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DAMAGES AND ACCOUNTING PROCEDURE IN UNFAIR COMPETITION CASES*

HARRY D. NIMS

Introduction

One who reads the decisions on the subject to which this article is devoted is tempted, as was Mr. Browne when he wrote on the same problem in his book on *Trade-Marks* fifty years ago, to "relapse into uncertainty and despair of finding any nicely adjusted scheme to solve the problem."[1]

Public policy requires that unfair competitors must not be allowed to profit by their wrongful methods and that those who have been injured by them should receive adequate compensation for the loss or injury they have suffered. Instances frequently occur where there was real injury but the recovery hardly covered the expense of the court proceedings necessary to obtain it, much less indemnified the plaintiff for his injury at the hands of the defendant, or imposed on the defendant any real financial loss because of his fraud.

The problem is an intensely practical one and one in which the public as well as litigants have a very real interest. Merchants very properly expect the courts to protect them against the use of unfair schemes and methods by competitors, and furnish them a simple, workable procedure for recovering compensation for their injuries. Consumers are entitled to similar protection against those who seek to confuse them by unfair means. Such protection is inadequate if it involves, as it often does, months or even years of effort.

The trade pirate often understands, to some degree at least, the difficulties of showing damage in these cases and knows he can use unfair methods with comparative safety; for although he may be enjoined from continuing his acts, the likelihood of his having to pay any substantial sum is remote. He knows also that it is almost impossible to show the extent to which an unfair device or an infringing trade-mark diverts trade, or the extent of the injury

*This is the first of two installments under this heading, the second of which will appear in the September issue of the QUARTERLY. This article is an excerpt from the fourth edition of Mr. Nims' book, UNFAIR COMPETITION AND TRADE-MARKS, which is soon to be published.

[1]BROWNE, LAW OF TRADE-MARKS (2d ed. 1898) 517.

which misrepresentations about a competitor or his goods or business may cause.

It may have been practical in the past for a plaintiff to prove the sales he has lost by reason of defendant's acts. Today it is often impossible to find out the actual effect on the public of unfair acts in the sale of goods, especially where the article is sold for a small price, or bought casually, or the sales are distributed over a wide area.

The defendant's profits are often not a fair test of plaintiff's loss for "the rights of the owner are not limited by the rogue's manipulation of the stolen property."[2] Nor should plaintiff's recovery depend upon facts which are only in the defendant's possession, or upon the defendant's bookkeeping, or upon his own ability to extract information and figures from a hostile competitor.

To award the profits which plaintiff himself has lost does not involve as great difficulty of proof perhaps, but he should not be faced with the dilemma of either not being fully indemnified for injury he has suffered or of opening his books to the scrutiny of a competitor who has wronged him.

Modern methods of merchandising make it quite out of the question to uncover and present to a court the injurious effects of many unfair competitive schemes and devices. Meanwhile, so long as we do not approach the problem realistically, the present accounting procedure will continue to encourage and facilitate the use of practices unfair both to competitors and to the public.

Where a defendant uses methods in taking business away from the plaintiff effective enough to warrant the expense of using them, it seems naïve for the courts to be unable to find in them sufficient substance to serve as a basis for adequate recovery without the complicated processes now in use. Those who framed the early rules, some of which are still used, never heard of radio advertising, magazines with national circulation reaching millions of readers and other facilities of modern competition, which are designed for and exercise most useful functions but which can be and are used also for purposes unfair to competitors and to the consumer.

Sometimes, plaintiff's injury can be repaired by giving him the profit which the defendant makes from his use of plaintiff's symbol. Sometimes, however, the defendant may have made no profit or have operated at a loss, or no accurate facts can be obtained as to the profits he has made, yet the plaintiff's business and good will may have been injured. Again, defendant's

[2]Conviser v. Brownstone & Co. et al., 209 App. Div. 584, 205 N. Y. Supp. 82 (2d Dep't 1924).

poor quality goods may have been attributed to plaintiff; or plaintiff may have lost customers who, attracted by defendant's misrepresentations, have bought of defendant, not only the goods misrepresented, but other goods as well, which, except for defendant's unfair acts, plaintiff would have sold; or defendant may have libeled the plaintiff's business or his goods or methods, and it may be impossible to calculate the damage which has resulted; or the plaintiff may have been put to expense to counteract the effects of defendant's acts. Such losses should be repaired, and it is cold comfort for a plaintiff to be told that his compensation will be limited or denied because defendant made no profits or because he cannot show enough actual instances where the defendant's conduct led to substitution to warrant any substantial compensation to him for the use of his property and the expense he has incurred in stopping the infringing acts.

The final decrees in these cases on their face seem clear enough. They direct a master to ascertain the profits of defendant from his unlawful acts and the damages to plaintiff because of such acts. The difficulty is in carrying them into effect, and these difficulties of application seem to be due to the retention of inherited rules some of which should have been discarded long ago.

In the past, legal principles were administered in law courts and equitable principles in chancery courts. One who was injured by acts of unfair competition or infringement of a trade-mark could sue in equity for an injunction and force the defendant to disclose his profits and account for them; or he could get an injunction in a court of equity and then go to a law court and sue for his damages.

American law courts cannot issue injunctions (although law courts can in England),[3] but American equity courts now assess and collect damages in addition to granting an injunction. Most unfair competition-trade-mark cases are brought in equity. Those at law are rare.

The equity courts awarded plaintiff the profits which the defendant had made from the use of the plaintiff's name or symbol, not those which the plaintiff had lost by the defendant's acts.[4] This was on the theory that defendant's use of the plaintiff's mark created a trustee relationship which made the defendant responsible to the plaintiff for such profits, while plaintiff's own profits which may have been lost were a part of his damages which could be collected only in courts of law.

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[3] 17 & 18 VICT., c. 125 (1854); 36 & 37 VICT., c. 66 § 16 (1873).

[4] Saxlehner v. Eisner & Mendelson Co., 138 Fed. 22 (C. C. A. 2d, 1905); Nelson v. Winchell & Co., 203 Mass. 75, 89 N. E. 180 (1909); The Clark Thread Company v. The William Clark Company, 55 N. J. Eq. 658, 37 Atl. 599 (Ch. 1897); Ford v. Foster, L. R. 7 Ch. App. 611 (1872).

The Missouri court said in 1911 that "the remedies in equity and at law are radically different. Equity gives as damages the profits of the defendant; while the law limits them to the loss suffered by plaintiff. Equity restrains future wrongs by injunction. Law seeks to prevent such future violations by inflicting exemplary damages for past offenses."[5]

The differences between the approach of courts of law and courts of equity to profits and damages is indicated by decisions to the effect that profits of a wrongdoer may be recovered in equity, even though the plaintiff may not show any damage at all. The Court of Appeals of New York so held in 1941. In an action for an injunction, damages, and an accounting of profits, Judge Conway said:

> "Inability to prove damages would not preclude plaintiffs from recovering, on an accounting, profits realized from sales unlawfully made, together with interest thereon from the time of the commencement of the action."[6]

In 1935 Mr. Justice Cardozo referred to the fact that "in patent nomenclature, what the infringer makes is 'profits'; what the owner of the patent loses by such infringement is 'damages'."[7] These terms are often used in a similar way in trade-mark and unfair competition cases.

As noted above, two kinds of "profits" are involved in these cases, *i.e.* those which the plaintiff has lost on sales he would have made except for defendant's acts, and those which defendant made from his unfair use of plaintiff's symbols or name, from misrepresentation of his goods as plaintiff's goods, from use of secrets of plaintiff which he fraudulently discovered, and the like. Defendant's gains of this sort are termed "profits" but gains that plaintiff might have made except for defendant's acts are sometimes called "profits" and sometimes "damages."

The term "damages" is used also to describe the injuries which plaintiff suffers from other causes than loss of his profits. Such loss may result from injury which the defendant has inflicted on the reputation or saleability of his goods, from defamation of his goods, and from injury to his credit and

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[5]Lampert v. Judge & Dolph Drug Co. et al., 238 Mo. 409, 418, 141 S. W. 1095, 1098 (1911).

[6]Winifred Warren, Inc., et al., v. Turner's Gowns, Ltd., et al., 285 N. Y. 62, 68, 32 N. E. (2d) 793, 795, 48 U. S. Pat. Q. 709 (1941); Cutter v. Gudebrod Bros. Co., 190 N. Y. 252, 83 N. E. 16 (1907). *See also* Michel Cosmetics, Inc., v. Tsirkas et al., 282 N. Y. 195, 26 N. E. (2d) 16, 45 U. S. Pat. Q. 627 (1940), where there were no profits made by defendant and so only damages were recoverable.

[7]Duplate Corp. v. Triplex Safety Glass Co., 298 U. S. 448, 451, 56 Sup. Ct. 792, 793, 29 U. S. Pat. Q. 306 (1935); *See also* Diamond Stone-Sawing Mach. Co. of New York v. Brown et al., 166 Fed. 306 (C. C. A. 2d, 1908).

the like. So that sometimes "damages" includes profits and other losses as well; sometimes it refers only to plaintiff's lost profits; sometimes it does not refer to profits at all. As a result of this confusing use of these terms, decisions are often difficult to understand and apply. Much would be gained if plaintiff's lost profits were always called "plaintiff's profits"; defendant's profits were always called "defendant's profits"; other injuries suffered by the plaintiff were termed "plaintiff's damages"; and exemplary or punitive damages always so termed. The term "accounting of damages" is misleading for tbere is no accounting of damages as distinguished from accounting of profits. An accounting of damages is an accounting of plaintiff's lost profits.

In another action for unfair competition the bill was filed in 1933. A trial was had and a decree entered six months later. An appeal took six months. A petition for rehearing was filed and denied a month later. A petition for certiorari was then filed in the United States Supreme Court and denied. A decree awarding an accounting was finally entered nearly three years from the starting of the suit. An appeal followed which was decided eight months later. An accounting followed in which the Master reported about two years and seven months later. Objections were filed, and nine months later they were sustained. An appeal immediately followed, which was decided nine months after that, reversing the objections to the account but reducing the award substantially. So that the proceeding from its inception required seven years and six months, and demanded court action on at least eight occasions. Bankruptcy proceedings followed by reason of which the final dividend on the accounting was not paid until eleven years and three months from the time the suit was started.

This confusion was pointed out long ago (1887) by the Kentucky court[8] when it referred to the fact that the courts award the profits of the defendant to plaintiff and term the award "damages." As used today, the term "damages" may include "profits" but "profits" do not include damages.[9] "Damages" in Section 49 of the United States Code on Patents is so construed.[10] In awarding relief, however, the same elements of injury may not be compensated for as profits and again as damages,[11] although both profits and damages may be awarded in a proper case.[12]

[8]Avery & Sons v. Meikle & Co., 85 Ky. 435, 3 S. W. 609 (1887).

[9]Safety Car Heating & Lighting Co. v. United States Light & Heating Co. et al., 2 F. (2d) 384-388 (W. D. N. Y. 1924).

[10]Franklin Brass Foundry Co. et al. v. Shapiro & Aronson, Inc., 278 Fed. 435, 442 (C. C. A. 3rd, 1921); Flat Slab Patents Co. v. Turner, 285 Fed. 257-269 (C. C. A. 8th, 1922).

[11]Yesbera v. Hardesty Mfg. Co., 166 Fed. 120, 127 (C. C. A. 6th, 1908).

[12]Tilghman v. Proctor, 125 U. S. 136, 8 Sup. Ct. 894 (1888).

