\textsuperscript{205} Once again, the discussion in the text, even though it focuses upon the marketing aspects of a trademark, is consistent with the typical description of the decline period. See Onkvisit & Shaw, \textit{supra} note 49, at 91, 95-96.
B. The Role of Trademarks in Product Success

The discussion of the life cycles of products that meet with different success in the market suggests how better marketing tools, such as better established and stronger trademarks, enhance a product's sales and gross revenues.\footnote{206} To isolate the effects of using a trademark that is a better marketing tool, consider two producers, each with successful products. Both producers have the same size plants that produce products with equal efficiency. Both products have the same level of quality\footnote{207} and stylized image.\footnote{208} The only difference is the brandname that each producer selected.\footnote{209} The life cycles for both products are depicted in Figure 3. Of course, the more successful product is associated with the life cycle that, at all times, has higher sales and gross revenues.

\footnote{206}{One example of how a trademark can lead to higher profits is the development of brandnames by agricultural co-operatives. Where agricultural commodities remain undifferentiated, there is little pricing flexibility or opportunity to engage in premium pricing. Where agricultural co-operatives differentiate their members products "[b]y building brand name recognition, most major co-ops can pay their member farmers more than the market price for their crops." See id. at 9 (citing example of Blue Diamond Growers and its line of flavored almonds).

\footnote{207}{Even for a product that is differentiated because it enjoys an initial technological advantage, there is still a need to develop a brandname that will differentiate the product after others develop the same technological advantage. See id. at 150 ("A product, whenever possible, should be branded and promoted as a premium product with a high-quality image, since this is likely to offer better profit margins and protection from competitive efforts.").

\footnote{208}{Here, "stylized image" refers to psychological attributes conveyed by the functional aspects of the products, but not psychological attributes conveyed by the brandname or other marketing efforts.

\footnote{209}{Except for the brandnames, both products are akin to generic products. To achieve relative success, one of the products must do more: "[A] generic product is primarily preoccupied with the physical configuration and explicit performance. Strategic market advantage, however, can only be achieved by endowing the product with greater benefits." Onkvisit & Shaw, supra note 49, at 6. Here, the brandname is that something more through which each producer seeks to gain a strategic advantage with the benefit of a favorable marketing message. An example of how different marketing success is linked to different brandnames is laundry detergent where, for example, one firm may market the same product under different brandnames. Id. at 12 ("The company [Proctor & Gamble] has done a good job of endowing each brand with a unique personality (image) even though these brands are not chemically different.".)}
Consistent with the discussion thus far, Figure 3 suggests intuitive explanations for the greater success of the product whose brandname is a better marketing tool. In the introduction period, the better brandname had greater success in conveying to retailers a level of quality or stylized image that was likely to generate retail profits. Consequently, more retailers selected and featured that product. To the extent that consumers shop by choosing an outlet and then purchase products carried by the retailer, sales and gross revenues were higher. The more successful brandname also better enabled consumers to begin to associate the product with a favorable marketing message. To the extent that consumers shop by choosing particular brands of a product without regard to the outlet, sales and gross revenues were higher for this additional reason. Because of the better brandname, sales and gross revenues increased at a faster rate and produced a greater market presence in a shorter period of time.

210. The observation, in the text, that firms compete through brandnames, is hardly novel. See id. at 152 (citing examples of brandname competition in “strategies . . . used successfully by many domestic manufacturers as a defense against apparel imports”); Wasson, supra note 141, at 245 (noting that in the food and drug area, “less than one ‘new product’ in one hundred is a category introduction. The rest are all some form of brand introduction”); Porter, supra note 132, at 489 (defining “brands that match the product characteristics or brand positionings [of the competitor as] blocking or fighting brands”).

211. Sometimes, this kind of advantage accrues to the first firm to market a particular kind of product. See Onkvisit & Shaw, supra note 49, at 150 (“The innovator has a promotional advantage since the innovator is in a position to select the proper product positioning strategy while having time to build brand awareness.”).

212. See Wasson, supra note 141, at 244 (explaining that “the strong brand carves out a strong niche—a substantial market share—early or not at all, and that its growth attracts emulators quickly”).
The greater benefits of the successful product's brandname continued to produce a superior marketing performance during the growth period. The higher level of sales not only better enabled retailers to become acquainted with the producer who is building a favorable reputation more quickly, but also led retailers to purchase more of the product and, perhaps, to increase promotional efforts. In addition, the better brandname had greater success in enabling consumers to associate the product with a favorable marketing message and to make those associations more quickly. The relative success during the growth period mirrors the success achieved during introduction. Because of the better brandname, sales and gross revenues increased at a faster rate and produced a greater market presence in a shorter period of time.

Even though both products timely achieved a minimum level of sales and gross revenues to assure long-term profitability, the better brandname led to a greater market presence during maturity. Each brandname became a valuable marketing asset. A stable percentage of retailers developed a preference for each producer, and a stable percentage of consumers developed a preference for each brandname. The difference is that the better brandname is a more valuable marketing asset. A higher percentage of retailers select and feature the product with the better brandname, and a higher percentage of consumers purchase the product with the better brandname. In effect, the product with the better brandname is more successful because the better brandname boosted that product into a greater market share.

213. Of course, it has long been recognized that retailers will not promote products unless they can recover the costs of promotional activities. Lester G. Telser, Why Should Manufacturers Want Fair Trade?, 3 J.L. & Econ. 86 (1960). Thus, a retailer is not likely to increase promotional efforts without reasonable assurances that the product will generate sufficient revenues. As argued in the text, one of those assurances is an initial rate of growth in sales and gross revenues which signals that the product is destined for success.

214. See Wasson, supra note 141, at 238. As Wasson states:

Only by finishing the growth period well in front of competition, with a greater accumulation of experience, can a seller be assured of the chance for the optimum market and profit position through the remainder of the product life cycle or even of a high probability of survival in the competitive shakeout of the period of turbulence which follows.

Id.

215. Even after a product reaches maturity, a brandname that differentiates the product can help to preserve or perhaps to increase market share. See Onkvisit & Shaw, supra note 49, at 105-06 (citing the orange juice market as an example of new brandnames segmenting a market).

216. The suggestion, in the text, that a brandname can be responsible for the relative success of a product is hardly novel. See id. at 155 (“Consumers may prefer the prestige of Gucci and Izod LaCoste even though these brands are not necessarily superior to many alternatives when compared on the basis of objective criteria.”).

217. Indeed, the marketing difficulties of introducing a new brandname, in some contexts, may resemble the marketing difficulties of introducing a new product design. See id. at 73-74 (noting that the problems of marketing a new brand resemble the problems of marketing a product innovation, and citing the example of a new brand
Another and significant benefit of a better brandname is the costs that are avoided because the product more quickly attained a minimum level of sales and gross revenues to assure long-term profitability. Producers do not expect to profit on initial transactions during introduction and growth. Producers expect to incur costs that current revenues will not cover. These initial costs, to the extent not recovered through current revenues, must be capitalized as fixed costs and recovered later when transactions become profitable. Consequently, by reducing initial losses, producers benefit by, in effect, reducing fixed costs that must be recovered over time. Even if two products ultimately have the same market share, one product has a better brandname if that brandname led to profitability more quickly and, thereby, avoided losses that must be capitalized as fixed costs.

