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DAMAGES AND ACCOUNTING PROCEDURE IN UNFAIR COMPETITION CASES*

HARRY D. NIMS

Theory That Defendant’s Profits Will Be Limited to the Sales Which Were Induced by Defendant’s Unfair Acts

In 1942, in the Mishawaska case, the Supreme Court held that the owner of a registered trade-mark is not required to show that purchasers of goods bearing the infringing mark were induced to buy because of defendant’s acts, but saying, “The plaintiff, of course, is not entitled to profits demonstrably not attributable to the unlawful use of his mark.” The same rule undoubtedly applies to cases involving all trade symbols whether registered or not.138

The burden of such a contention rests upon the defendant. “It having been found that, in marketing their product in the way in which they did, the defendants were infringing plaintiff’s trade-mark, it follows that the latter was entitled to the profits realized on such infringing sales, due to the use of the trade-mark. The profits on such sales having been shown, and it being inherently impossible for the plaintiff to show what part of them were attributable to the use of the trade-mark, and what part, if any, to other causes, the burden was then cast upon the defendants to show what part, if any, were due to causes other than the use of the trade-mark.”139

*This is the second of two installments under this heading; the first appeared in (1946) 31 CORNELL L. Q. 431. This article is an excerpt from the fourth edition of Mr. Nims’ book, UNFAIR COMPETITION AND TRADE-MARKS, which is soon to be published.—Ed.


To be admissible, such rebuttal evidence must be available with regard to a reasonable proportion of the sales. If defendant can separate out sales effectuated by other elements, then net profits may be apportioned; but where there are thousands of consumers, and it is impossible to produce evidence with regard to any considerable number of them, the entire net profit from all sales should be granted to the injured party.\(^{140}\)

It is argued that a trade-mark infringer need not account for the entire profit which he makes in selling the merchandise under an infringing mark but that the intrinsic value of the goods should be given consideration. Granted that the infringing mark enabled the infringer to make sales which he otherwise might not have made, the argument is that he would have sold some goods without it and would have made some profit and that he should not sacrifice that part of his profits to plaintiff. “The argument reduces itself to this: The defendant says: ‘If I had been honest, I could have sold at least a part of these goods and as you have failed to show what that part is, you are entitled to recover nothing.’ The answer is: ‘You were not honest.’”\(^{141}\)

“The defendants were not entitled as of right under the circumstances to show sales made by them to their old customers and establish thereby what they might have made if they had conducted their business without attempting to appropriate the benefit of the name of the plaintiff.”\(^{142}\)

Irrespective of whether or not it can be shown that certain sales were made in reliance on defendant’s reputation, nothing short of defendant’s entire net profits from the use of the infringing package may afford adequate relief. “If the rule contended for by Wrigley were here to prevail, it is apparent that little or no proof could be made of substantial profits, or damages either. It would be manifestly impossible, even if the infringement were of the ‘Chinese copy’ variety to show that, but for the sale of Wrigley’s ‘Doublemint’ in the infringing dress, the individual users would have purchased Larson’s ‘Wintermint.’ Even if in a few instances this might be done, it

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\(^{140}\) L. P. Larson, Jr., Co. v. William Wrigley, Jr., Co., 20 F. (2d) 830, 831 (C. C. A. 7th, 1927). See also the decision below, William Wrigley, Jr., Co. v. Larson, Jr., Co., 5 F. (2d) 731, 739 (N. D. Ill. 1925). In Globe-Wernicke Co. v. Safe-Cabinet Co., 110 Ohio St. 609, 144 N. E. 711, 15 T. M. Rep. 14 (1924), the court sustained a master’s refusal to receive evidence that certain purchasers of defendant’s cabinets had bought understanding them to be defendant’s cabinets. This decision was followed in Jones v. Roshenberger, 82 Ind. App. 97, 144 N. E. 858 (1924). See also W. B. Mfg. Co. v. Rubenstein et al., 236 Mass. 215, 128 N. E. 21, 10 T. M. Rep. 368 (1920).


would be humanly impossible, even though the effort and expense were not prohibitive, to have sought out and produced the evidence from any considerable number of users. Neither could it be known into what territory Larson would have pushed its trade, but for Wrigley's oppressive and forestalling practices. The entrant into a field of endeavor might, thus early in his business career, be throttled and eliminated from competition, and his distinctive trade dress seized and used by a powerful opponent, with no measure for affording adequate relief. The more flagrant, and therefore the more effective, the invasion of another's rights, the more certain and complete would be the invader's immunity.\textsuperscript{143}