In 1932 the United States Supreme Court explained its position as to the relation of profits to damages thus:

> "While the distinction is clear between damages, in the sense of actual pecuniary loss, and profits, the latter may none the less be included in the concept of compensatory relief. In a suit in equity against an infringer, profits are recoverable not by way of punishment but to insure full compensation to the party injured. As this Court said in *Mowry* v. *Whitney,* 14 Wall. 620, 653: 'The profits which are recoverable against an infringer of a patent are in fact a compensation for the injury the patentee has sustained from the invasion of his right.' The court of equity in such cases applies familiar principle in 'converting the infringer into a trustee for the patentee as regards the profits thus made.' *Packet Co.* v. *Sickles,* 19 Wall. 611, 617. This is not to say that there is an actual fiduciary relation which would give the right to an accounting for profits regardless of the existence of a basic claim to equitable relief. *Root* v. *Railway Co.,* 105 U. S. 189, 214, 215. Referring to the case last cited, this Court succinctly stated the controlling principle in its opinion in *Tilghman* v. *Proctor,* 125 U. S. 136, 148, as follows: 'But, as has been recently declared by this court, upon an elaborate review of the cases in this country and in England, it is more strictly accurate to say, that a court of equity, which has acquired, upon some equitable ground, jurisdiction of a suit for the infringement of a patent, will not send the plaintiff to a court of law to recover damages, but will administer full relief, by awarding, as an equivalent or a substitute for legal damages, a compensation computed and measured by the same rule that courts of equity apply to the case of a trustee who has wrongfully used the trust property for his own advantage.' Profits are thus allowed 'as an equitable measure of compensation.' *Hamilton Shoe Co.* v. *Wolf Brothers,* 240 U. S. 251, 259. See also, *Dowagiac Manufacturing Co.* v. *Minnesota Plow Co.,* 235 U. S. 641, 647. In view of the principles governing the broader relief obtainable in equity, as contrasted with those applicable in courts of law, it is apparent that there is no necessary exclusion of profits from the idea of compensation in a remedial proceeding."[13]

There is a distinction between profits and damages also in that an award based on damages may produce one amount and one based on profits quite another, especially where defendant's profits exceed any damages plaintiff can prove. Whatever may be the equities involved in this difference with respect to infringements of patents, it is to be noted that the public is far more interested in preventing the misuse of trade symbols than in the infringement of patents. One who infringes a patent may injure the patentee,

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[13]Lehman v. Krentler-Arnold Hinge Last Co., 284 U. S. 448, 456-457, 52 Sup. Ct. 238, 241-242 (1932).

but one who indulges in misrepresentation of merchandise injures not only his competitor but misleads the consumer as well.

The problem is complicated further by the fact that in disposing of these cases, the court deals with fraud and must see to it that its decision not only protects plaintiff, but serves as a deterrent to further fraud by defendant and others. And this latter consideration is of particular importance here because the fraud involved is not practised only on one or more specific individuals, the effect of which ends with them, as in the usual fraud case, but involves acts which may confuse or mislead many persons not represented in court.

Such deterrent effect can be secured only through awards which will deter defendant and others from indulging in similar practices in the future. That such action is a duty of the court has long been realized. The equity judge performs the functions of both chancellor and jury. It is an accepted principle in cases involving fraud, malice, violence, or oppression, that a jury is not confined to mere assessment of actual loss but may allow a sum which will punish the defendant and, acting as a deterrent, benefit the public.

This principle was recognized by Justice David Davis in 1875, in *Milwaukee & St. Paul Ry.* v. *Arms* et al.[14] The rule of that decision has reasonable application to many unfair competition cases. That juries are authorized to fix punitive or exemplary damages to punish a wrongdoer and to deter others from the commission of a like wrong is well settled in federal and state courts,[15] and punitive damages may be awarded in equity.[16]

This problem of fixing awards assumes many guises. There are instances (1) where the defendant made no profit; (2) where he made some profit but not enough to indemnify the plaintiff; (3) where he made profits, perhaps substantial ones and plaintiff has suffered only nominal loss; (4) where he committed a wrong but its damaging effects cannot be shown with sufficient accuracy to warrant any award against him; (5) where the article sold by the defendant does not compete with that sold by the plaintiff and the latter can hardly have lost sales or profits, yet the public may have been deceived by defendant's use of plaintiff's reputation and good will.

The defendant may incur two forms of liability arising from two different obligations. One is liability to indemnify the plaintiff for the injury in-

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[14]91 U. S. 489, 23 L. ed. 374 (1875).

[15]Press Pub. Co. v. Monroe, 73 Fed. 196, 201 (C. C. A. 2d, 1896).

[16]Aladdin Mfg. Co. v. Mantle Lamp Co. of America, 116 F. (2d) 708, 48 U. S. Pat. Q. 268 (C. C. A. 7th, 1941).

flicted on him, the other is the obligation to restore what he has gained by his own wrong. It has been said that the two sometimes "overlap."

There seem to be at least four elements which are now used in making up an award: (a) the profits of the defendant; (b) the profits lost by plaintiff; (c) plaintiff's losses, aside from profits; (d) conduct by defendant which is malicious, willful, wanton, or recklessly indifferent to plaintiff's rights.

The labor and outlay in time and money which the present accounting procedure involves seems little short of a scandal, as is the failure of the courts in certain instances to find a way to compensate those injured by unfair practices and to take action which will discourage injury to competitors and the public through use of unfair methods. If the courts are to serve the business man effectively, better methods of handling this problem must be found and used.

In the Horlick-Horluck case, the plaintiff had made "Horlick's Malted Milk" for fifty years. The defendant sold "Horluck's Malted-Milk." The plaintiff was given an injunction but no money award—not even costs. Defendant was put to no expense except his lawyers' fees.[17]

Judge Baker of the Seventh Circuit Court of Appeals, in *Computing Scale Co.* v. *Toledo Computing Scale Co.*,[18] pointed out that in that case it took *five years* after the trial and decision to fix the amount of the award.

The delay involved in accountings may postpone the final disposition of the litigation for years because a decree awarding an accounting is not usually final and the decision therefore is not final until the conclusion of the accounting.[19] The court has power at any time prior to the entry of its final judgment at the close of the accounting to reconsider any portion of its decision and re-open any part of the case.[20]

[17]Horlick's Malted Milk Corp. c. Horluck's, Inc., 59 F. (2d) 13, 17, 13 U. S. Pat. Q. 296 (C. C. A. 9th, 1932). *See also* Tillman & Bendel v. California Packing Corporation, 63 F. (2d) 498, 506, 16 U. S. Pat. Q. 332 (C. C. A. 9th, 1933); S. S. Kresge Co. v. Champion Spark Plug Co., 3 F. (2d) 415, 420 (C. C. A. 6th, 1925); G. & C. Merriam Co. v. Saalfield, 198 Fed. 369, 371 (C. C. A. 6th, 1912); Swanson Mfg. Co. v. Feinberg-Henry Mfg. Co., 54 F. Supp. 805, 59 U. S. Pat. Q. 10, 19 (S. D. N. Y. 1943); Hershel California Fruit Products Co. v. Contadina Brokerage and Distributing Co., 292 Ill. App. 158, 10 N. E. (2d) 720 (1937); Warren, Inc. v. Turner's Gowns, Ltd., et al., 285 N. Y. 62, 67, 32 N. E. (2d) 793, 48 U. S. Pat. Q. 709 (1941); International Latex Corp. v. Scheinberg, 263 App. Div. 861, 32 N. Y. S. (2d) 591 (1st Dep't 1942); United Drug Co. v. Kovacs, 279 Pa. 132, 123 Atl. 654 (1924); Kickapoo Development Corp. v. Kickapoo Orchard Co., 231 Wis. 458, 285 N. W. 354, 41 U. S. Pat. Q. 417 (1939).

[18]279 Fed. 648 (C. C. A. 7th, 1921).

[19]Marconi Wireless Telegraph Co. of America v. United States, 320 U. S. 1, 47, 63 Sup. Ct. 1393, 1415 (1942).

[20]*Id.* at 47, 63 Sup. Ct. at 1415.

An unfair competition case recently reported was begun in January, 1934. It was reached for trial in 24 months. The trial lasted about two weeks. It was decided in less than a month. It was promptly appealed and the appeal decided in about six months. Four months were taken by certiorari proceedings to the Supreme Court and 42 months after the case was started, accounting proceedings were begun. They took seven years and four months, including a contempt proceeding. The plaintiff collected $54,000 net. His expenses were $71,000. The case was pending for ten years and eleven months, and the plaintiff despite an expense of $71,000 had to wait that time for relief.

A patent case was begun in October, 1931. It was tried five months later, for two days, resulting in an injunction and an order for an accounting. An appeal was concluded in a year and nine months. An accounting was begun which involved 27 hearings and 3,000 pages of testimony. The master reported four years and one month after the decree was entered. Objections were filed, heard, appealed, and decided on appeal nine years and one month after the final decree was entered. The final award gave plaintiff $150,000. It is said he settled for $117,500, and that his expenses were considerably over $75,000. The whole case took over twelve years!

Cases like these are grossly unfair to plaintiffs and discredit courts and court procedure in the minds of laymen who know of them. Such inefficient methods would not be tolerated in any well-run business organization.

The determination of what a defendant is to pay to repair damage which he has caused by fraud is not a problem in mathematics. He is not entitled to insist that the evidence shall substantiate an award to the last dollar and so add to the injury he has already inflicted. Many years ago the Supreme Court recognized that the proof in these cases need not be exact, not only because of difficulties of proof, but also because exact proof is not required. Defendants are often wanton wrongdoers and if so, "every doubt and difficulty should be resolved against them!"[21] In 1940, the New York Court of Appeals, in an opinion by Chief Judge Lehman, took a similar position, saying:

> "It is true that the proof in these cases was often far from conclusive. Such proof is not required. The defendants are wanton wrongdoers and in such case 'every doubt and difficulty should be resolved against them.'"[22]

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[21]Rubber Co. v. Goodyear, 9 Wall. 788, 19 L. ed. 566 (U. S. 1869).
[22]Michel Cosmetics, Inc., v. Tsirkas, 282 N. Y. 195, 203, 26 N. E. (2d) 16, 19 (1940).

Then adopting the language of Judge Wales of the Delaware federal court written in 1888 in a patent case,[23] he continued:

> " 'All that is necessary in order to prove actual damages is to furnish some reasonable basis or data on which to calculate them, and whenever the evidence is sufficiently definite to show the pecuniary loss suffered by the complainant, he is entitled to be reimbursed, no matter whether the infringer gained anything by the infringement or not.' "

In 1889, the Supreme Court of the United States said: ". . . there are many things that have to be determined by court and jury in respect to which mathematical accuracy is not possible. Take the ordinary case of condemnation of real estate, the value is to be determined by the trial tribunal, whether jury or court, and yet no one is able to state the exact value."[24] This is true of unfair competition and infringement cases, for it is frequently impossible for the parties to furnish evidence by which the injurious effect of a defendant's acts can be appraised with mathematical accuracy or anything like it. This might have been possible in the simple conditions of a hundred years ago. It is not possible now and it will not be possible in the future. Some practical, reasonably inexpensive, and simple method must be devised by which the courts can arrive at amounts which will not only be a fair approximation of plaintiff's injury, but, in the interest of society, will impress the defendant with the fact that it does not pay to use unfair competitive methods.

Mr. Fox in his *Canadian Law of Trademarks* says of the English and Canadian rule:[25]

> "If damages cannot be estimated with exactitude, the best reasonable estimate must be made,[26] and the court is entitled to use ordinary business knowledge and common sense and to consider that there cannot be deceptive trading of a considerable volume without inflicting some measure of damage on the goodwill. How long that will last, and what its extent will be, is a thing which no evidence, except in the most exceptional case, could satisfactorily define, and the matter is reduced to forming a rough estimate in a way that a jury could properly form it."[27]

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[23]Creamer v. Bowers et al., 35 Fed. 206, 208 (C. C. Del. 1888).