The benefit of avoiding losses that must be capitalized as fixed costs is represented graphically on Figure 3. The minimum level for profitability approximates the costs, both fixed and variable, that must be recovered in each time period. The initial losses are represented by the area to the left of the point where a product reaches the minimum level of profitability and is bounded by that minimum level on top and the path of sales and gross revenues on the bottom. The product with the better brandname has a smaller area and, consequently, fewer losses that must be capitalized as fixed costs. The relative advantage of the better brandname is the difference between the areas for each product or, more directly, the area bounded by the minimum level on top and the two paths of sales and gross revenues on either side. The producer with the better brandname obtained this relative advantage by more quickly developing a strong trademark as a valuable marketing asset.

of low-tar cigarette). Consequently, the marketing success of a better brandname may resemble the marketing success of a better product design.

218. An intuitive understanding of losses that are capitalized as fixed costs can be found in the example of a loan obtained to cover operational losses. Of course, businesses often finance fixed costs, such as building a new plant, by taking out a loan. The fixed costs are capitalized because the business can, for example, finance the current costs of a new plant by spreading the payments for the new plant over time. Consider a business whose revenues do not cover all costs but which must finance those costs when they are incurred. The business may borrow funds to finance current operational losses just as it borrowed funds to build a new plant. And, in the same sense that the fixed costs of the plant were capitalized, operational losses are capitalized because the business finances the current costs of operational losses by spreading the payments for those losses over time.

219. Of course, the relative benefit of avoiding losses that must be capitalized as fixed costs is offset to the extent that the trademark holder incurs costs to develop the brandname into a strong trademark. Developing a better marketing tool, such as a better established and stronger trademark, is not a costless activity. Thus, a competitor who incurs greater fixed costs to develop a better trademark, has greater fixed costs that must be capitalized and recovered over time.
C. The Life Cycle of an Infringing Product

The life cycle of an infringing product will not likely follow the smooth and continuous path of any of the successful or unsuccessful products depicted above. For an infringing product, a disruption or shock to the path occurs when the trademark holder files an action for infringement, establishes liability, obtains injunctive relief, and forces the infringer to discontinue using the infringing brandname. Following that disruption, the infringer suffers a temporary setback while shifting to a new and dissimilar brandname. Once production resumes with new labels and packaging, the product continues along a path of gross sales and revenues. Because the product now bears a new brandname, however, the rate of growth of sales and gross revenues for the new path likely differs from the path of the product with the infringing brandname.

Figures 4 and 5 depict two likely paths for infringing products—Figure 4 depicts one for a product that became successful after adopting a new and clearly dissimilar brandname, and Figure 5 depicts one for a product that did not. The first vertical line indicates the time when the infringer discontinues using the infringing brandname. Thus, Figures 4 and 5 depict the hypothetical illustration introduced earlier, at least insofar as infringement ceased before the hypothetical infringer became profitable.\(^{220}\) The second vertical line indicates the time when the infringer's product starts on a new path after adopting a noninfringing alternative. The drop in sales and gross revenues between the two vertical lines represents the temporary setback that the infringer suffers when shifting to the new and dissimilar brandname. In these respects as well, Figures 4 and 5 depict the hypothetical illustration introduced earlier.

\(^{220}\) See supra text accompanying notes 123-27.
Two aspects of Figures 4 and 5 provide graphical representations of points made earlier. One concerns the location of the effective point of sale. As noted earlier, to the extent that consumers shop by selecting an outlet and then purchasing products that the retailer carries, the effective point of sale is at the level where sales are made to retailers. Here, the temporary setback of shifting to the noninfringing brandname is least likely to affect the infringer. Although the infringing brandname enhanced opportunities to develop long-term relations with retailers, once those relations are established, the favorable reputation resides more in the personal reputation or personality of the producer than in the brandname. Consequently, to the extent that the
effective point of sale is to retailers, that should reduce the drop in sales and gross revenues during the temporary setback.

A greater setback is likely if the effective point of sale is at the level where sales are made to consumers. To the extent that consumers shop by selecting particular brands of a product without regard to the outlet, the effective point of sale is to the consumer. Here, the benefit of infringing an established and strong trademark is that consumers will more readily associate the product with a particular source, level of quality, or stylized image. Those favorable associations reside in the successful trademark that was infringed. Those associations do not transfer to a new and dissimilar brandname. In effect, the infringer must start anew in developing a brandname that signals a favorable marketing message to consumers. Consequently, to the extent that the effective point of sale is to consumers, that should increase the drop in sales and gross revenues during the temporary setback.

Another point made earlier that is represented on Figures 4 and 5 concerns the relative rates of growth in sales and gross revenues before and after the temporary setback. Whether the infringement was knowing or innocent, the infringer initially adopted the infringing brandname to obtain marketing benefits. As noted earlier, those benefits include enhanced opportunities to develop long-term relations with retailers, to signal a favorable marketing message to consumers, and to reach the minimum level of profitability more quickly. The reason the infringer initially adopted the infringing brandname was that the infringing brandname was the best alternative to obtain these benefits. At least at the outset, the infringing brandname was a better marketing tool than alternatives, including the noninfringing alternative subsequently adopted.

Given that the infringer adopted the infringing brandname because it was the best perceived alternative, the infringer should have a lower rate of growth in sales and gross revenue after adopting the noninfringing brandname. The differences between the infringing brandname and the noninfringing alternative mirror the differences, discussed above, between two successful products, one of which had a better brandname. There, the product with the better brandname had a faster rate of growth. Here, because the infringing brandname was adopted instead of alternatives, the infringing brandname is likely the better brandname associated with a faster rate of growth. Conversely, the noninfringing brandname is likely associated with a slower rate of growth. To show how these different rates of growth can be used to measure the gains of the infringer, the discussion will next explore

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221. Cf. Sands, Taylor & Wood v. Quaker Oats Co., 34 F.3d 1340, 1343 (7th Cir. 1994) ("Quaker was in need of a new marketing approach...[and] had considered the proposed advertising campaign based on the [infringing] Thirst-Aid mark to be superior to the alternatives.").
how to estimate the revenues the infringer would have earned had a noninfringing brandname been used from the outset.

IV. CALCULATING THE INFRINGER'S GAINS

The rationales of deterring infringement and preventing unjust enrichment are not served if an infringer can benefit from unauthorized use without paying damages. These rationales would be served, even if only indirectly, if existing damage remedies resulted in monetary relief whenever an infringer gains. That is not the case, however. Where infringement does not injure the trademark holder, compensatory approaches afford no monetary relief. Where infringement does not lead to profitable transactions during the period of infringement, an accounting of profits affords no monetary relief. Where, however, an infringer benefits from unauthorized use without injuring the trademark holder or profiting during the period of infringement, a more comprehensive approach is needed to measure the gains of trademark infringement.222

A. Formulating a New Approach

A more comprehensive approach begins by re-examining the traditional limitations on an accounting of profits. One is that the gains of trademark infringement are measured from the time the infringer learns that the brandname infringes. Where an infringer later switches to a dissimilar brandname, the switch confirms that noninfringing alternatives were available. Even where an infringer does not switch to a dissimilar brandname but opts instead to discontinue operations, it stretches credulity too far to argue that a noninfringing alternative was not available. Whether the infringement was knowing or innocent, the infringer declined either to use a known alternative or to investigate potential alternatives.223 Presumably, the infringer thought that known alternatives were less desirable marketing tools. Or, perhaps the infringer thought that the costs of selecting and designing a potential alternative would not be offset by increased marketing benefits.