In 1925, the Sixth Circuit allowed recovery of both damages and profits on all sales of a defendant's goods marked with the offending mark, where the evidence showed that retailers passed off defendant's goods to plaintiff's investigators in many places, and held that it is not necessary, under such circumstances, to show sales where purchasers were deceived, to obtain an accounting.\textsuperscript{144}

But there are various decisions to the effect that where there is "no substantial evidence in the case that customers have been deceived or that the defendant has realized profits from deceptive sales or that the plaintiff has sustained any actual damage by the defendant's competition," an accounting will not be granted,\textsuperscript{145} and that a party is not entitled to an accounting where he fails to prove lost sales due to deceit of consumers.\textsuperscript{146} Where there

\textsuperscript{143}L. P. Larson, Jr., Co. v. William Wrigley, Jr., Co., 20 F. (2d) 830 (C. C. A. 7th, 1927).

\textsuperscript{144}S. S. Kresge Co. v. Champion Spark Plug Co., 3 F. (2d) 415, 419 (C. C. A. 6th, 1925).

\textsuperscript{145}W. G. Reardon Laboratories, Inc. v. B & B Exterminators, 3 F. Supp. 465, 476, 17 U. S. Pat. Q. 406 (D. Md. 1933), \textit{aff'd on this point}, 71 F. (2d) 515, 22 U. S. Pat. Q. 22 (C. C. A. 4th, 1934); Ammon & Person v. Narragansett Dairy Co., Ltd., 262 Fed. 880 (C. C. A. 1st, 1919); Pennsylvania Rubber Co. v. Dreadnaught Tire & Rubber Co., 225 Fed. 138 (D. Del. 1915), \textit{modified on other grounds}, 229 Fed. 560 (C. C. A. 3d, 1916); Baker v. Baker, 115 Fed. 297 (C. C. A. 2d, 1902); American Specialty Co. v. Collis Co., 235 Fed. 929 (S. D. Iowa 1916). \textit{See also} Allen v. Walker & Gibson, 235 Fed. 230 (N. D. N. Y. 1916). In J. C. Penny Co. v. H. D. Lee Mercantile Co., 120 F. (2d) 949, 958, 50 U. S. Pat. Q. 165 (C. C. A. 8th, 1941) the court held that it would be inequitable to grant an accounting for profits and damages because the large sales of defendant's product could not have been the result of the palming off and no trust in favor of plaintiff was set up since the adoption of the design in question did not constitute unfair competition. The only evidence of passing off was to plaintiff's agents and were not instances of actual customer deception.

was no evidence that any mistake was ever made by purchasers, and affirmative evidence that no mistake was ever made to the knowledge of defendant’s officers, an accounting was denied. "So far as profits and damages are concerned ... the burden is upon the plaintiff to prove that the defendant has made profits attributable in whole or in part, to its trade-mark." However, lack of proof that sales have been made to purchasers who thought they were buying plaintiff’s goods is not conclusive against recovery of profits and damages. But where there is no actual wrongful intent to injure the plaintiff and no substantial damage has as yet occurred from defendant’s acts, accounting has been denied. The difficulty lies in the practical impossibility, in many instances, of determining what part of the profit resulted from the intrinsic value of the merchandise and what part was due to the use of the infringing trade-mark. To attempt to do this may become a decidedly speculative venture.

The better rule seems to be that the plaintiff is entitled to the entire net profit on the goods sold under the infringing symbol, without being required to prove that any or all of such profits are directly and positively attributable to defendant’s wrong. An old decision of the California courts (1871) still cited in this connection, holds that, "No one will deny that on every principle of reason and justice the owner of the trade-mark is entitled to so much of the profit as resulted from the use of the trade-mark. The difficulty lies in ascertaining what proportion of the profit is due to the trade-mark, and what to the intrinsic value of the commodity; and as this cannot be ascertained with any reasonable certainty, it is more consonant with reason and justice that the owner of the trade-mark should have the whole profit than that he should be deprived of any part of it by the fraudulent act of the defendant." An infringing party “will hardly be heard to say that he would have been equally successful had he used honest indicia and labels. It would be casting an intolerable burden upon the complainant in such cases if, after proving the fraud, the infringement and the profits, he were compelled to enter the realms of speculation and prove the precise proportion of the infringer’s gains attributable to his infringement.” This is the rule in Massachusetts, Kentucky and other jurisdictions.