[24]Chicago, M. & St. P. Ry. v. Tompkins, 176 U. S. 167, 178, 20 Sup. Ct. 336, 340 (1899).

[25]HAROLD G. FOX, CANADIAN LAW OF TRADE MARKS AND INDUSTRIAL DESIGNS (1940) 382-3.

[26]Ledger Sons & Co. v. James Munro & Son, Ltd., 33 Rep. Pat. Cas. 53, 60 (1916). [Mr. Fox's footnote (l)].

[27]Draper v. Trist & Tristbestos Brake Linings, Ltd., 56 Rep. Pat. Cas. 429, 440 (1939) per Greene, M.R. [Mr. Fox's footnote (m)].

In the *Computing Scales* case[28] Judge Baker discussed accounting procedure. He pointed out that in an equity cause for injunction the court finds all the facts necessary for a money decree except the amount. He likened the process to a homesteader's claim against one who cuts down his trees and his right to recover the true value of the trees cut down and compensation for injury to the remaining trees; and adds that "the problem is always the same—to state in terms of money the results of the trespasses."

The difficulties involved in doing this in patent causes are recognized in the federal statute,[29] which provides that where "damages or profits are not susceptible of calculation and determination with reasonable certainty, the court may, on evidence tending to establish the same, in its discretion, receive opinion or expert testimony, which is hereby declared to be competent and admissible, . . . and . . . may . . . decree the payment by the defendant to the complainant of a reasonable sum as profits or general damages for the infringement. The court shall have the same power to increase such damages, in its discretion, as is given to increase the damages found by verdicts in actions in the nature of actions of trespass upon the case" but such recovery is limited to six years prior to the filing of the bill. Since the rule is only permissive, many of the old abuses remain.

The problem in trade-mark cases is not new or insoluble. It resembles a problem in appraisal more than one in mathematics. The fixing of awards in trade-mark and unfair competition cases is governed by common law, not by statute, except for the treble damage provision in the Trade-Mark Act of 1905.[30] There are few instances where a court cannot be given facts regarding the effect of a defendant's acts which will be quite as specific and informative as those used by one who appraises property for a court on which awards are made or values fixed in other forms of action. Such facts in these cases might include the extent in volume and, territorially, of defendant's sales; the volume and extent of the defendant's advertising; the expense to which plaintiff has been put to stop the infringement and to repair its effect, including legal expenses; and the normal profit on articles of the character of those involved.

As early as 1889 the Florida court said: "That a man whose trade-marks have been infringed upon, as in this case, is entitled to compensation for infringement is unquestioned and it strikes us that it makes no difference

[28]Computing Scale Co. v. Toledo Computing Scale Co., 279 Fed. 648, 672 (C. C. A. 7th, 1921).
[29]42 STAT. 392 (1922), 35 U. S. C. § 70 (1940).
[30]33 STAT. 16 (1905), 15 U. S. C. § 96 (1940).

whether the compensation to which complainant is entitled is called profits or damages."[31]

In a Missouri case the defendant's agent was found to be "running amuck in the cigar world, destroying reputations and offending tastes, all done willfully, intentionally and without any sort of justification or excuse, for dishonest gain. Yet from the very nature of the trade it was practically impossible to prove more than nominal actual damages"[32] and the court decided that a verdict for nominal damages would support a verdict for punitive damages, and in this way indemnified the plaintiff, partially at least.[33]

Damages

As already noted, the term "damages" in these cases may have various meanings. It may mean profits or it may not refer to profits at all. An "accounting of damages" is not one of damages, but of the plaintiff's lost profits. Again, it may refer to injury suffered by plaintiff from various kinds of fraud. As noted above, frequently it is difficult to know in which of its meanings the word is used.

In 1942, the Supreme Court heard *Mishawaka Rubber & Woolen Mfg. Co.* v. *S. S. Kresge Co.*,[34] an unfair competition and trade-mark infringement case, for the express purpose of considering the problem of the measure of profits and damages and held that if a plaintiff suffered damages beyond the loss of profits, the decree should provide for the assessment of such damages.

In 1945, citing this case, the Eighth Circuit wrote this definition of damages:

> ". . . Damages recoverable may include all elements of injury to the business of the trademark owner proximately resulting from the infringer's wrongful acts, such as profits on last sales, loss from reduction in the price of goods due to the infringing competition, damage to the reputation of the trademark owner's goods or business, and expenses

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[31]El Modello Cigar Mfg. Co. v. Eduardo F. Gato, 25 Fla. 886, 914, 7 So. 23, 28 (1889).
[32]Lampert v. Judge & Dolph Drug Co. et al., 238 Mo. 409, 422, 141 S. W. 1095, 1099 (1911).
[33]On profits and damages, *see* Walter Baker & Co., Ltd. v. Slack, 130 Fed. 514, 519-520 (C. C. A. 7th, 1904); Regis v. Jaynes & Co., 191 Mass. 245, 77 N. E. 774 (1906); Westcott Chuck Co. v. Oneida National Chuck Co., 199 N. Y. 247, 92 N. E. 639 (1910).
[34]316 U. S. 203, 62 Sup. Ct. 1022, 53 U. S. Pat. Q. 323 (1942).

incurred in preventing purchasers from being deceived by the infringer's wrongful conduct."[35]

An interesting definition of damages is found in Rutherford's *Institutes*, which reads: "By damage we understand every loss or diminution of what is a man's own, occasioned by the fault of another."[36]

The fixing of damages is largely a matter of discretion, and the plaintiff carries the burden of furnishing the court with the facts and material essential to the exercise of such discretion. There can be no fixed rule upon the subject.

To be awarded damages, a plaintiff must show that he has been injured. For instance, an award is not ordered where an injunction is issued *quia timet*, since the unfair acts complained of have not become effective and the plaintiff can hardly have been injured, unless it is made to cover some actual expense to which the plaintiff has been put by defendant's attempt to defraud him, thwarted though it was.

Nominal damages may be recovered although no actual injury is proven.[37] Nominal damages are given not to compensate but as a recognition of a technical legal injury or as a basis for costs. They are not merely damages which are small in amount, but are damages in name only, not in fact. They may be awarded to serve as a basis for exemplary damages.

Exemplary damages are discretionary with jury or court. They are often in the nature of increased damages and are granted where the offense is aggravated, wanton, or reckless. Some say they had their origin in cases where the injury could not be estimated in money.[38] This fact is of particular interest in trade-mark and unfair competition cases where so often it is most difficult, if not impossible, to fix an award with any exactness or accuracy. (See *Exemplary and Punitive Damages, infra.*)

The damages in these cases can never be an exact equivalent of the injury nor an exact compensation or payment for it. This was recognized as early as 1905 by the Maine court in its often-cited decision, *W. R. Lynn Shoe Co. v. Auburn-Lynn Shoe Co.*, where the court wrote:

> "It is not necessary, however, for the plaintiff in such case to prove the resulting damages in separation from other damages with mathematical certainty or anything like it. He is not to be held to precision,

[35]Obear-Nester Glass Co. v. United Drug Co., 149 F. (2d) 671, 674, 65 U. S. Pat. Q. 558 (C. C. A. 8th, 1945).

[36]Rutherford, Institutes of Natural Law, B. I, Ch. 17, Sec. 1 (2d Am. ed. 1832) 200.

[37]Kimball v. Hall, 87 Conn. 563, 89 Atl. 166 (1913); Thompson v. Winchester, 19 Pick. 214, 31 Am. Dec. 135 (Mass. 1887).

[38]Fay v. Parker, 53 N. H. 342, 25 C. J. S. 708 (1872).

to the exact pound, neither more nor less, nor even to show a distinct separation in time and circumstances. It is enough if he furnishes evidence upon which the tribunal can make a reasonably probable estimate through the exercise of intelligent judgment. Mere difficulty in making such an estimate does not authorize the tribunal to turn the plaintiff away without any damages. Of course in a given case the estimate may be too large or to small, as it may be and undoubtedly often is, in that large class of cases in which damages cannot be calculated but necessarily have to be estimated. Certainly, precision is undoubtedly very desirable in the assessment of damages in such cases, but it is practically unattainable, and there is less danger of injustice in awarding judgment upon reasonably intelligent estimates than in refusing it wholly."[39]

Had other courts applied this liberal and sensible rule in recent years, large savings to litigants would have resulted with no loss of substantial justice.

Compensatory damages are designed to restore the plaintiff to the position he was in before the illegal act; but often this is impossible. The damage may be beyond any exact calculation because it is too widespread, too intangible, or indefinite, as, for instance, the effect of fraudulent advertising or of libel or slander of merchandise or of business (particularly where such statements are made over the radio or in publications with a nation-wide circulation), or of unfair interference with business. When such torts as these are involved, the courts can award no damages at all and so allow the offender to get off scot free, or they can fix the damages with such material as they have (and public policy seems to require that this be done), or they can use the complicated, expensive, present-day procedure.

The old courts of equity had a definite procedure for ascertaining certain forms of damages by the issue *quantum damnificatus,* which was tried by a jury. They ascertained damages also by reference to masters or auditors. But again and again in these proceedings, whether before a jury or before a master, the rules of evidence so complicated the proof that they became almost a denial of justice to the injured litigant.

The old rules were rigid. Of them, Judge Story in his *Equity Jurisprudence* says:

". . . So strictly has the rule been construed, that it has been thought that, even in cases where no remedy would exist at law,—as for example in cases where a trustee by a breach of his trust has injured the property,—a Court of Equity would not award damages therefor, although if by reason of such breach of trust the trustee had made profits, it would make him account therefor."[40]

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[39] W. R. Lynn Shoe Co. v. Auburn-Lynn Shoe Co., 103 Me. 334, 341-2, 69 Atl. 569, 573 (1907). (See also the introduction to this article.)

[40] 3 Story's Equity Jurisprudence (14th ed. Lyon, Jr. 1918) § 1083.

Today, it is a general rule that a court of equity, in a suit of which it has jurisdiction and takes cognizance, may administer complete relief between the parties even though this involves the determination of legal rights which otherwise would not be within the range of its authority.[41] This seems to be the rule in most jurisdictions; but in New Jersey the court of chancery has held that the general rule is that unliquidated damages for a tort cannot be recovered in equity.[42] And in another New Jersey case where the court ordered an accounting of both profits and damages without taking into account the possible overlapping of the elements involved, it was held on appeal that this of itself required a reversal of the decree, and the recovery was limited to an accounting of the profits made by the defendant.[43]

The general principles of damages are mirrored in the Federal Trade-Mark Act of 1905 which authorizes damages for "reproduction, counterfeit, copy or colorable imitation" of trade-marks registered under the Act.[44] These damages are "in addition to the profits to be accounted for by defendant"[45] and may be increased up to three times their amount.[46] These provisions of the statute are substantially a codification of the common law except for the triple damage clause, and that is based on the principle that damages are not necessarily limited to defendant's profits and that the damage of plaintiff may be so intangible as to be incapable of exact assessment and hence adequate indemnity for him necessarily requires an award which, like punitive and exemplary damages, must be an approximation by the court or jury. For instance, in 1944, in a case under the Trade-Mark Act the plaintiff was awarded defendant's profits, plaintiff's counsel fees, plaintiff's counsel's disbursements and damages to plaintiff's business.[47] This was a secondary meaning case involving the name "Stetson" which was registered under the so-called "Ten-year Law."[48]

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[41]Kinney-Coastal Oil Co. v. Kieffer, 277 U. S. 488, 507, 48 Sup. Ct. 580, 584 (1928) (citing cases).