222. Even if a reasonable royalty is awarded, there is no assurance that the trademark infringer might nonetheless gain from unauthorized use. Indeed, the method for calculating a reasonable royalty is geared to measure a fair rate of return on the value of the trademark, usually measured in terms of a percentage of gross revenues. A reasonable royalty typically is not measured in terms of a percentage of profits. Thus, if the reasonable royalty is less than, for example, the losses that the infringer avoided, the infringer will nonetheless gain.

223. In one case involving a trademark protected by the Amateur Sports Act of 1978, Pub. L. No. 95-606, 92 Stat. 3045, the court bolstered its finding of the defendants' wrongful intent to infringe by noting that the defendants had alternatives, even though the court did not specifically identify those alternatives. United States Olympic Comm. v. Union Sport Apparel, 220 U.S.P.Q. (BNA) 526, 530 (E.D. Va. 1983) (noting the defendants' "complete freedom to choose any marks").
The rationale of deterring infringement suggests that the gains of trademark infringement should be measured from the initial choice of the infringing brandname and not a later time when the infringer learns that the brandname infringes.\textsuperscript{224} When the infringer made the initial choice of a brandname, the task of avoiding infringement was not monumental. A simple trademark search would likely have alerted the infringer of the potential to infringe.\textsuperscript{225} Moreover, the cost of a trademark search is modest, especially when placed in contrast to the costs of producing and distributing the product to which the infringing brandname is affixed. Thus, the deterrence rationale is served not only by providing incentives to avoid knowing infringement, but also by providing incentives to undertake trademark searches and other investigations to avoid innocent infringement.

The rationale of preventing unjust enrichment also suggests that the gains of trademark infringement should be measured from the initial choice of the infringing brandname and not a later time when the infringer learns that the brandname infringes. An infringer is enriched through a greater market presence and increased sales and gross revenues, regardless of whether infringement is knowing or innocent. Moreover, the fact that the infringer could have chosen a noninfringing alternative provides a strong argument that retention of those benefits is unjust. Thus, the unjust enrichment rationale is served not only by depriving the infringer of gains during knowing infringement, but also by depriving the infringer of gains made when noninfringing alternatives might have been explored and chosen.

A more comprehensive approach should also re-examine the traditional limitation that the gains of trademark infringement are not measured beyond the time when infringement ceases. As the preceding discussion has urged, the gains of infringement will differ, depending upon the extent to which the effective point of sale is at the level where sales are made to consumers or to retailers. To the extent that the effective point of sale is to consumers, the gains of infringement likely end when infringement ceases. The favorable associations signalled by the infringing brandname reside in the trademark and, thus, do not transfer to a dissimilar brandname. To the extent that the effective point of sale is to retailers, however, the gains of infringement

\textsuperscript{224} Today, courts recognize, at least with respect to an accounting that is authorized by § 35(a), that there is no impediment to relaxing the limitation that restricts an accounting to the period of knowing infringement. See Roulo v. Russ Berrie & Co., Inc., 886 F.2d 931, 941 (7th Cir. 1989) (“Other than general equitable considerations, there is no express requirement that . . . the infringer wilfully infringe the trade dress to justify an award of profits.”), \textit{cert. denied}, 493 U.S. 1075 (1990).

\textsuperscript{225} A failure to conduct a trademark search or to consult trademark counsel are factors that courts have noted when finding infringement and awarding an accounting of profits. Masterpiece of Pa., Inc. v. Consolidated Novelty Co., Inc., 186 U.S.P.Q. (BNA) 134, 136 (S.D.N.Y. 1975) (finding that, although the defendant knew of the plaintiff’s use of a similar trademark, it neither made a trademark search nor consulted counsel).
likely continue after infringement ceases. The marketing asset of established relations with retailers resides in the personal reputation or personality of the infringer, not the infringing brandname.

The rationale of deterring infringement suggests that the measurement of the gains of trademark infringement should not presumptively end when infringement ceases. The deterrence rationale is best served by depriving infringers of all the gains of infringement. Unauthorized use creates enhanced opportunities during infringement to gain a market presence by establishing favorable relations with retailers. Where the effective point of sale is to retailers, relations likely will continue after infringement ceases. The gains of infringement thus extend beyond infringement as retailers continue to select and feature the infringer's product, even though a different brandname is affixed to that product. To deprive infringers of all the gains of infringement, the measurement of those gains should not presumptively end when infringement ceases.

The rationale of preventing unjust enrichment also suggests that the measurement of the gains of trademark infringement should not presumptively end when the infringement ceases. To the extent that the effective point of sale is to retailers, increased sales and gross revenues flow from favorable relations that persuade retailers to select and feature a product. Indeed, established relations with retailers are valuable marketing assets, and any unauthorized use that enhances those relations enriches the infringer as much as profits on sales that are diverted during infringement enrich the infringer. The difference is that favorable relations create a market presence from which benefits linger after infringement ceases. If unauthorized use can produce unjust enrichments during infringement, the benefits of unauthorized use that are realized after infringement ceases are no less enriching and no less unjust.

A final limitation that a more comprehensive approach should re-examine is the one that restricts the measurement of gains of trademark infringement to only profitable transactions. Producers do not expect that every transaction will be profitable. To the contrary, the typical expectation for a new product is that transactions will not become profitable until the producer reaches a minimum level of operations. During this time of introduction and growth, however, trademark infringement may increase sales and gross revenues. Infringement may thus help the infringer to reach profitability more

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226. Again, this shows why a reasonable royalty is not a viable alternative, at least insofar as monetary relief should serve the deterrence rationale. See supra notes 87 & 222.

227. Similarly, where sales and gross revenues are subject to seasonal fluctuations, the typical expectation may be that transactions during some marketing periods will not be profitable. Here as well, trademark infringement may not only increase sales during profitable periods, but also avoid greater losses during unprofitable periods.
quickly, resulting in fewer losses that must be capitalized as fixed costs to be recovered later. Even if the infringer never reaches profitability, unauthorized use may allow the infringer to avoid still greater losses.

The rationale of deterring infringement suggests that the measurement of the gains of trademark infringement should not be restricted to profitable transactions. Again, the deterrence rationale is best served by depriving infringers of all of the gains of infringement. An infringer need not profit to gain from unauthorized use. Financial benefits flow from avoiding losses that must be capitalized as fixed costs as much as they flow from profits on diverted sales. The gains of infringement are not inexorably linked to profitable transactions, but extend, instead, to all sales and gross revenues that were enhanced by unauthorized use. To deprive infringers of all of the gains of infringement, the measurement of those gains should not be limited to profitable transactions.

