



Trademark Damages Awarded for Use Outside Permitted Field: Lessons Learned from the Masters and Johnson Case

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The recent Masters and Johnson case showed how easily a trademark licensor could establish willful infringement and receive an award of monetary damages, even when no actual confusion existed and the licensor waited for the trademark license agreement to expire before complaining that the licensee used the licensed mark outside the scope permitted by the agreement.

This article reviews that case, *Masters v. UHS of Del., Inc.*, 631 F.3d 464 (8th Cir. 2011), *cert denied*, 2011 U.S. LEXIS 3853 (U.S., May 23, 2011), and advises trademark licensees how to avoid the pitfalls of acting outside the scope of license agreements.

Overview

How can a trademark licensee ensure that it is acting within the scope of an agreement while also limiting potential monetary damages?

First, a licensee should always get written approval that the mark is being used within the scope of the agreement. Without an approval in writing, a licensee exposes itself to unnecessary liability.

Second, a licensee should try to ensure that its agreement is clearly written with well-defined terms to avoid ambiguities that could cause the parties to interpret the scope of the agreement differently.

Finally, a licensee should include a liquidated damages provision. Such a provision sets a cap on potential damages and provides cost certainty to both parties.

Factual Background

Virginia Johnson and Dr. William Masters were leaders in the treatment and diagnosis of sexual dysfunction and disorders. In 1991, Masters and Johnson entered into two consecutive license agreements spanning a 14-year period, with UHS of Delaware, Inc. (UHS), which owned and operated psychiatric hospitals and mental health facilities. The license agreement granted UHS use of the unregistered "Masters and Johnson" service mark and granted UHS the ability to use the mark at all psychiatric hospitals and clinics managed or owned by UHS specifically for the treatment of sexual dysfunction and sexual trauma.

In December 2006, after the license term expired and parties failed to agree on an extension, Johnson sued UHS in the United States District Court for the Eastern District of Missouri asserting UHS exceeded the scope by using the mark to promote treatment programs for eating disorders and chemical dependency as well as treatment methods such as yoga, expressive dance and t'ai chi. *Masters v. UHS of Del., Inc.*, 2008 U.S. Dist. LEXIS 107383 (E.D. Mo., Oct. 21, 2008). Johnson claimed UHS breached the license agreement, committed service mark infringement under 15 U.S.C. §1125(a) of the Lanham Act, and engaged in unfair competition under Missouri law. *See, e.g., Masters*, 631 F.3d at 468.

After a trial, the district court jury found that UHS breached the license agreement resulting in willful infringement of the mark. While the jury found no actual damages, it still awarded Masters and Johnson \$2.4 million of disgorged profits. *Id.* at 469. Actual confusion was not deemed necessary for the recovery of monetary damages. Thus, the \$2.4 million was based, in part, off of expert testimony that UHS realized \$320 million in gross revenue during the 14-year license term and that the licensor was entitled to a percentage to offset the infringing use of the mark. *Id.* at 468.

The Masters Decision

On appeal, the Eight Circuit affirmed the lower court's ruling that UHS willfully infringed the "Masters and Johnson" service mark and that Masters and Johnson were entitled to the award of \$2.4 million of disgorged profits. *Id.* at 474. The Eight Circuit quickly disposed of Appellant's argument that its use of the mark with advertising and promotional materials did not constitute legal "use in commerce" under

the Lanham Act because such use was sufficient in the case of services (as opposed to goods). *Id.* at 470.

UHS alleged that relevant case law precluded an award of monetary relief absent proof of actual confusion. The Eighth Circuit rejected this argument stating statutory provisions and case law do not require proof of actual confusion for an award of monetary relief. *Id.* at 472. The Eighth Circuit determined that an injunction would be inequitable because it would enjoin activity that appears unlikely to occur again. *Id.* at 471. As a result, the court found that a disgorgement or accounting of profits is appropriate to deter potential infringers and prevent against unjust enrichment.

The Eighth Circuit determined that, notwithstanding *Masters* and Johnson's lack of objections during the license term, evidence relied upon by the jury was sufficient to find that UHS willfully infringed the mark. *Id.* Such evidence included testimony from employees regarding use of the mark, website images, and marketing and branding activities that expanded to include programs that were unrelated to sexual dysfunction and sexual trauma. *Id.* at 472. The court noted that there is a Circuit split regarding whether a Lanham Act plaintiff must prove willful infringement to be eligible for monetary damages. Compare *Synergistic Int'l., LLC v. Korman*, 470 F.3d 162, 175 n.13 (4th Cir. 2006) with *W. Diversified Servs., Inc. v. Hyundai Motor Am., Inc.*, 427 F.3d 1269, 1272-73 (10th Cir. 2005). The Eighth Circuit did not conclude whether a disgorgement of profits requires a showing of willfulness, but determined that the jury acted reasonably in finding that UHS willfully infringed the mark. *Id.*

Conclusion and Lessons Learned

Licensees can reduce the likelihood of significant liability for possible deviations from their agreements by obtaining express written consent for any possible deviations to the agreements, making their agreements as clear as possible by carefully defining the critical terms, and including a liquidated damages provision to help limit potential monetary damages.

Get written approval of deviations from the Agreement: Failing to object to how a mark is used does not signify tacit approval. This is especially important if the license agreement provides that changes must be made in writing. In *Masters*, UHS argued that the licensor understood and approved of the manner in which it used the mark for fourteen years. *Id.* at 469. Assuming a use falls under the scope of an agreement is an unwise business practice. Failing to acquire written approval can result in a licensee placing its fate in the hands of a jury. In *Masters*, the facts pointed towards the licensee acting, at worst, in a negligent manner. That is, it did not realize that its actions exceeded the scope. However, the jury determined that evidence, including employee testimony, webpage documents, and marketing materials, was sufficient to prove that UHS was willful in its infringement. Had UHS received written approval for the use of the mark to promote treatment programs for eating disorders and chemical dependency, it could have avoided forfeiting \$2.4 million in disgorged profits.

Use clear well defined terms: Failing to clearly define terms and using ambiguous language creates the potential for unnecessary litigation and decreases the value of a license because it creates the potential to damage and threaten long-term business relationships. Taking extra time to define what uses are not permissible will decrease the need for parties to rely upon implicit agreements over the use of a mark. In *Masters*, litigation arose, in part, because UHS relied on what appeared to be the licensor's tacit approval of UHS' use of the mark. Had the parties spent extra time negotiating the scope and definition of the "treatment" permitted by the agreement, both sides would have saved time and money.

Include liquidated damages provisions: A liquidated damages provision provides an estimate of damages that would occur in the event of a breach, making the amount of costs more certain and reducing legal fees. Had the parties included a liquidated damages provision in *Masters*, they would have been more likely to arrive at an equitable settlement, thereby avoiding the discretion of a jury. Courts have been inconsistent in determining whether evidence of actual confusion or willful infringement is necessary to recover monetary damages. As a result, it is unclear how courts will measure damages in the future, making a liquidated damages provision a useful tool to limit damages.

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