[42]The L. Martin Co. v. L. Martin & Wilckes Co., 75 N. J. Eq. 257, 258, 72 Atl. 294, 295 (1909).

[43]Benton & Holden v. Central R. R. Co. of New Jersey et al., 122 N. J. Eq. 309, 194 Atl. 805 (1937), *aff'd* 123 N. J. Eq. 163, 196 Atl. 352 (Ch. 1938), which held that the general rule is that unliquidated damages for a tort cannot be recovered in equity; and, after discussing certain exceptions to it, cites *Martin* v. *Martin & Wilckes, supra* note 42, as holding that on a bill to enjoin unfair competition it is not permissible for a court of equity, upon granting an injunction, to decree damages suffered by complainant in addition to accounting for the profits made by the defendant.

[44]33 STAT. 728 (1905), 15 U. S. C. § 96 (1940).

[45]*Id.* at 729, 15 U. S. C. § 99.

[46]*Id.* at 729, 15 U. S. C. § 96.

[47]John B. Stetson Co. v. Stephen L. Stetson Co., Ltd., 58 F. Supp. 586, 64 U. S. Pat. Q. 153-155 (S. D. N. Y. 1944).

[48]33 STAT. 726 (1905), 15 U. S. C. § 85 (1940).

"Damages and profits are distinct items of recovery, and are awarded upon quite different legal principles."[49] This was said by Judge Magruder in a copyright case; and this is also true with regard to trade-mark infringement and unfair competition. Liability for damages arises from injury done to rights for which the injured party is entitled to compensation.[50] The New York court has stated the theory quite simply. "The defendants have wronged the plaintiff. They must pay to the plaintiff the damages they have caused the plaintiff by that wrong."[51]

Usually in these cases damages are compensatory, and are confined to losses and injuries actually sustained as consequences of wrongful acts.[52] But in this connection see the discussion of exemplary and punitive damages in this article.

Generally speaking, the object of the court is to indemnify plaintiff for the losses he has actually suffered as a result of defendant's acts,[53] but "Liability for damages . . . is not supported by the fiction which places the infringer in the position of a trustee and requires him to account for profits made as such."[54] Defendant's liability for profits is not based on proof of injury but on his duty to turn over to plaintiff the fruits of his use of plain-

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[49]Sammons v. Colonial Press, 126 F. (2d) 341, 344, 53 U. S. Pat. Q. 71 (C. C. A. 1st, 1942).

[50]Anchor Stove & Range Co. v. Rymer, 97 F. (2d) 689, 691, 38 U. S. Pat. Q. 449 (C. C. A. 6th, 1938); Dickinson v. O. W. Thum Co., 8 F. (2d) 570, 576 (C. C. A. 6th, 1925).

[51]Michel Cosmetics, Inc. v. Tsirkas, 282 N. Y. 195, 199, 26 N. E. (2d) 16, 17, 45 U. S. Pat. Q. 627 (1940).

[52]Hamilton-Brown Shoe Co. v. Wolf Bros., 240 U. S. 251, 36 Sup. Ct. 269 (1916); Aladdin Mfg. Co. v. Mantle Lamp Co., 116 F. (2d) 708, 48 U. S. Pat. Q. 268 (C. C. A. 7th, 1941); Socony-Vacuum Oil Co. v. Rosen, 108 F. (2d) 632, 636, 44 U. S. Pat. Q. 379 (C. C. A. 6th, 1940); Dickinson v. O. W. Thum Co., 8 F. (2d) 570, 576 (C. C. A. 6th, 1925); S. S. Kresge Co. v. Champion Spark Plug Co., 3 F. (2d) 415 (C. C. A. 6th, 1925); M. B. Fahey Tobacco Co. v. Senior, 252 Fed. 579 (C. C. A. 3rd, 1918); Liberty Oil Corp. v. Crowley, Milner & Co., 270 Mich. 187, 258 N. W. 241 (1935).

[53]Aladdin Mfg. Co. v. Mantle Lamp Co., 116 F. (2d) 708, 716, 48 U. S. Pat. Q. 268 (C. C. A. 7th, 1941). In Liberty Oil Corp. v. Crowley, Milner & Co., 270 Mich. 187, 258 N. W. 241, 25 T. M. Rep. 124 (1935), the court refused damages where plaintiff's loss of business occurred prior to notice of infringement and where plaintiff had but a few customers in defendant's territory and maintained no office there. *See also* Downes v. Culbertson, 153 Misc. 14, 275 N. Y. Supp. 233 (Sup. Ct. 1934). In McIlhenny Co. v. Bulliard, 33 F. (2d) 978, 980 (W. D. La. 1928), the court refused to give general damages on the ground that, although damages were awardable under the state statute for trade-mark infringement, it was impossible to separate the transactions occurring within the state from those occurring without.

[54]Anchor Stove & Range Co. v. Rymer, 97 F. (2d) 689, 691, 38 U. S. Pat. Q. 449 (C. C. A. 6th, 1938); G. & C. Merriam Co. v. Saalfield, 198 Fed. 369, 371, 372 (C. C. A. 6th, 1912); National Distillers Products Corp. v. K. Taylor Distilling Co., 31 F. Supp. 611, 44 U. S. Pat. Q. 561 (E. D. Ky. 1940); Winifred Warren Inc. v. Turner's Gowns Ltd., 285 N. Y. 62, 32 N. E. (2d) 793, 48 U. S. Pat. Q. 709 (1941).

tiff's symbols and good will.[55] However plaintiff may not recover a double compensation for the same sales.[56]

In 1941, the Seventh Circuit made this statement:

> ". . . Damages of a compensatory character may also be allowed in equity where the gains and profits made by the respondent are not sufficient to compensate for the injury sustained. Gains and profits are still the proper measure of damages in equity suits, except in cases where the injury sustained by the infringement is plainly more than the aggregate of what was made by the respondent, in which event the provision is that the complainant shall be entitled to recover, in addition to the profits to be accounted for by the respondent, the damages he has sustained thereby. [Citing cases] . . . Recoverable damages, therefore, include compensation for all injury to appellant's business arising from wrongful acts committed by appellee, provided such injury was the natural and proximate result of the wrongful acts. . . . This includes injury to business standing or good will, loss of business, additional expenses incurred because of the tort and all other elements of injury to the business. . . . These are the governing principles applying to compensatory damages."[57]

A similar position had been taken by the Massachusetts Supreme Court of Judicature in 1913:

> "The plaintiff in such a case as this may to be sure have suffered some particular loss or damage for which the receipt of the defendant's profits would not compensate him. If, for example, the defendant has attempted to undersell him, has introduced what is called a 'cut-throat competition', thus cutting down the plaintiff's profits without correspondingly increasing his own, or if the defendant has cheapened his production by the use of inferior materials or by unsuitable processes of manufacture, and thus has depreciated the value of the plaintiff's trade name or of the words or symbols to which the plaintiff has acquired a right, or otherwise has injured the reputation of the plaintiff's goods and thereby caused an appreciable loss to the maker, in addition to that caused by the actual sales which the defendant has made, the plaintiff should be allowed to recover for such a loss besides taking the defendant's profits, if the plaintiff has claimed and is allowed such profits."[58]

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[55]Winifred Warren, Inc. v. Turner's Gowns Ltd., *supra* note 54.

[56]Forster Mfg. Co. v. Cutter-Tower, 215 Mass. 136, 139, 101 N. E. 1083, 1084 (1913); Michel v. Tsirkas, 282 N. Y. 195, 26 N. E. (2d) 16, 45 U. S. Pat. Q. 627, 30 T. M. Rep. 509 (1940).

[57]Aladdin Mfg. Co. v. Mantle Lamp Co. of America, 116 F. (2d) 708, 715, 716, 48 U. S. Pat. Q. 268 (C. C. A. 7th, 1941).

[58]Forster Mfg. Co. v. Cutter-Tower Co., 215 Mass. 136, 139-140, 101 N. E. 1083, 1084 (1913), citing Rowley v. Rowley, 193 Fed. 390 (C. C. A. 3rd, 1912); Regis v. Jaynes & Co., 191 Mass. 245, 77 N. E. 774 (1906).

However, the court suggested that the plaintiff should not recover, in addition to defendant's profits, the profits which plaintiff lost as this would be double compensation for the same sales.

In Missouri a finding of nominal damages will support exemplary damages.[59] The same rule prevails in New York where inability to prove the amount of damages with accuracy seems not to be a reason for denying damages where there is evidence that the plaintiff has been injured.[60]

What May Be Evidence of Damage

Acts of unfair competition sometimes produce injury the effects of which it is almost impossible to show by evidence. As early as 1907, as noted above, the Maine court held that a plaintiff can be required to furnish the courts only with evidence upon which the tribunal can make a reasonably probable estimate through the exercise of intelligent judgment.[61]

The rule could not be otherwise. An imitation of a well-known brand, or a false statement or damaging insinuation about competitive goods may be broadcast by radio, national advertising, and in other ways quite as available to the trade pirate as to the honest competitor. To present in court an accurate picture of the effect of such acts is often quite impossible. As a result, the courts should accept and many do accept, as evidence of the damaging results of unfair competition, material that formerly would have received little consideration. As suggested elsewhere, the alternative is to permit the defendant to profit by his unfairness if he can—at any rate to experiment with his schemes without paying for the loss he inflicts.[62]

Legal expenses incurred for protection against infringement and unfair competition have been recovered in some instances either as compensation or punitive damages,[63] but such allowances are rare although it would seem but just that one injured by unfair acts should not be obliged to add to his loss therefrom the expense (and sometimes it is very substantial) of obtaining relief from them. See *Maytag Co. v. Meadows Mfg. Co.*[64] where expense

[59]Lampert v. Judge & Dolph Drug Co. et al., 238 Mo. 409, 141 S. W. 1095 (1911).
[60]Amusement Securities Corp. v. Academy Pictures Distributing Corp., 162 Misc. 608, 294 N. Y. Supp. 279 (Sup. Ct. 1936), *aff'd,* 250 App. Div. 710, 294 N. Y. Supp. 305 (1st Dept. 1937), *aff'd,* 277 N. Y. 557, 13 N. E. (2d) 471 (1938).
[61]W. R. Lynn Shoe Co. v. Auburn-Lynn Shoe Co., 103 Me. 334, 342, 69 Atl. 569, 573 (1907).
[62]*See* Hennessey v. Wilmerding-Loewe Co., 103 Fed. 90 (N. D. Cal. 1900); Allison v. Chandler, 11 Mich. 542 (1863); Amusement Securities Corp. v. Academy Pictures Distributing Co., 162 Misc. 608, 294 N. Y. Supp. 279 (Sup. Ct. 1936), *aff'd,* 250 App. Div. 710, 294 N. Y. Supp. 305, 306 (1st Dep't 1937), *aff'd,* 277 N. Y. 557, 13 N. E. (2d) 471 (1938).
[63]Aladdin Mfg. Co. v. Mantle Lamp Co., 116 F. (2d) 708 (C. C. A. 7th, 1941).
[64]45 F. (2d) 299 (C. C. A. 7th, 1931).

in counteracting propaganda and in reassuring dealers was considered as part of plaintiff's damages.