The rationale of preventing unjust enrichment also suggests that the measurement of the gains of trademark infringement should not be restricted to profitable transactions. Increased sales and gross revenues enrich the infringer, regardless of whether those increased benefits come in form of transactions that are profitable or unprofitable. In both, increased revenues defray costs and avoid even greater financial losses. The difference is that the increased revenues on unprofitable transactions defray fewer costs, and thus do not avoid all losses. If unauthorized use can produce unjust enrichments from increased revenues on profitable transactions, the benefits of unauthorized use that are realized on unprofitable transactions are no less enriching and no less unjust.

The traditional limitations on an accounting restrict the measurement of the infringer's gains to profits during the period of knowing infringement and, in so doing, actually create perverse incentives to infringe. An infringer who does not compete directly with the trademark holder or injure the trademark holder's goodwill can avoid compensatory damages. That same infringer can avoid damages under an accounting by discontinuing the unauthorized use before transactions become profitable. In these situations, unauthorized use nonetheless helped to increase sales and gross revenues that, in turn, defrayed still greater losses, even though there were no profitable transactions during the period of knowing infringement. So too, unauthorized use helped to obtain the marketing asset of established relations with retailers that led to a greater market presence, even though there were no profitable transactions during the period of knowing infringement.

228. Thus, the infringer follows a strategy that some trademark holders employ to exploit strong and valuable trademarks more fully. See Onkvisit & Shaw, supra note 49, at 124 ("Brand extension is the strategy to extend a brand, usually a popular one, by putting the name on new products.").
B. Benefiting Throughout the Life Cycle

A more comprehensive approach should expand beyond the narrow focus of an accounting and measure benefits that may accrue throughout the life cycle of the infringer's product. The infringer obtained these benefits by initially choosing the infringing brandname as the best available marketing tool. Put another way, if the infringer gained, the life cycle of the infringing product should exhibit higher sales and gross revenues than an estimated life cycle would if the non-infringing alternative had been used from the outset. Otherwise, the infringer would have opted initially for the noninfringing alternative. This suggests three scenarios which illustrate the gains of trademark infringement, depending upon first, whether the infringer's product is ultimately successful, and second, whether an estimated path for the noninfringing alternative would have been successful.229

1. Actual and Estimated Life Cycles Successful

In the first scenario, the actual path of sales and gross revenues timely achieves a minimum level of profitability to secure a long-term market presence. So too, the estimated path of sales and gross revenues for the noninfringing alternative, if it had been used from the outset, would have achieved a minimum level of profitability to secure a long-term market presence. The difference is that, because the actual path reflects the use of the infringing brandname during introduction and growth, the actual path has a life cycle that, at all times, has higher sales and gross revenues. This situation is depicted in Figure 6:

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229. Mixing the two distinctions suggests four cases that are conceptually possible, but the discussion in the text omits the one that would not result in a gain to the infringer—when the actual path of sales and gross revenues is ultimately unsuccessful but the estimated path of sales and gross revenues is ultimately successful. This scenario suggests that, if the noninfringing alternative had been used from the outset, the infringer would have had a life cycle that, at all times, had higher sales and gross revenues. In other words, this scenario suggests that the infringing brandname was not a better marketing tool, and the infringer did not gain from infringement. Here, because the market will discipline infringement, the market deters infringement and prevents the infringer from becoming enriched through unauthorized use.
By now, the intuitive explanation of this scenario should be apparent. At the outset, the infringer presumably chose the infringing brandname because it appeared to be a better marketing tool. During infringement, use of the infringing brandname resulted in a higher rate of growth in sales and gross revenues. The benefits of the higher rate of growth include revenues that increased more than they would have had the noninfringing alternative been used from the outset. A related benefit is that, because initial losses were lowered, fewer losses need to be capitalized as fixed costs and recovered later. Finally, use of the infringing brandname enhanced opportunities to establish long-term relations with retailers, a benefit that is reflected in the higher market presence when infringement ceased.

After infringement, during the temporary setback, benefits continue. Infringement helped the infringer achieve a market presence, even if not yet at the minimum level for profitable transactions. While shifting to the noninfringing alternative, the infringer did not need to start anew because the infringer did not lose all of that market presence. This boost likely resulted because, in significant respects, the effective point of sale is to the retailer.  

230. Of course, other explanations are plausible. For example, the infringer might be marketing a new kind of product, and the infringing brandname helped to create generic demand among consumers as opposed to brand-specific demand. Here, the effective point of sale may be to the consumer, but the infringer nonetheless received a boost and did not need to start anew for the simple reason that substitute products might not yet be available from competitors. See supra note 138 (noting different marketing strategies aimed at generating generic demand or brand-specified demand). Moreover, if the infringer followed a strategy of charging a high initial price to offset initial losses, the infringer who subsequently charges a lower price to attract price sensitive customers may wish to discard an initial brandname that consumers associate with the initial, high price. See supra note 194 (explaining that the strategy
relations with retailers reside in the personal reputation or personality of the infringer and continue after the change in the brandname. Because of the boost from better relations with retailers, revenues during the temporary setback continue higher than they would have had the noninfringing alternative been used from the outset, resulting in fewer losses that must be capitalized as fixed costs.\textsuperscript{231}

After the infringer adopts a noninfringing brandname, the benefits of infringement continue. The life cycle for the infringer’s product timely achieves a minimum level of profitability and secures a long-term market presence. Not all of this success, however, can be attributed to the new brandname. Certainly, the noninfringing alternative, if used from the outset, would have achieved a long-term market presence. But because of the boost in market presence achieved during infringement, the infringer achieved an even greater market presence after infringement. The minimum level of profitability was reached sooner, resulting in fewer losses that are capitalized as fixed costs. And, sales and gross revenues continue higher than had the noninfringing alternative been used from the outset.

This first scenario demonstrates how current damage remedies potentially create perverse incentives to infringe. Consider a nefarious competitor who wants to exploit another’s strong trademark. The infringer selects a market in which the trademark holder does not compete and produces a product of the same level of quality or stylized image. This reduces the risk of compensatory damages for diverted sales or injury to goodwill. Then, the infringer highlights the infringing brandname when convincing retailers to select and feature the product. This exploits the trademark’s value to develop a marketing asset that will reside in the personality and personal reputation of the infringer. Finally, the infringer shifts to a dissimilar brandname just before sales become profitable.\textsuperscript{232} This avoids damages under an accounting of profits which are limited to profitable transactions during the period of infringement. In this scenario, the infringer knowingly

\textsuperscript{231} Of course, the heuristic example in the text is not meant to preclude other possibilities. For example, it is possible that on the facts of a particular scenario, a temporary setback will be so severe that the actual path dips below the path formed had the noninfringing brandname been used from the outset. Such an occurrence would not detract from the central argument of this Article: Trademark infringers potentially benefit from unauthorized use, even if infringers do not engage in profitable transactions during the period of knowing infringement.

\textsuperscript{232} If the competitor truly is nefarious and responding to perverse incentives to infringe, the competitor might plan for the shift in ways that reduce the temporary setback. For example, the competitor might already have new labels and packaging for the noninfringing alternative. And, the competitor may have already alerted retailers of the impending shift and, perhaps, advertised the new brandname to consumers.
infringed and benefited, but current damage remedies do not deprive the infringer of the gains of trademark infringement.²³³

2. Actual and Estimated Life Cycles Unsuccessful

In the second scenario, the actual path of sales and gross revenues did not timely achieve a minimum level of profitability to secure a long-term market presence. If the noninfringing alternative had been used from the outset, the estimated path of sales and gross revenues would also have failed to achieve a minimum level of profitability to secure a long-term market presence. In this situation as in the first, the difference is that, because the actual path reflects the use of the infringing brandname during introduction and growth, the actual path has a life cycle that, at all times, has higher sales and gross revenues. This is depicted in Figure 7:

A different intuitive explanation emerges for this second case, but the differences are not so much in the period of infringement. Here as well, the infringer initially chose the infringing brandname because it appeared a better marketing tool. The higher rate of growth during infringement resulted in higher sales and gross revenues, fewer losses that are capitalized as fixed costs, and better relations with retailers that create a greater market presence. Even though the product ulti-

²³³. Once again, a reasonable royalty would deprive the infringer of some, but not all, of the gains. See supra notes 87 & 222. In fact, a radically different method of calculating a royalty would be necessary to capture gains that are realized after infringement ceases. The royalty would have to be set to capitalize the benefits throughout the life cycle and not just a fair rate of return for using the trademark during the period of knowing infringement.
mately was not successful, unauthorized use allowed the infringer to avoid even greater financial losses during the period of infringement.

For the second scenario, the different explanation begins to emerge after infringement and during the temporary setback. When shifting to the noninfringing brandname, the infringer does not need to start anew, but the market presence achieved during infringement does not boost the product to the minimum level of profitability. Perhaps the infringer’s relations with retailers was not sufficiently established to assure long-term success. The setback more likely resulted because, in significant respects, the effective point of sale is to consumers.234 The benefits of infringing are the favorable associations signalled to consumers by the infringing brandname. Those favorable associations reside in the trademark and do not transfer to the noninfringing alternative. Thus, the market presence achieved during infringement is mostly lost during the temporary setback.

After the infringer adopts a noninfringing brandname, the benefits of infringement continue, even though the infringer’s product ultimately is unsuccessful. Of course, the lack of success derives principally from the noninfringing alternative that the infringer subsequently chose. This alternative, if used from the outset, would not have achieved a long-term market presence. The important point, however, is that the noninfringing alternative would have resulted in fewer sales and gross revenues throughout the life cycle. The noninfringing alternative would have resulted in greater financial losses. The benefits of infringement that are realized after infringement are the even greater financial losses that would have been suffered had infringement never occurred.235

This second scenario also demonstrates potentially perverse incentives to infringe. This time, the nefarious competitor wants to enter a market that is characterized by high risk.236 Trademark infringement offers a strategy to reduce the adverse financial impact if the product fails.237 To avoid compensatory damages, the infringer selects the trademark of a producer who does not compete and produces a product of the same level of quality or stylized image. To avoid damages

234. Another plausible explanation is that, even if the effective point of sale is to retailers, the period of infringement was too short for the infringer to establish a favorable reputation with retailers.

235. This consideration suggests a limit on damage calculations that falls short of the entire life cycle of the infringer’s product. The benefit of avoiding even greater financial losses theoretically ends when the estimated life cycle of the noninfringing alternative ends. At this point, if infringement never occurred, the infringer would have ceased operations and avoided financial losses altogether.

236. In fact, significant risks seem to accompany the introduction of any new product, even if by a successful competitor. See Onkvisit & Shaw, supra note 49, at 113 (“Given the generally poor survival record of new products along with the huge investment associated with their introduction, there is great risk in playing pioneer.”)

237. See id. at 35 (explaining that risk minimization is a criterion in new product selection and development.).
under an accounting, the infringer shifts to a dissimilar brandname before transactions become profitable. Even if transactions never become profitable, the infringing use will increase sales and gross revenues, thereby decreasing financial losses and reducing the adverse impact of a failed product. Infringement thus lowers risk. In this scenario as well, the infringer knowingly infringed and benefited, but current damage remedies do not deprive the infringer of the gains of trademark infringement.3

3. Actual Life Cycle Successful; Estimated Unsuccessful

The third scenario presents the most extreme situation. Here, the actual path of sales and gross revenues timely achieves a minimum level of profitability to secure a long-term market presence. Had the noninfringing alternative been used from the outset, however, the estimated path of sales and gross revenues would have failed to achieve a minimum level of profitability to secure a long-term market presence. The difference, once again, starts during introduction and growth where the actual path reflects the use of the infringing brandname. The effect is the most extreme because the infringer's success appears to derive solely from trademark infringement. This situation is depicted in Figure 8:

238. Here as well, a reasonable royalty would deprive the infringer of some, but not all, of the gains unless the royalty were set to capitalize the benefits throughout the life cycle and not just during the period of knowing infringement. See supra note 233. In addition, in this case, it is not altogether clear that a license would have been forthcoming in the first place, especially in light of the high degree of risk that characterizes the market. The trademark holder who owns a strong and valuable trademark may not want the risk of attaching the mark to a product that may likely fail. Consequently, any attempt at calculating a reasonable royalty likely is speculative.
During infringement, the benefits in the third scenario mirror those in the first and second. The infringer initially chose the infringing brandname because it appeared a better marketing tool. Sales and gross revenues increased at a faster rate than had the noninfringing alternative been used. The resulting benefits include increased sales and gross revenues, fewer losses that are capitalized as fixed costs, and greater opportunities to establish favorable relations with retailers. The product ultimately was successful, but here that success is due solely to the market presence that was gained during infringement.

After infringement, during the temporary setback, the significant difference is the boost that helped the infringer achieve a market presence. Here, the finding of infringement and the subsequent shift to the noninfringing alternative least affect the relationships the infringer established with successful retailers. Perhaps the trademark holder did not have strong incentives to file actions against retailers. The boost more likely resulted because, in all significant respects, the effective point of sale is to retailers. Infringement enhanced the opportunities to establish a favorable reputation in terms, such as prompt shipments or flexible payment terms, that do not reside in the infringing brandname. Consequently, the market presence achieved during infringement in the third scenario provides the most pronounced boost and opportunities for post-infringement benefits.

The life cycle for the infringer’s product achieves a minimum level of profitability and secures a long-term market presence. But, the ultimate success of the infringer’s product is not due to the noninfringing alternative chosen by the infringer. Indeed, the noninfringing...

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239. Once again, other, plausible explanations are available. Indeed, the alternate explanation developed *supra* in note 230, may apply here as well.
alternative, if used from the outset, would have been unsuccessful. Success in this market does not seem to depend so much upon a brandname that signals a favorable marketing message at the level where sales are made to consumers. Instead, success in this market seems to depend upon convincing retailers to select and feature a product. In this third scenario, the infringer’s product ultimately succeeded because of the boost obtained during infringement. That boost enabled the infringer to establish favorable relations with retailers, and those relations were sufficiently established during infringement to enable the infringer, and its product, to reach profitability after infringement.