Profits lost by the plaintiff on sales he did not make because of the defendant's acts are considered damages. But in measuring a plaintiff's damages, there is no presumption that he would have made the sales defendant made. When a plaintiff in a trade-mark or unfair competition case seeks to recover damages, the burden is on him to prove by competent and sufficient evidence his lost sales, or that he was compelled to reduce prices as the result of his competitor's wrongful conduct.[65]

Under special circumstances, however, a plaintiff is entitled to show what he would have made had the sales been made by him.[66] Thus where nine out of ten customers, not knowing the difference between plaintiff's and defendant's product, were given defendant's product, the court suggested that damages should be measured by plaintiff's losses.[67] The same rule prevails where defendant's sales were made to plaintiff's own customers.[68]

Where the trade-mark involved is used on an article which may have been employed lawfully or unlawfully, a plaintiff can recover no damages "unless

[65]Dickinson v. O. W. Thum Co., 8 F. (2d) 570, 575 (C. C. A. 6th, 1925). *See also* Anchor Stove & Range Co. v. Rymer, 97 F. (2d) 689, 38 U. S. Pat. Q. 449 (C. C. A. 6th, 1938); Allen Mfg. Co. v. Smith, 224 App. Div. 193, 229 N. Y. Supp. 692, 18 T. M. Rep. 435 (4th Dep't 1928). In Michel Cosmetics, Inc. v. Tsirkas, 282 N. Y. 195, 202, 26 N. E. (2d) 16, 19, 45 U. S. Pat. Q. 627 (1940), the court follows this rule, and distinguishes cases to the contrary, saying: "In every case where damages have been recovered, measured by profits which the plaintiff would have derived from sales made by a defendant if the plaintiff had made those sales, there has been some evidence tending to show that the defendant's wrongful acts have caused the plaintiff to suffer a commensurate decrease of profits." Evidence that plaintiff's sales and profits were not reduced after defendants began to compete and that part of defendants' sales were made outside of plaintiff's territory was held sufficient to bring this case within this rule. *See also* Hiram Walker & Sons v. Grubman, 222 Fed. 478 (S. D. N. Y. 1915) where the court denied damages in a suit for unfair competition, the defendant's product being sold more cheaply than plaintiff's. It could not safely be assumed that all defendant's sales were in substitution of plaintiff's product.

[66]Lawrence-Williams Co. v. Societe Enfants Gombault, 52 F. (2d) 774, 779, 11 U. S. Pat. Q. 75 (C. C. A. 6th, 1931). In this case defendant formerly was plaintiff's exclusive distributor but at time of suit was manufacturing its own product and selling it under plaintiff's trade-mark. The court inferred that defendant would have sold plaintiff's article if defendant had not been making its own, saying in part: "It would follow that plaintiff lost the sales of its product to defendant to the extent measured by defendant's manufacture of its own, and so plaintiff's damages are the profits which it would have made."

[67]Walter Baker & Co. v. Slack, 130 Fed. 514 (C. C. A. 7th, 1904). *See also* Westcott Chuck Co. v. Oneida N. Chuck Co., 199 N. Y. 247, 92 N. E. 639 (1910), where recovery of damages upon a stipulation reciting the profit plaintiff would have made if it had made the sales was allowed.

[68]Conviser v. Brownstone & Co., 209 App. Div. 584, 205 N. Y. Supp. 82 (2d Dep't 1924). *See also* Griffin Mfg. Co. v. Gold Dust Corp., 159 Misc. 545, 287 N. Y. Supp. 221 (Sup. Ct. 1936), where defendant hired a former employee of plaintiff, obtaining from him plaintiff's secret formula and process.

it can show that it has been injured in respect to sales which it might legally have made."[69]

The Michigan rule confines damages to loss actually sustained as the direct and natural consequence of infringing acts and speculative and uncertain damages will not form a basis of recovery.[70]

In 1941, a federal court in Michigan said:

> "The plaintiff has not proved actual damages to its business or established a measurable loss resulting from the unfair competition. Damages for unfair competition must be confined to the loss actually sustained by the plaintiff as the direct and natural consequence of such act, and damages which are uncertain or speculative cannot form the basis of recovery."[71]

All injury which is a natural result of defendant's unfair acts is an element of damage. Where defendant bought merchandise discarded by plaintiff and sold it under same name as that used by the plaintiff in selling the proper quality merchandise, the House of Lords held that plaintiff was entitled to an inquiry as to damage in which should be included all injury which was the natural and direct consequence of defendant's unlawful acts including loss of trade, injury to reputation, good-will, and trade and business connections.[72]

Exemplary and Punitive Damages

In 1869, the Court of Maine wrote the following regarding exemplary damages: "The right of the jury to give exemplary damages for injuries wantonly, recklessly or maliciously inflicted, is as old as the right of trial by jury itself; and is not, as many seem to suppose, an innovation upon the rules of the common law. It was settled in England more than a century ago."[73]

In 1872, the New Hampshire court in a long and exhaustive opinion, of some 50 pages, discussed the common law concept of exemplary damages stating that they might be awarded in cases involving "aggravating circumstances."[74]

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[69]Youngs Rubber Corp. v. C. I. Lee & Co., 45 F. (2d) 103, 110, 6 U. S. Pat. Q. 123 (C. C. A. 2d, 1930).

[70]Liberty Oil Corp. v. Crowley, Milner & Co., 270 Mich. 187, 258 N. E. 241 (1935). *See also* Socony-Vacuum Oil Co. v. Rosen, 108 F. (2d) 632, 44 U. S. Pat. Q. 379 (C. C. A. 6th, 1940).

[71]Coca Cola v. Christopher, 37 F. Supp. 216, 217, 48 U. S. Pat. Q. 353 (E. D. Mich. 1941). *See also* N. Y. Life Insurance Co. v. Orpheum Theatre & Realty Co., 100 Wash. 573, 171 Pac. 534, 8 T. M. Rep. 220 (1918).

[72]Spaulding v. Ganage, 35 Rep. Pat. Cas. 101 (1918).

[73]Charles W. Goddard v. Grand Trunk Ry. of Canada, 57 Me. 202, 218 (1869).

[74] Fay et ux. v. Parker, 53 N. H. 342, 397 (1872).

In 1875, in *Milwaukee & St. Paul Ry.* v. *Arms,* the Supreme Court of the United States discussed exemplary damages and held that where they are awarded there must have heen some willful misconduct, or that entire want of care which would raise the presumption of a conscious indifference to consequences.[75]

In 1896, the Second Circuit Court of Appeals said: "That in certain classes of cases juries are authorized to give punitive or exemplary damages to punish a wrongdoer and to deter others from the commission of a like wrong is well-settled law in the federal courts and in the courts of this state. [New York. The court cited cases.] In such cases exemplary damages may be given in addition to what may be proved to be the actual money loss to the plaintiff."[76] *Tilghman* v. *Proctor* in the Supreme Court is to the same effect.[77]

Judge Lindley in *Aladdin Mfg. Co.* v. *Mantle Lamp Co. of America,*[78] refers to cases in Illinois and other states involving tort feasors "whose acts are intentionally fraudulent, malicious, wilful or wanton" and says that, "in these jurisdictions, such damages are allowed, as sometimes said, in the interest of society" and "by way of punishment" of the defendant when "their propriety cannot be governed or measured by any precise yardstick."

Also of interest in this connection are Judge Lindley's opinions in the *Maytag* case, in 1929[79] and in 1931.[80] This case involved attempts by the defendant to discredit and disgrace the plaintiff by statements made in many states intimating that it was in debt and had no credit; that its factory was closed; that its products were defective and that its machines "were a bunch of junk" and "no good"; that it had been sued. A jury trial was waived and the damages were fixed by the court, after a reference to a master, at $250,000, reduced from $500,000. The court limited itself largely to evidence as to "the time and effort spent by appellee in protecting itself from the damaging propaganda and counteracting the same."[81] This decision throws considerable light upon the character of the evidence upon which a court may fix damages, for the damages awarded were not regarded as punitive or exemplary but as compensating the plaintiff for general injury.

[75]Milwaukee & St. Paul Ry. v. Arms et al., 91 U. S. 489, 23 L. ed. 374 (1875). *See also* Lampert v. Judge & Dolph Drug Company et al., 238 Mo. 409, 141 S. W. 1095 (1911).

[76]Press Pub. Co. v. Monroe, 73 Fed. 196, 201 (C. C. A. 2d, 1896).

[77]125 U. S. 136, 8 Sup. Ct. 894 (1887).

[78]116 F. (2d) 708, 716, 717, 48 U. S. Pat. Q. 268 (C. C. A. 7th, 1941).

[79]Maytag Co. v. Meadows Mfg. Co., 35 F. (2d) 403 (C. C. A. 7th, 1929).

[80]Maytag Co. v. Meadows Mfg. Co., 45 F. (2d) 299 (C. C. A. 7th, 1931).

[81]Maytag Co. v. Meadows Mfg. Co., 45 F. (2d) 299, 301 (C. C. A. 7th, 1931).

In *Aladdin Mfg. Co.* v. *Mantle Lamp Co.*, the defendant sent out advertising matter to dealers, saying if they used the material it would tie up the plaintiff's advertising. It advertised a radio program which never existed and did other acts the purpose of which was to profit from its competitor's advertising. Its salesmen made false representations to the trade. After the district court's decree, the defendant was found guilty of contempt. The master imposed exemplary damages including the cost of a patent office opposition proceeding and legal expenses ($18,515) and awarded the plaintiff $153,043 consisting of: (1) profits, $56,626; (2) punitive damages consisting of costs of litigation, $18,515; (3) salaries, $22,769; (4) advertising, $55,133; which on appeal was reduced to $100,141 and all costs.[82]

The decisions in these cases can be divided into those where the issue involves the fairness of defendant's acts and those where such acts are malicious, vicious, involve falsehood, false representation, "conscious indifference to consequences," or the like. In the former there may be doubt as to whether plaintiff is injured; in the latter there is no such doubt; and damages must he assessed regardless of lack of definite evidence as to its extent or amount in dollars.

It is not uncommon to award damages which the court characterizes as punitive or exemplary, but which are given in addition to profits. This characterization seems unfortunate. Generally speaking, such damages are awarded, to compensate the plaintiff more adequately, not to punish the defendant. They are not regarded as a fine in the sense that a fine is imposed in a criminal court. Fines go to the State while these damages go to the plaintiff, and, although they are usually awarded because the court finds that the defendant has acted with an evil intent or motive, they are given to the plaintiff, in addition to other awards to him, that he may be more adequately compensated for the injury which he has suffered. It would greatly clarify the matter if, when damages are awarded for this purpose, they were called supplementary or additional damages.

In Iowa exemplary damages are awarded where the wrong is wilful and malicious.[83] The Maryland court states that where there is no express

[82]Aladdin Mfg. Co. v. Mantle Lamp Co. of America, 116 F. (2d) 708, 717, 48 U. S. Pat. Q. 268 (C. C. A. 7th, 1941).

[83]Dunshee v. Standard Oil Co., 152 Iowa 618, 631, 132 N. W. 371, 376 (1911), *aff'd*, 165 Iowa 625, 146 N. W. 830 (1914) (but interest on such damages is not recoverable). *See also* Virtue et al. v. Creamery Package Mfg. Co. et al., 123 Minn. 17, 142 N. W. 930, motion for reargument denied, *id.* at 45, 142 N. W. at 1136 (1913). In Day v. Hunnicutt, 160 S. W. 134 (Tex. Civ. 1913), in which there was actual malice and intimidation, it was held that the jury should have been instructed that plaintiff was entitled to actual damages and also to such exemplary damages (not exceeding the amount claimed) as the jury might allow. In Hildebrandt v. Wright, 2 N. J. Misc.

malice, and defendant's object is merely to benefit himself, exemplary damages are not, as a rule, recoverable.[84] The Minnesota court holds that the jury may in such case give temperate damages for injury to business as they believe to be reasonable compensation for the injury which must necessarily result from the act of the defendant.[85] And in the Second Circuit, ". . . Punitive damages may be superimposed on nominal damages where there is a malicious or deliberate wrong. . . ."[86]

In the *Maytag* case the damage could not be measured by loss of sales or general loss of business. It was based upon the extent of the circulation of the false statements, the character of the statements, the effort required to counteract them, the difficulties their circulation produced for the plaintiff, etc.[87] In some states, exemplary damages are allowed where only nominal damages are awarded.[88] In others to recover exemplary damages, actual damages must be proven.[89] As noted above, the principle of punitive damages is embodied in the Trade-Mark Statute, permitting the court to treble any award of damages.[90]

Judge Blodgett, in *Warner* v. *Roehr*,[91] a case of counterfeiting trade-marks, instructed the jury that exemplary damages might be allowed in cases of this character where the jury is satisfied from the proof and from admissions that fraud, or the intention to defraud, is at the bottom of the matter.