This third scenario presents the most extreme example of how current damage remedies potentially create perverse incentives to infringe. Here, the nefarious competitor seeks to enter a market in which retail capacity is crowded with successful products. An untested brandname has little chance of gaining a toehold in a retail outlet.\textsuperscript{240} Once again, the infringer avoids compensatory damages by carefully selecting a trademark and producing a quality product. The infringer also avoids damages under an accounting by shifting to a dissimilar brandname before transactions become profitable. The infringing brandname helps convince retailers to select and feature the infringer’s product, and the reputation earned during infringement convinces retailers to continue to carry the infringer’s product with the noninfringing alternative. Here, the infringer’s ultimate success derives from the boost gained by knowingly infringing, but current damage remedies do not deprive the infringer of the gains of trademark infringement.\textsuperscript{241}

C. Taking the Difference Between Life Cycles

Following the approach developed thus far, the gains of trademark infringement constitute the difference between the actual and the estimated life cycles. Thus, a first step in measuring the gains of trademark infringement is to calculate the infringer’s gross revenues. This calculation, which can be made from financial information discovered from the infringer, is similar to the first step in the traditional accounting of profits. Because of the more comprehensive view urged by this

\textsuperscript{240} An innovator may actually seek to create this difficulty for subsequent competitors by developing more than one brandname for its product. See Onkvisit & Shaw, supra note 49, at 118 (explaining that “[o]ne strategy is for the innovator to saturate the new market with more of its own brands, making it too crowded for anybody else to enter and leaving no retail shelf space for potential competitors,” and citing the addition of Luvs by Proctor & Gamble to join its Pampers disposable diapers).

\textsuperscript{241} In this case, the problems of measuring a reasonable royalty continue. In addition, an appropriate royalty in this case would actually be for the value of the entire business given that, in the long run, the success of the business is due solely to trademark infringement.
discussion, the traditional limitations of an accounting should not apply. Gross revenues should be calculated for the entire life cycle of the infringer's product, regardless of whether transactions were profitable or when the period of knowing infringement started or ceased.

The next step—and admittedly the most challenging one—is to deduct the gross revenues that would have been earned had the infringer used the noninfringing alternative from the outset. Calculating these revenues is similar to the second step in a traditional accounting of profits. In an accounting, the infringer can deduct production and marketing costs as well as any profits that can be attributed to any enhanced product qualities provided by the infringer. Under the more comprehensive view, the infringer can deduct the gross revenues that the infringer would have earned absent infringement. Given that both the actual and estimated revenues refer to the same product and differ only in the brandname affixed to that product, there is no need to account for different product qualities. Once this deduction is made, the gains of trademark infringement have been calculated.

At this point, it should be apparent that the proposed model is not limited to a context in which the infringer never engaged in a profitable transaction during infringement. The model calculates the gains of trademark infringement by taking the difference between the infringer's revenues on the actual life cycle that included infringement and an estimated life cycle that does not include infringement. It matters not, on the actual life cycle, whether infringement ceased before or after the infringer reached the minimum level for profitability. Consider, for example, that the trademark holder does not obtain an injunction until the infringer's product emerges from introduction and growth and establishes itself in maturity. By taking the difference between the actual and estimated life cycles, the model not only measures the benefits of increased sales and gross revenues on unprofitable transactions, but also measures the benefits of increased sales and revenues on profitable transactions.

It should also be apparent that the proposed model is not limited to a context in which the infringer does not compete directly with the trademark holder. The two life cycles that are used to measure the gains of trademark infringement pertain to the infringer's product. Because the approach is not compensatory, there is no need to examine any impact on the trademark holder's life cycle or, for that matter, to compare either the costs of the infringer and the trademark holder or the prices that they charge. In fact, it matters not whether there is any impact on the trademark holder's life cycle. Consequently, it also does not matter whether the infringer and the trademark holder sell products in the same market. By awarding the trademark holder the difference between the actual and estimated life cycles for the infringer, the model measures the gains of trademark
infringement where the infringer and the trademark holder directly compete as well as where they do not.

Finally, the proposed model is not limited to a context in which the infringer switches to a noninfringing alternative when infringement ceases. Indeed, it is altogether possible that the infringer will opt, instead, to discontinue operations rather than to switch to a noninfringing alternative. If that is the case, the proposed model still measures the gains of trademark infringement. The actual and estimated life cycles for the infringer will include the period of infringement and, perhaps, a subsequent period in which the infringer winds up operations in an orderly fashion. Provided that a life cycle that does not include infringement can be estimated for both the period of infringement and the winding up period, the approach will measure the gains of infringement.

D. Estimating the Noninfringing Alternative

The challenge in applying this model is in estimating the gross revenues that would have been earned had the infringer used the noninfringing alternative from the outset. Because data does not exist to measure these revenues directly, other sources of data must be used to estimate these revenues indirectly. Actually, indirect estimates are not uncommon. Before a product is introduced, product managers often forecast the life cycle of a product, especially to determine how soon the product will break even by reaching profitability. No

242. For example, in many contexts, both business and government, forecasts or predictions of important variables are made to assist in planning decisions. See Bowerman & O'Connell, supra note 179, at 3-4 (citing examples in marketing, finance, personnel management, production scheduling, process control, and strategic management). In those contexts, the “forecaster analyzes [historical] data in order to identify a pattern that can be used to describe [the data]. Then this pattern is extrapolated, or extended, into the future in order to prepare a forecast.” Id. at 5 (emphases omitted). Here, the difference is that current data is examined to “forecast” a different set of events that would have occurred in history.

243. See Onkvisit & Shaw, supra note 49, at 112. Onkvisit and Shaw state:

As explained by [one executive], “The number of entrants in a given category has increased, and we find ourselves really working hard at projecting a given brand's life cycle — when the bell curve is likely to peak and the point at which it is no longer intelligent to support a given brand.” Id. (quoting an executive vice-president of Gillete (North America)). See generally Dalrymple & Parsons, supra note 137, at 109-32 (providing an introductory discussion of forecasting methods).

244. In fact, the forecasting of a “break-even” point is a standard managerial tool. See Wasson, supra note 141, at 251-57 (presenting break-even concept in context of price-cost and return-on-investment standards). When forecasting the break-even point, managers now incorporate the S-curve of the initial portion of the typical product life cycle. See Bowerman & O'Connell, supra note 179, at 17. As Bowerman and O'Connell state:

In constructing this S-curve [to estimate sales during introduction and growth], the company must use its experience with other products and all its knowledge concerning the new product in order to predict how long it will
longer do courts automatically consider such forecasts inherently uncertain. Where, however, the forecast is for a new product or a new brand of a product that does not have a history of performance, proving a forecast with reasonable certainty becomes difficult.

The challenge, in many cases, will be to find a reliable source of data upon which to base a reasonably certain forecast of the revenues that would have been earned had the noninfringing alternative been used from the outset. One source of helpful data is found in the patterns of sales and gross revenues of third parties who compete with the infringer and who used brandnames with which retailers and consumers were not initially acquainted. Looking at the sales of other products is not a novel suggestion. In traditional damage calculations, evidence of the success of the defendant is admissible to show that the trademark holder's loss of sales was caused by the unauthorized use. Here, however, the success—or lack of success—of third parties provides data that can help in estimating the shape of a typical life cycle.

Using the sales of others to estimate the revenues that would have been earned absent infringement is a viable alternative, but one that may present practical problems in some situations. Certainly, those who study product life cycles often estimate the typical path of sales and gross revenues from industry studies. Such studies, however, may not be practical in every trademark infringement action. Third party competitors may not want to disclose financial information, and rules take for the rapid increase in sales to begin, how long this rapid growth will continue, and when sales of the product will begin to stabilize.