1001, 126 Atl. 459, 16 T. M. Rep. 453 (Sup. Ct. 1924), defendant tried to run out of business a former employee who had gone into business in competition with him. The jury found malice, and punitive damages therefore were held in order.

84Knickerbocker Ice Co. v. Gardiner Dairy Co., 107 Md. 556, 69 Atl. 405 (1908).

85Virtue et al. v. Creamery Package Mfg. Co. et al., 123 Minn. 17, 142 N. W. 930, motion for reargument denied, *id.* at 45, 142 N. W. at 1136 (1913) (discussing evidence of damage).

86Gardella v. Log Cabin Products Co., 89 F. (2d) 891, 895, 34 U. S. Pat. Q. 145 (C. C. A. 2d, 1937).

87Maytag Co. v. Meadows Mfg. Co., 45 F. (2d) 299, 7 U. S. Pat. Q. 254 (C. C. A. 7th, 1931). *See also* Aladdin Mfg. Co. Mantle Lamp Co. of America, 116 F. (2d) 708, 716, 48 U. S. Pat. Q. 268 (C. C. A. 7th, 1941), where it is said, "Courts have, in cases in which the action of the infringer was deliberate, fraudulent and wanton, allowed damages in addition to profits in the following instances: Hennessey v. Wilmerding & Loewe Co., C. C., 103 Fed. 90, 94; Simpson v. Davis, C. C., 22 Fed. 444; El Modello Cigar Mfg. Co. v. Gato, 25 Fla. 886, 7 So. 23, 6 L. R. A. 823, 23 Am. St. Rep. 537; Sawyer v. Kellogg, C. C., 9 Fed. 601; Benkert v. Feder, C. C., 34 Fed. 534; Graham v. Plate, 40 Cal. 593, 6 Am. Rep. 639; Lynn Shoe Co. v. Auburn-Lynn Shoe Co., 100 Me. 461, 62 A. 499, 4 L. R. A. (N. S.) 960."

88Mother Cobb's Chicken Turnovers v. Harvey Fox, 10 Cal. (2d) 203, 73 P. (2d) 1185 (1937); Lampert v. Judge & Dolph Co., et al., 238 Mo. 409, 144 S. W. 1095 (1911); Coca Cola Co. v. Dixi-Cola Laboratories, Inc., 57 F. Supp. 911, 63 U. S. Pat. Q. 55 (D. Md. 1944); see also further decision 146 F. (2d) 43 (C. C. A. 4th, 1944) (motion to file supplemental bill of complain denied).

89Roggensack v. Winona Monument Co., 211 Iowa 1307, 233 N. W. 493 (1930).

9033 STAT. 728 (1905), 15 U. S. C. § 96 (1940).

9129 Fed. Cas. 266, No. 17,189a (N. D. Ill. 1884).

In Montana it is provided by statute[92] that "in any action for breach of an obligation not arising from contract, where the defendant has been guilty of oppression, fraud or malice, actual or presumed, the jury, in addition to the actual damages, may give damages for the sake of example and by way of punishing the defendant." Exemplary damages need not be pleaded, *eo nomine,* but facts showing fraud, oppression, malice, or the like must be shown under a statute authorizing imposition of such damages.[93]

Where there is a directed verdict for the defendant and only nominal damage is shown, or there is no basis upon which a jury could return a verdict for actual damages, there will be no relief. For these reasons, among others, unfair competition cases fare better in equity.

Damages in Suits at Law for Unfair Competition

Actions at law for unfair competition or infringement of trade-marks are few, but there are reasons for using this side of the court where damages are the main end sought in the litigation. As noted above, in the past, if a plaintiff elected to proceed in equity, his award was limited to the profits of the defendant. That is not true today in most jurisdictions. If he moves in a law court before a jury, he may show any loss which he has suffered from the defendant's acts and he may, in addition, ask for exemplary or punitive damages. If he can show any injury, punitive damages may be awarded.

In such an action in Missouri, a verdict for one cent compensatory damages supported a judgment for punitive damages.[94] The judge instructed the jury that they might find "in addition to said actual damages such further sum in the way of exemplary or punitive damages, by way of punishment to defendants, and as an example to others, as in their sound judgment, under all the evidence in the case, they believe the defendants ought to pay,

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[92]Mont. Rev. Codes Anno. (Anderson & McFarland, 1935) § 8666.

[93]Truzzolino Food Products Co. v. F. W. Woolworth Co., 108 Montana 408, 91 P. (2d) 415 (1939).

[94]Lampert v. Judge & Dolph Co., et al., 238 Mo. 409, 141 S. W. 1095 (1911). *See also* Gardella v. Log Cabin Products Co., 89 F. (2d) 891, 34 U. S. Pat. Q. 145 (C. C. A. 2d, 1937), where in an action at law for unfair competition both profits and damages were claimed. The court held that profits could only be granted in equity upon the theory of a trust ex maleficio, and that although punitive damages might be awarded in addition to nominal damages where there was a malicious or deliberate wrong, the proof failed to establish that such a wrong was chargeable to the defendants. Cano v. Arizona Frozen Products Co., 38 Ariz. 404, 300 Pac. 953 (1931), a suit at law for unlawful use of another's trade-mark. Held that defendant should account for profits derived from his unauthorized use of that trade-mark. Roggensack v. Winona Monument Co., 211 Iowa 1307, 233 N. W. 493 (1930), an action based on conspiracy to injure plaintiff's business by unfair means, plaintiff was entitled to exemplary damages only where actual damages had been proven.

not exceeding $5,000. On appeal Roy, J., said in effect that (1) a verdict for nominal actual damages will support a verdict for punitive damages; (2) there are two kinds of malice, *viz.* malice in fact, and malice in law and legal malice, as distinguished from actual malice, will justify exemplary damages in Missouri (legal malice is willfulness, a wrongful act done intentionally without just cause); (3) there is a question as to whether cases for the infringement of trade-marks are outside the rule allowing exemplary damages. And it was held that defendant's agent was "running amuck in the cigar world, destroying reputations and offending tastes, all done willfully, intentionally and without any sort of justification or excuse, for dishonest gain. Yet from the very nature of the trade it was practically impossible to prove more than nominal actual damages."[95]

In a suit at law the plaintiff must prove the damages he actually sustained as in any other tort action, and in default of such proof can recover only nominal or punitive damages.[96]

A Montana case[97] was tried at law with a jury, over defendant's objection, and resulted in a judgment of $750 damages and $5,000 as punitive damages. The action was for misuse of a trade-mark and for unfair competition.

> ". . . While this case was confined to injunctive relief, we can see no reason why legal relief in the form of damages cannot be had when the fraudulent acts of the defendant cause pecuniary loss because of injury to the plaintiff's standing, reputation or good will [citing cases].
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> "The defendant contends that the court erred in compelling it to go to trial before a jury. It contends that the complaint was grounded upon a cause of action in equity, and that the court has exclusive jurisdiction to try the cause. We do not view the cause of action thusly. While it is true that the complaint asks for equitable relief, yet the specification of injury to the claim for damages are for legal relief, and it was not error to proceed upon the legal remedy and try the cause before the jury. The fact that no equitable relief was awarded on the judgment eliminates the question whether both equitable and legal relief may be granted under the same complaint. . . .
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> "In a case of this character it is incumbent upon plaintiff to offer proof from which the jury can find that the acts of the defendant amounted to a willful misrepresentation. . . ."[98] (Here the jury so found on amply sufficient evidence.)

[95]Lampert v. Judge & Dolph Co. et al., 238 Mo. 409, 418, 419, 420, 422, 141 S. W. 1095, 1098, 1099 (1911).

[96]Westcott Chuck Co. v. Oneida Nat. Chuck Co., 199 N. Y. 247, 251, 92 N. E. 639, 640 (1910); Seymour v. McCormick, 16 How. 480, 14 L. ed. 1024 (U. S. 1853).

[97]Truzzolino Food Products Co. v. F. W. Woolworth Co., 108 Mont. 408, 91 P. (2d) 415 (1939).

[98]*Id.* at 416, 418, 91 P. (2d) at 417, 418-419.

The Iowa court once said that the evidence in a case before it furnished "no basis upon which the jury could have returned a verdict for actual damages. A verdict based wholly upon speculative considerations could not have been sustained. Because of the very great difficulty in laying a foundation for actual damages in actions at law in cases where unfair competition is charged, the remedy is peculiarly one for equity."[99] However, if the action is an action at law, a defendant cannot prevent a jury trial when such trial is demanded by the plaintiff.

Accountings for Profits

An accounting of the defendant's profits may be ordered regardless of whether or not the plaintiff proves that he has suffered any loss because such an accounting is based, not on plaintiff's loss, but on defendant's wrongdoing in that he has used the plaintiff's property for his own benefit wrongfully. "In contemplation of law such profits are diverted from the plaintiff, being obtained through the improper invasion of plaintiff's trade rights. Entirely apart from the question of actual damage the owner of a trade-mark is entitled to recover from an infringer the profits realized by the latter from the sales under the simulated trade-mark."[100]

An accounting of the plaintiff's profits may be ordered as one means of establishing the extent of his loss. This is sometimes called "Accounting for Damages." Either form of accounting may be ordered in both trade-mark and unfair competition cases.

There was an action of "account" or "account rendered" at common law by means of which persons under legal duty to account for money or property in their custody could be compelled to state such accounts and to pay any balance due. The basis of equity jurisdiction over unfair competition and trade-mark infringement cases need not be discussed here. As to accountings, it rests on the complicated character of the issues involved and the fact that the relations between the infringer and the owner of the infringed mark are regarded as fiduciary in character. Ironically enough, in view of the great delay and complication involved in accounting actions, this jurisdiction is said to rest, *inter alia,* upon the delay and expense involved.

In a court of equity, the findings of a master in a reference to determine an award have the weight of a verdict by jury and are not easily set aside.

Referring to a plaintiff's right to an accounting of defendant's profits,

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[99]Roggensack v. Winona Monument Co., 211 Iowa 1307, 1311, 233 N. W. 493, 495 (1930).

[100]Modesto Creamery v. Stanislaus Creamery Co., 168 Cal. 289, 142 Pac. 845 (1914), citing Graham v. Plate, 40 Cal. 593 (1871).

Judge Conway, of the New York Court of Appeals, said, in 1941, that, "There is no distinction in this respect between actions for unfair competition involving trade-marks and those involving trade names."[101]

An accounting of profits will not be ordered where the court can discover no theory upon which some recovery may be had. Even though there is "an illegitimate use of the word," if an accounting would "require an excursion into realms of conjecture and speculation without hope of tangible result," it may be denied. And while the plaintiff must rely on proof of his own injury, where, as often happens, that cannot be shown with accuracy, he may show nominal damages and the court may then grant an award in the nature of increased damages.

In 1881, the Supreme Court of the United States held, in a patent case, that to support an award to plaintiff there must be a finding that he has been injured and that a bill for a naked accounting for profits will not lie.[102] It is held also that where there is no threat or menace of further infringement and injunction is not required, the remedy is at law, not in equity, and an accounting is not granted.

Under the Trade-Mark Statute of 1905, as under the common law, an accounting is not mandatory; it may be denied, where to grant it would be inequitable.[103] This statute provides for an accounting of profits, the trade-mark owner being required to prove the infringer's sales only, while the infringer must show all elements of cost.[104] The Act provides also for damages as shown by the facts as well as for punitive damages.

In 1911, in *Westinghouse* v. *Wagner Mfg. Co.*,[105] also a patent case, the Supreme Court considered the problems involved in the recovery of profits. It quoted an English judge[106] who said that there was no form of account more difficult to work out than an account of profits, but that the difficulties presented no reason why the plaintiff should be denied its rights; that a plaintiff is entitled to recover all of the profits of the infringer, and that, while, under certain conditions, there must be an apportionment of expenses

[101]Winifred Warren, Inc. v. Turner's Gowns, Ltd., 285 N. Y. 62, 68, 32 N. E. (2d) 793, 795, 48 U. S. Pat. Q. 709 (1941); Socony-Vacuum Oil Co., Inc. v. Rosen, 108 F. (2d) 632, 30 T. M. Rep. 165, 44 U. S. Pat. Q. 379 (C. C. A. 6th, 1940).

[102]Root v. R.R., 105 U. S. 189, 26 L. ed. 975 (1881). *See also* Tubular Heating & Ventilating Co. v. Mt. Vernon Furnace & Mfg. Co., 2 F. (2d) 982, 984 (E. D. Ill. 1924).

[103]Golden West Brewery Co. v. Milonas & Sons, Inc., 104 F. (2d) 880, 882, 42 U. S. Pat. Q. 185 (C. C. A. 9th, 1939); Baker v. Master Printer's Union, 34 F. Supp. 808, 812, 47 U. S. Pat. Q. 69 (D. N. J. 1940).

[104]33 STAT. 729 (1905), 15 U. S. C. § 99 (1940).

[105]225 U. S. 604, 32 Sup. Ct. 691 (1912).

[106]Siddell v. Vickers, 9 Rep. Pat. Cas. 152 (C. A. 1892).

in determining the profits, if a defendant commingles and confuses its accounts, all his profits must go to the plaintiff. The loss in this situation must fall on either the innocent or the guilty. Faced with such an alternative, the law places the loss on the wrongdoer, following the rule that the defendant may not take advantage of his own wrong.

Four years later, this problem on broad lines was before the Court again in *Hamilton-Brown Shoe Co.* v. *Wolf Bros. & Co.* ("American Girl" Shoe case)[107] where it held that the term "American Girl" was plaintiff's valid trade-mark on shoes and therefore plaintiff was entitled to the profits acquired by defendant from sales under the label "American Lady" upon a principle analogous to that which charges a trustee with the profits acquired by the wrongful use of the property of a cestui que trust. The court went on to say:

> ". . . the jurisdiction must be rested upon . . . the right to an injunction—but the court of equity, having acquired jurisdiction upon such a ground, retains it for the purpose of administering complete relief, rather than send the injured party to a court of law for his damages. And profits are then allowed as an equitable measure of compensation on the theory of a trust *ex maleficio*. In the courts of England, the rule seems to be that a party aggrieved must elect between damages and profits, and cannot have both. In this country, it is generally held that in a proper case both damages and profits may be awarded."[108]

The doctrine of the *Hamilton-Brown* case was borrowed from patent law. It was applied in early cases of trade-mark infringement and has been generally accepted as the basis for an accounting of infringer's profits, both in technical trade-mark and unfair competition cases.[109] In applying the doctrine, it is often necessary, however, to adjust it to the equities of the particular situation. Justice Holmes once said, "To call the infringer an agent or trustee is not to state a fact but merely to indicate a mode of approach and an imperfect analogy by which the wrongdoer will be made to hand over

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[107]Hamilton-Brown Shoe Co. v. Wolf Bros. & Co., 240 U. S. 251, 36 Sup. Ct. 269 (1916).

[108]*Id.* at 259, 36 Sup. Ct. at 272.

[109]Avery & Sons v. Meikle, 85 Ky. 435, 3 S. W. 609 (1887); Regis v. Jaynes, 191 Mass. 245, 77 N. E. 774 (1906); Martin v. Martin & Wilckes, 75 N. J. Eq. 257, 72 Atl. 294 (1909); Westcott Chuck Co. v. Oneida Nat. Chuck Co., 199 N. Y. 247, 252, 92 N. E. 639, 640 (1910); Globe-Wernicke Co. v. Safe Cabinet Co., 110 Ohio St. 609, 144 N. E. 711, 15 T. M. Rep. 14 (1924); Anchor Stove & Range Co. v. Rymer, 97 F. (2d) 689, 690, 38 U. S. Pat. Q. 449 (C. C. A. 6th, 1938); Winifred Warren, Inc. v. Turner's Gowns, Ltd., 285 N. Y. 62, 68, 32 N. E. (2d) 793, 795, 48 U. S. Pat. Q. 709 (1941).

the proceeds of his wrong. Circumstances will affect the conclusion, including in them the knowledge and the conduct of the party charged."[110]

In 1896, the Supreme Court had decided *Singer Mfg. Co.* v. *June Mfg. Co.*[111] This was an unfair competition case. An accounting of profits was ordered, although there was no infringement of a technical trade-mark. This decision has been said to have set at rest whatever doubt had previously existed as to whether an accounting could be had in unfair competition cases.[112]

The question of compensation to plaintiffs was before the Seventh Circuit in 1901, in *Williams* v. *Mitchell.* The defendant deceived purchasers and the public into believing that their goods were those of the plaintiff. This was "an invasion of the complainants' rights" and the complainants were held entitled to compensation to the extent of the invasion.[113]

Where there is infringement of a technical, non-descriptive trade-mark, injury will be presumed and an inquiry into the profits made or damages caused by the defendant will follow normally. The same rule of presumption applies to unfair competition cases "although the reason therefor will be of less imperative character than in cases where a more definite and positive right has been infringed."[114]

The relief which the courts award to repair the injury suffered by a plaintiff from unfair competition is based upon the wrong of the defendant.[115] The liability of the defendant must be derived from unfair competition if it exists. It is not predicated upon the fact that the defendant may have made profits from his wrongful acts. He may have made no profits or he may have made profits far in excess of plaintiff's damage.

Although an accounting normally is ordered when an injunction has been granted, a decree for profits does not necessarily follow an injunction.[116] It

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[110] Larson, Jr., Co. v. William Wrigley, Jr., Co., 277 U. S. 97, 99, 48 Sup. Ct. 449 (1928).

[111] 163 U. S. 169, 204, 16 Sup. Ct. 1002, 1015 (1896).

[112] Worcester Brewing Co. v. Rueter, 157 Fed. 217, 218 (C. C. A. 1st, 1907).

[113] Williams v. Mitchell, 106 Fed. 168, 172 (C. C. A. 7th, 1901).

[114] I. T. S. Co. v. Tee Pee Rubber Co., 288 Fed. 794, 798 (C. C. A. 6th, 1923). *Accord* Straus et al. v. Notaseme Hosiery Co., 240 U. S. 179, 181, 36 Sup. Ct. 288, 289 (1916); Socony-Vacuum Oil Co. v. Rosen, 108 F. (2d) 632, 636, 40 U. S. Pat. Q. 379 (C. C. A. 6th, 1940).

[115] Michel Cosmetics Inc. v. Tsirkas, 282 N. Y. 195, 199, 26 N. E. (2d) 16, 17, 45 U. S. Pat. Q. 627 (1940); Platinum Products Corp. v. Berthold, 280 N. Y. 752, 21 N. E. (2d) 520 (1939); Westcott Chuck Co. v. Oneida Nat. Chuck Co., 199 N. Y. 247, 92 N. E. 639 (1910); Faber v. Hovey, 73 N. Y. 592 (1878).

[116] Straus et al. v. Notaseme Hosiery Co., 240 U. S. 179, 181, 36 Sup. Ct. 288, 289 (1916); Rushmore v. Badger Brass Mfg. Co., 198 Fed. 379, 381 (C. C. A. 2d, 1912); W. G. Reardon Laboratories v. B. & B. Exterminators, 3 F. Supp. 467, 476, 17 U. S. Pat. Q. 406 (D. Md. 1933), aff'd on this point although otherwise modified, *id.* 71

may be denied because an injunction adequately protects the rights of the plaintiff,[117] or for other reasons.

While the rule requiring an infringer to account for his net profit is applicable to unfair competition cases independent of trade-mark infringement, there are limitations of which Justice Holmes once said, "Very possibly the statutory rule for wrongful use of a trade-mark may be extended by analogy to unfair competition in a proper case. But as the ground of recovery in the latter instance is that the defendant has taken some undue advantage of the plaintiff's reputation, or that of his goods, and as the nature of extent of the wrong may vary indefinitely, it cannot be assumed in all cases that the defendant's sales were due to that alone."[118] Some courts have even expressed doubt as to whether the rule is not limited to technical trade-mark cases.[119]

F. (2d) 515, 22 U. S. Pat. Q. 22 (C. C. A. 4th, 1934); Wood v. Peffer, 55 Cal. App. (2d) 116, 130 P. (2d) 220 (1942).

[117]O'Cedar Corp. v. F. W. Woolworth Co., 73 F. (2d) 366, 367, 23 U. S. Pat. Q. 171 (C. C. A. 7th, 1934); I. T. S. Co. v. Tee Pee Rubber Co., 288 Fed. 794, 798 (C. C. A. 6th, 1923); Rushmore v. Badger Brass Mfg. Co., 198 Fed. 379, 381 (C. C. A. 2d, 1912); Keystone Macaroni Mfg. Co. v. Arena & Sons, Inc., 27 F. Supp. 290, 294, 40 U. S. Pat. Q. 639 (E. D. Pa. 1939); Plough, Inc. v. Intercity Oil Co., 26 F. Supp. 978, 984, 40 U. S. Pat. Q. 554 (E. D. Pa. 1939). In Rowley Co. v. Rowley, 193 Fed. 390, 393 (C. C. A. 3rd, 1912), it was even said that "courts will refrain from ordering an accounting of profits where an injunction will satisfy the substantial equities of the case."

[118]Straus et al v. Notaseme Hosiery Co., 240 U. S. 179, 181, 36 Sup. Ct. 288, 289 (1916). There was unfair competition in the use of a label. The trade name, however, was distinctive and there were other indications that purchasers had been led to select defendant's goods by other considerations than by the use of a label resembling plaintiff's. The Court said at page 183: "Taking all these considerations into account, coupled with the absence of evidence that any deceit or substitution was accomplished in fact, we find it impossible to believe that any considerable part of the petitioner's business was due to their goods being supposed to be the plaintiff's hose. The petitioners properly were enjoined from further use of the mark in controversy, but, so far as the decree charged them with profits, it is reversed."

[119]Merriam Co. v. Ogilvie, 170 Fed. 167, 169 (C. C. A. 1st, 1909). The cases in which the whole profits have been allowed "are proper trade-mark cases, in which the defendant having used a trade-mark proper, the presumption was that the goods would not have been sold without that use." In this case, the unfair competition consisted in the improper getup of a dictionary. An accounting was denied.

In Prest-O-Lite Co. v. Bournonville, 260 Fed. 442 (D. N. J. 1915), defendants refilled with their own acetylene gas, tanks bearing the plaintiff's trade-mark and then sold them or distributed them for sale among dealers. Plaintiff's trade-mark was infringed and plaintiff was entitled to an accounting of profits realized from such sales. Defendants also had committed acts held to be unfair competition. With respect to the unfair competition, the injured party is not entitled to recover profits "as of right" but only upon what might be considered "sufficient grounds." Complainant was not entitled to an accounting for profits due to strictly unfair competition "apart from trade-mark infringement, but was entitled to an accounting of defendant's profits from refilling and selling tanks bearing complainant's trade-mark, except in cases where they have refilled them directly for automobiles for their individual use."