245. See Restatement (Second) of Contracts § 352 cmt. b (1979) [hereinafter Restatement, Contracts] (stating that proof of lost profits “may be established with reasonable certainty with the aid of expert testimony, economic and financial data, market surveys and analyses, business records of similar enterprises, and the like”). At least one court used the trademark holder’s own projection of revenues to determine lost profits on diverted sales by taking the difference between the estimated revenues and the actual revenues. See U-Haul Int’l, Inc. v. Jartran, Inc., 601 F. Supp. 1140, 1148-49 (D. Ariz. 1984), aff’d on other grounds, 793 F.2d 1034 (9th Cir. 1986).

246. See Restatement, Contracts, supra note 245, § 352 cmt. b (“However, if the business is a new one or if it is a speculative one that is subject to great fluctuations in volume, costs or prices, proof [of lost profits] will be more difficult.”).

247. Indeed, in time series analysis, the forecast of a product life cycle for a new product “when historical data . . . either are not available at all or are scarce,” Bowerman & O’Connell, supra note 179, at 16, is called “subjective” because it requires “qualitative” forecasting methods where “the forecaster must first subjectively determine the form of the curve to be used.” Id. at 17-18.

248. See Restatement Third, supra note 2, § 36 cmt. h. As the Restatement states: Proof of a decline in sales combined with evidence tending to discount the importance of other market factors, such as evidence of positive business conditions and the success of similar businesses not subject to the defendant’s tortious conduct, can be sufficient to establish a causal connection between the plaintiff’s decline in sales and the misconduct of the defendant.

Id.
of civil procedure may not compel disclosure. Moreover, if new products with noninfringing brandnames are likely to fail—as in the second and third cases—some competitors might not be able to provide financial information for the simple reason that those competitors no longer exist. Even where a study is conducted, the estimate should account for any product qualities that differ between the infringer’s product and the average product of the study.

In theory, another source of data comes from financial information discovered from the infringer. After the infringer adopts the noninfringing alternative, the infringer’s product continues to sell. The change, however, is that the infringer’s product starts on a different path of sales and gross revenues. The starting point for the new path is different because the infringer does not start anew. Rather, a different starting point is determined by the boost that the infringer received while using the infringing brandname. While the general shape or functional form of the path may be the same, the rate of growth in sales and gross revenues for the new path is different because the infringer does not continue using a brandname with an established marketing message. Rather, a different brandname, the noninfringing alternative, does not immediately convey a valuable marketing message and, thus, is associated with a lower rate of growth. Actual financial information provides information about the rate of growth associated with the noninfringing alternative. At least in theory, information about that rate of growth can be used to estimate the sales and gross revenues that would have been earned had the infringer used the noninfringing alternative from the outset.

A linear model best illustrates how to use financial information, discovered from the infringer, to estimate the revenues that would have been earned absent infringement. Figure 9 depicts such a linear model. During introduction and growth, the actual path of sales and gross revenues follows a straight line with a slope of $b_1$. That slope, $b_1$, is the rate of growth with the infringing brandname. After the infringer adopts the noninfringing brandname, the actual path of sales and gross revenues follows a straight line with a different slope, $b_2$. That slope, $b_2$, is the rate of growth with the noninfringing name. If the infringer had used the noninfringing brandname from the outset, the estimated path of sales and gross revenues would start at the origin and follow a straight line with the estimated slope of $b_2$.

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249. See generally id. at 137-54 (discussing forecasting techniques that use a linear model).
A linear model can rely upon straightforward regression techniques to estimate the slope or rate of growth, but a nonlinear model must turn to more sophisticated statistical techniques.\(^{250}\) In the linear model, actual financial information of the infringer after adopting the noninfringing alternative is easily isolated and examined to determine the slope or rate of growth of a straight line. The linear model is straightforward because the slope is unaffected by the starting point from where the infringer began using the noninfringing alternative.\(^{251}\) Product life cycle theory teaches, however, that the typical path during introduction and growth is a nonlinear curve whose shape discloses a changing rate of growth.\(^{252}\) The nonlinear model is complicated by the fact that the shape of the curve, which depicts ongoing changes in the rate of growth, is affected by the starting point.\(^{253}\) Thus, in a non-

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\(^{250}\) See generally Nicholas R. Farnum & LaVerne W. Stanton, Quantitative Forecasting Methods 183-240 (1989) (introducing curvilinear trend models, including logarithmic and exponential curves that resemble the S-shape of introduction and growth periods).

\(^{251}\) In fact, all that is needed in the linear model is to shift the origin of the line associated with the noninfringing alternative such that the y-intercept is zero. See Bowerman & O'Connell, supra note 179, at 144 ("Such shifts of the origin of time are common practice in forecasting.").

\(^{252}\) This much was apparent in the intuitive explanations of the different portions of a typical product's life cycle as depicted in Figure 1. During "Introduction," there was a positive slope but the rate of growth in sales and gross revenues was not yet significant or dramatic. The rate of growth changes as the nonlinear path "curved" into "Growth." During "Growth," there is also a positive slope, but the slope is steeper, indicating a higher rate of growth on sales and revenues that is significant and dramatic.

\(^{253}\) See generally Bowerman & O'Connell, supra note 179, at 167-85, 308-16 (discussing forecasting techniques that use nonlinear or curvilinear model). The complication arises because the rate of growth in sales and gross revenues interacts with time such that, during introduction and growth for example, the rate of growth first in-
linear model, difficulties arise because the infringer did not adopt the noninfringing alternative until after the boost, well into introduction and growth.

A solution to the difficulties of the nonlinear model potentially lies in the techniques of nonlinear estimation and conditional probabilities. Nonlinear techniques can estimate the kind of distribution or nonlinear curve that a path of sales and gross revenues follows during introduction and growth. Here, nonlinear techniques can examine actual financial information for both the period of infringement and the period when the infringer adopted the noninfringing brandname. The result indicates the functional form or particular kind of equation that best estimates sales and gross revenues for the infringer's product, regardless of the brandname that was used or when a brandname was adopted.

In theory, a conditional probability can estimate the parameters of the distribution or nonlinear curve that is associated with the noninfringing alternative. A conditional probability estimates the parameters of a distribution or kind of equation given information that may be unrelated to that distribution. Here, the unrelated information is the arbitrary starting point from where the infringer adopted the noninfringing alternative. Statistical techniques condition the distribution upon that arbitrary starting point and then examine actual financial information for the following period when the infringer used the noninfringing alternative. The result indicates the parameters of the distribution or kind of equation that best estimates the path of sales and gross revenues when the infringer actually used the noninfringing alternative. Armed with the nonlinear equation and the parameters that solve that equation, a statistician can estimate the increases at an increasing rate and then increases at a decreasing rate. See id. at 115 (providing graphical depictions); see also id. at 167 (using a quadratic equation to "consider the situation in which the average level of the time series is either increasing at an increasing or decreasing rate or decreasing at an increasing or decreasing rate").

254. For an example of a nonlinear model, using a logarithmic functional form, that forecasts a growth curve resembling the S-curve of the introduction and growth periods, see Bowerman & O'Connell, supra note 179, at 18 ("In a product life cycle situation the use of an S-curve may be appropriate. But many other functional forms can be used... [such as] an exponential curve... [or] a logarithmic curve.").