There are cases of unfair competition where an accounting of all net profits is as reasonable as in any trade-mark infringement action. This depends on the nature of the competition and the facts involved. The decisions offer no rule of general application. A reasonable test would seem to be whether it can fairly be assumed that the defendant's sales were due to the unfair competition. Such an assumption is reasonable where the name or mark used is in the public domain and has acquired a secondary meaning by virtue of its use by plaintiff as a trade-mark. Unfair competition by such means is closely similar to technical trade-mark infringement. The same is true where the defendant imitates the appearance of the goods[120] or their wrappings or other features of their dress, even where his goods are clearly marked with his name[121] or with his distinctive trade-mark. However, such marking may be sufficiently distinctive to make the issue doubtful. Where the defendant imitates advertising or a trade name and uses the imitation not on the goods but on signs or on stationery, a presumption that his sales were due to these acts is less reasonable.

Where a defendant imitates plaintiff's mark on letterheads or advertisements in such a way as to give the impression that he is the original manufacturer, there may be reason for assuming that each sale made by him was influenced by these acts, although some adjustment of the award may be required.[122]

Apportionment of Profits

Where an accounting of all net profits cannot fairly be granted, an apportionment may be made, with the accounting limited to such sales as may reasonably be presumed to have been made by virtue of the unfair competi-

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[120]In Globe-Wernicke Co. v. Safe-Cabinet Co., 110 Ohio St. 609, 616, 617, 144 N. E. 711, 713, 15 T. M. Rep. 14 (1924), defendant copied the name, the distinctive color and other elements of plaintiff's product. An accounting of all net profits was granted. ". . . where the wrong consists of such an infringement of a trade-mark of another, or such an imitation or simulation of the adopted name or the distinctive design, decoration and appearance of the manufactured article of another, as to result in unfair competition, and the infringement or imitation is shown to be deliberate and willful, the injured party is entitled to recover all the profits realized by the offending party upon the manufactured articles in question."

[121]In William Wrigley, Jr., Co. v. Larson, Jr., Co., 5 F. (2d) 731 (N. D. Ill. 1925), *aff'd,* 20 F. (2d) 830, 831 (C. C. A. 7th, 1927), Larson had been granted an injunction and accounting beeause of the copying of the dress of its packages. Wrigley objected to the inclusion in the accounting of profits on certain packages which were marked with its name as manufacturer. Since the packages were similar, irrespective of whether or not they were marked with the manufacturer's name, no such distinction was drawn on the accounting, and it was proper for profits arising from all sales.

[122]Rowley Co. v. Rowley, 193 Fed. 390 (C. C. A. 3rd, 1912).

tion,[123] or which the plaintiff can prove to have resulted from the unfair competition.[124] If there is no practical basis for such an opportionment, an accounting of profits may be denied altogether.[125] An infringer may rebut the presumption that his unfair acts were responsible for his entire profit by evidence showing that his sales and his profits were due to other causes.

Judge Denison in speaking of the rule that a defendant must account for his profits on every article which bore the infringing trade-mark, remarked that the reasoning on which the rule is based is not inconsistent with the disputable character of this presumption:

> "Not only does this result follow from adopting the analogy of the patent law, but we take this to be the rule also of trade-mark cases; and when some of them declare that the defendant must respond for his profits on every article which bore the trade-mark stamp upon it, they intend to go no further than to say that such marking raises a presumption that the sale thereof was effectuated by this false marking or unfair competition. They are not inconsistent with the disputable character of this presumption. In many cases, probably in the typical case, it would be practically impossible to dispute the presumption, because, even if it apeared that the first purchaser, like the wholesaler or dealer,

[123]In Lynn Shoe Co. v. Auburn-Lynn Shoe Co., 103 Me. 334, 69 Atl. 569 (1907), defendant's trade-mark was infringed and its use of its trade name was unfair competition. Defendant was ordered to account for profits derived from the sale of shoes impressed with the trade-mark and from shoes not so marked but which were sold with the aid of unfair competition. This excluded sales of unmarked shoes to local dealers who would know they were not the plaintiff's shoes or to persons who never had known of the plaintiff's existence.

[124]Merriam Co. v. Saalfield, 198 Fed. 369, 377 (C. C. A. 6th, 1912) was a case of unfair competition by use of the name "Webster's" on dictionaries. This name had acquired a secondary meaning which obligated a user whose rights did not derive from the original Webster Dictionary to qualify his use. Where the name was used without such qualifieation, it was presumed that any sale resulted from its unlawful use. There could be no such inference from the sale of dictionaries which carried the qualification with the name and yet if it could be shown that such dictionaries, though properly marked were in some other manner represented to be those of the plaintiff and were bought because of such a misrepresentation, such sales would be held to be the result of unfair competition. The plaintiff therefore was entitled to all profits of the defendant from the sale of dictionaries which did not bear the necessary explanation with the name and also the profits from sales of dictionaries properly marked where it was established that these sales were the result of a belief that the books were those of the plaintiff, actively induced by the defendant through some unfair act beyond the mere use of the name. In John H. Woodbury Inc. v. Wm. A. Woodbury Corp., 23 F. Supp. 162, 171, 38 U. S. Pat. Q. 168 (S. D. N. Y. 1938), the defendants were required "to account for any profits which have accrued to them and which can be shown to have been directly and specifically attributable to the use of the name 'Woodbury' or 'Woodbury's' in connection with the manufacturing, selling or advertising of defendants' Toilet preparations."

[125]I. T. S. Co. v. Tee Pee Rubber Co., 288 Fed. 794, 798 (C. C. A. 6th, 1923). *See also* Hamilton-Brown Shoe Co. v. Wolf Bros., 240 U. S. 251, 36 Sup. Ct. 269 (1916); and comment in Sheldon v. Metro-Goldwyn Pictures Corp., 309 U. S. 390, 405, 60 Sup. Ct. 681, 686, 44 U. S. Pat. Q. 607 (1940).

knew what he was buying, this would not, of itself, affect the presumption of a fraud upon the ultimate consumer or user; but, even in the case of a technical trade-mark, if every purchaser, immediate and ultimate, knew that he was getting the counterfeit, and not the genuine, and bought it because he preferred the counterfeit to the genuine, there would be no liability for profits."[126]

The offense in this case was use of the name "Webster" on a dictionary, which name plaintiff claimed by secondary meaning. The reasoning of the court was this:

"The cases where there has been no division of profits, but the whole profits have been allowed, are proper trade-mark cases, in which, the defendant having used a trade-mark proper, the presumption was that the goods would not have been sold without that use. [Citing cases.] The present case, however, does not fully take on that feature. The substantial offense of Ogilvie did not consist in availing himself of a Merriam Company's trade-mark, because both this court and the Circuit Court have expressly found that there was no trade-mark. It consisted in dressing up his publications unlawfully. Therefore, there is no concrete thing which belongs to the Merriam Company the value of which can be substantially determined in this connection."[127]

Judge Denison distinguishes patent cases from trade-mark cases with respect to liability for profits. He points out that the patent owner has a monopoly. "Not so," he says, "regarding a trade-mark and the right to protection against unfair competition; these rights are only incidental to an existing business; they cannot be independently injured or suffer damages; they do not create any monopoly in the article itself; there can be no damage in connection with violation of these rights, except as there is injury to the business and good will; and this damage can be only through loss of sales which otherwise would have accrued to the injured business. . . ."[128] This statement, written in 1912, undoubtedly is sound today with respect to liability for profits, but it is not applicable, and obviously was not intended to be applicable, to liability for all damages which the plaintiff may have suffered.

The rule as to the apportionment of profits and the evidence on which it is based has been long discussed. In 1883, Mr. Justice Field in the opinion of the Supreme Court in *Garretson* v. *Clark*[129] suggested that in an accounting of profits in patent cases, the patentee must apportion the defendant's

[126]Merriam Co. v. Saalfield, 198 Fed. 369, 377 (C. C. A. 6th, 1912).
[127]G. & C. Merriam Co. v. Ogilvie, 170 Fed. 167, 169 (C. C. A. 1st, 1909).
[128]Merriam Co. v. Saalfield, 198 Fed. 369, 376 (C. C. A. 6th, 1912).
[129]111 U. S. 120, 4 Sup. Ct. 291 (1883).

profits and the patentee's damages between the patented features and the unpatented features, and such evidence must be reliable and tangible and not conjectural or speculative. The Court applied this doctrine in 1911, in *Westinghouse* v. *Wagner*.[130] In 1939, it had the question before it in a copyright case[131] and followed the *Westinghouse* decision.

Where, as pointed out in the *Westinghouse* case, it is difficult or impossible to carry the burden of apportionment, the whole loss must fall on the wrongdoer and there will be no apportionment. The Court cited as analogous a case involving the separation of intrastate earnings and expenses from interstate earnings and expenses to determine whether one of them was confiscatory, where "the testimony of several experts as to the relative cost of doing a local and a through business was received."[132] And it was held that the procedure used in tax cases in the separation of earnings could be used in patent cases with respect to the apportionment of profits. This analogy is referred to by Judge Hughes in *Sheldon* v. *Metro-Goldwyn Pictures Corp.*,[133] where the Supreme Court again considered the question of apportionment. The Court had discussed this question in *Dowagiac* v. *Minnesota Moline Plow Co.*,[134] where it required only "reasonable approximation." This, Judge Hughes said in the *Sheldon* case, "usually may be obtained from the testimony of experts and persons informed by observation and experience." He pointed out that "testimony of this character was said [in the *Dowagiac* case] to be 'generally helpful and at times indispensable in the solution of such problems.'" These principles were held to be applicable to copyright cases.[135]

A defendant's profits may be greater than any loss which plaintiff can show. When this is the fact, defendant should be ordered to turn over all of his profits. The justice of this was recognized by the California court as early as 1871,[136] and in a more recent Arizona case, the court said:

> "The evidence on this issue was somewhat vague in its nature. Defendant, however, gave testimony which might reasonably be construed to show that he profited by selling foods bearing plaintiff's trademark

[130] 225 U. S. 604, 32 Sup. Ct. 691 (1911).
[131] Sheldon v. Metro-Goldwyn Pictures Corp., 309 U. S. 390, 60 Sup. Ct. 681, 44 U. S. Pat. Q. 607 (1939).
[132] Chicago, M. & S. P. Ry. v. Tompkins, 176 U. S. 167, 20 Sup. Ct. 336 (1899).
[133] Sheldon v. Metro-Goldwyn Pictures Corp., 309 U. S. 390, 403, 60 Sup. Ct. 681, 685, 44 U. S. Pat. Q. 607 (1940).
[134] 235 U. S. 641, 35 Sup. Ct. 221 (1915).
[135] Sheldon v. Metro-Goldwyn Pictures Corp., 309 U. S. 390, 407, 60 Sup. Ct. 681, 687, 44 U. S. Pat. Q. 607 (1940).
[136] Graham v. Plate, 40 Cal. 593 (1871). *See also* Stonebraker v. Stonebraker, 33 Md. 252 (1870); Nelson v. J. H. Winchell & Co., 203 Mass. 75, 89 N. E. 180 (1909).

in a sum greater than that allowed by the court as damages. The rule of law as to the measure of damages in a case of this kind is that defendant will be held to account for the profits derived from the unauthorized use of the trademark."[137]

[137] M. R. Cano v. Arizona Frozen Products Co., 38 Ariz. 404, 410, 300 Pac. 953, 955 (1931).