255. Because historical data are available, quantitative—as opposed to qualitative, see supra note 247—forecasting methods become available. See Bowerman & O'Connell, supra note 179, at 20 ("These [quantitative forecasting] techniques involve the analysis of historical data in an attempt to predict future values of a variable of interest.").

revenues that would have been earned had the noninfringing alternative been used from the outset.\textsuperscript{257}

An additional concern arises from the need to account—as in the first scenario—for an estimated path of sales and gross revenues that is successful. Here, financial information discovered from the infringer can indicate the minimum level of profitability or the number of sales that will generate gross revenues that cover all costs, fixed and variable. The estimated path will be successful if the distribution that estimates gross revenues reaches that minimum level. As noted above, after reaching maturity, a not unreasonable forecast is that the path will follow a straight line whose slope is equal to the rate of the growth of demand for the product market as a whole. Following the linear model, the slope of that straight line can be estimated from the rate of growth for the infringer's product after the noninfringing alternative was adopted and during maturity.\textsuperscript{258}

Where the estimated path of sales and gross revenues is successful, the entire life cycle can be estimated by combining the nonlinear and linear models. The initial segment of the path, during introduction and growth, follows the distribution estimated by using the techniques of nonlinear estimation and conditional probabilities. The second segment of the path, during maturity, follows a straight line whose slope is estimated by using the technique of linear regression. The two segments join above the minimum level of profitability where the slope of the nonlinear curve converges with the slope of the straight line.

Unfortunately, what can be designed in theory cannot always be implemented in practice.\textsuperscript{259} In particular, it is difficult to estimate the parameters of a nonlinear curve by conditioning the distribution upon an arbitrary starting point and then examining data for the period following that point. If the parameters of the distribution already are known, it is relatively easy to estimate a curve that follows from an arbitrary starting point. Working backwards and estimating the parameters from the curve that follows from the arbitrary starting point is a different matter. A nonlinear curve depends upon parameters that, in turn, are dependent upon each other, and current statistical techniques cannot, with assurance, control for the effects of an arbi-

\textsuperscript{257}See id. at 537 ("[Any] subcollection of random variables . . . can be predicted from knowledge of the remaining variables through the appropriate conditional probability distribution and associated regression function.").

\textsuperscript{258}Even where the product achieves maturity in a market that is subject to seasonal fluctuations, dummy variables can be used to control for those fluctuations in a linear model.

\textsuperscript{259}Indeed, to the extent that the product life cycle theory is questioned, a model based upon product life cycles also is questionable. See Onkvisit & Shaw, supra note 49, at 98 ("Product life cycle has been criticized for being ambiguous and difficult to measure in addition to having a low predictive value and for being inapplicable to many products that are exceptions and do not behave as suggested."); see also id. at 99-102 (discussing debate over product life cycle theory).
trary starting point when estimating all of those parameters.\textsuperscript{260} Thus, the very boost from unauthorized use that benefits the infringer may also contaminate the statistical analysis and deny confidence in the estimated parameters that are needed to measure those benefits.

The problems with currently available statistical analyses might be addressed through burdens of proof. For example, the trademark holder might be required to prove a linear model with the burden shifting to the infringer to provide a better, nonlinear model. Or, after estimating the type of nonlinear curve, the trademark holder might be allowed to start that curve at the origin and force the curve through the point where the infringer started using the noninfringing alternative.\textsuperscript{261} While both of these approaches would provide for damages, both may underestimate the gains of trademark infringement. For example, if a linear model is used because the infringer fails to provide a better, nonlinear model, the estimated path will always result in a successful product. This would underestimate the gains of trademark infringement, particularly in situations that resemble the second and third cases. Similarly, if the trademark holder forces the curve through the point where the infringer started using the noninfringing alternative, the estimated path will underestimate the boost in market presence obtained by establishing favorable relations with retailers during infringement. This also would underestimate the gains of trademark infringement, particularly in situations that resemble the first and third cases.

The solution to the problem of measuring the gains of trademark infringement, however, is not to continue with the traditional limitations of an accounting of profits. Infringers potentially benefit from unauthorized use, even if infringers do not engage in profitable transactions during the period of knowing infringement. While the damages model urged in this discussion has intuitive and theoretical appeal, the model may have shortcomings in application. An industry study is a viable alternative, but there may be practical problems in some cases. So too, financial information discovered from the infringer is an alternative, but here there may be practical problems as well. And, altering burdens of proof may not eliminate those problems. Those shortcomings do not, however, require that trademark holders should be foreclosed from arguing for measures that better serve deterrence and unjust enrichment rationales. This they

\textsuperscript{260} One way to gain an intuitive appreciation for this problem is to consider two nonlinear equations that predict substantially similar paths in a first time period but predict different paths in a second time period. Actual data taken from the first time period are equally consistent with both equations, even though the equations will estimate very different paths in the second time period.

\textsuperscript{261} This might be accomplished by using exponential smoothing techniques where no historical values are available, an arbitrary initial value is chosen, and the curve is exponentially smoothed between the arbitrary initial value and current data. See Farnum & Stanton, supra note 250, at 200.
cannot do if traditional limitations force them, and the courts, to disregard the ways that infringers gain from trademark infringement.

**Conclusion**

The rationales for trademark infringement remedies have expanded over time. Monetary relief was designed originally to compensate for the trademark holder’s losses where the infringer competed with the trademark holder. Monetary relief now also serves the rationales of deterrence and preventing unjust enrichment, rationales that are not limited to contexts in which the infringer competes with the trademark holder. An example of the kind of monetary relief that has evolved to serve expanded rationales in expanded contexts is the traditional accounting of profits. Once used only in limited contexts as a surrogate for profits on sales that a competing infringer diverted from the trademark holder, an accounting is now used in expanded contexts to deter infringement and prevent unjust enrichment.

Unfortunately, the restrictions on damage calculations have not always expanded to keep pace with added rationales. The traditional accounting of profits, for example, is limited to profits on transactions made during the period of knowing infringement. The economic gains of trademark infringement, however, are not constrained by the traditional limitations that courts long ago placed upon an accounting of profits. Even if the infringer never engages in a single, profitable transaction, unauthorized use may increase sales and gross revenues and, thereby, reduce financial losses. So too, unauthorized use may help the infringer obtain a favorable reputation among retailers and, thereby, gain a market presence, the benefits of which may continue after infringement ceases.

This Article has proposed a more comprehensive analysis that better measures the gains of trademark infringement. This analysis, as a consequence, better serves the rationales of deterrence and unjust enrichment. To be sure, the analysis was initially developed with reference to a hypothetical infringer who never engaged in a single, profitable transaction during the infringement period and then shifted to a noninfringing alternative that was available at the outset. The hypothetical was designed, perhaps dramatically, to highlight the deficiencies of the traditional limitations of an accounting of profits. Nonetheless, the approach was not meant to be limited to that context. If monetary relief is meant to serve the deterrence and unjust enrichment rationales that now underlie trademark remedies, monetary relief should not be constrained by limitations that prevent damage calculations from measuring all the gains of trademark infringement.