147 Hemmeter Cigar Co. v. Congress Cigar Co., Inc., 118 F. (2d) 64, 71, 49 U. S. Pat. Q. 122 (C. C. A. 6th, 1941).
148 Graham v. Plate, 40 Cal. 593 (1871); Benkert v. Feder, 34 Fed. 534, 535 (N. D. Cal. 1888).
In 1912, the Second Circuit Court of Appeals took a more conservative position, but it has not been generally followed. This was in *Rushmore v. Badger Brass Mfg. Co.* There the defendant's lamps resembled complainant's in general shape and appearance. "The defendant asks that it be relieved from an accounting or, at least, that the accounting be limited to the damages actually sustained and proved by the complainant. We are inclined to think that the latter request is reasonable and should be granted. . . . We are also convinced that the great majority of the defendant's lamps were sold on their merits and on the established reputation of the defendants, without any reference to the complainant's lamps. To award the entire profits made on the sales of defendant's lamps without proof of actual fraud on its part would be inequitable. An accounting covering the entire field of the defendant's sales would involve both parties in a long and expensive examination unwarranted by the probable results. It seems to us unfair that the complainant should recover profits on the sale of lamps by the defendant to persons who never heard of Rushmore, and were well aware that the lamps they bought were made by the defendant, and who bought them because they were so made. A decree for profits and damages does not necessarily follow a decree for an injunction. . . . We think the accounting should be limited to sales where it is shown by direct or presumptive evidence that the complainant would have sold the lamps but for the sale by the defendant."

Yet if the defendant copied the plaintiff's lamp with the specific intent of selling his lamp as a product of the plaintiff and so purloined plaintiff's good will and profited by it, what should a court of equity do where a defendant succeeds only partially? The character of defendant's act is the same, from an equitable standpoint, whether he succeeds or not. If he fails and pays no damages and is merely enjoined, the plaintiff is penalized at least to the extent of his expenses and effort to stop the practice. The question is not one of legal theory merely. Experience shows that it is idle to expect any effective regulation of such practices through criminal procedures. Public policy would seem to invite our courts of equity to find a way not only to enjoin such methods of competition but to order the payment of some damages at least.

In 1924, the Ohio Court said: "By the great weight of authority, particularly where the infringement or imitation was deliberate and willful, it is

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held that the wrongdoer is required to account for all profits realized by him as a result of his wrongful acts, regardless of any question of deceit or misrepresentation in the actual making of the sale and the plaintiff in such action is not required to produce evidence of such actual deceit or misrepresentation in the various and sundry sales made.\textsuperscript{151}

In 1925, referring to the Hamilton-Brown case, the Sixth Circuit Court of Appeals said that: “The infringer must account for the entire profits derived from the sale of the infringing goods. The recovery will not be limited to such amount as can be shown by direct and positive evidence to have resulted from the use of the infringing mark. The burden is not cast upon the plaintiff to attempt the impossible task of showing what part of defendant’s profits are attributable to the use of the infringing mark and what part to the intrinsic merit of his goods or other causes. Whatever conflict in the previous decisions might be found was put at rest by that decision.”\textsuperscript{152}

In Massachusetts, the defendant must pay over the total profits realized on goods sold bearing the plaintiff’s trade mark.\textsuperscript{153} Such an offender is liable for both actual damages and profits, if any, realized on the sale of the imitation.\textsuperscript{154} The English rule has been the same.\textsuperscript{155} This rule, entitling the injured party to an accounting of the entire net profit of the infringer, does not depend on evidence that the plaintiff would have actually made the same profit, nor can the accounting be limited to profits which the plaintiff would have made if his goods had been sold instead of those of the infringer.\textsuperscript{156}

\textsuperscript{155}Edelsten v. Edelsten, 1 DeG & S. 185 (1863); Lever v. Goodwin, 4 Rep. Pat. Cas. 492 (Ch. Div. and Ct. of App., 1887).
\textsuperscript{156}Holley Milling Co. v. Salt Lake & Jordan Mill & Elevator Co., 58 Utah 149, 197 Pac. 731, 11 T. M. Rep. (2d) 225 (1921); Ritz Cycle Car Co. v. Driggs-Seabury,
Where a package was copied, the defendant insisted that the plaintiff was a much smaller concern without either the ability or even the intention of extending its trade into territory where defendant's merchandise had been sold, and that profits should therefore be limited at least to sales in common territory. In rejecting this argument the court pointed out that if that rule prevailed, little or no proof could be made of substantial profits; and the more flagrant and therefore the more effective the invasion of another's rights, the more certain and complete would be the invader's immunity. The entire net profit from the use of the infringing package was awarded. "That an award on this basis might permit recovery of a larger sum than would likely have been the net profits of the injured party, if left undisturbed, is an accident of the invasion of which this invader is not in position to complain."

Where it is impossible to isolate the profits which are attributable to the use of the infringing mark, it may prove a windfall to plaintiff, but to hold otherwise would give the windfall to the wrongdoer. This does not mean that the injured trade-mark owner is entitled to profits which by no theory could ever have belonged to him and which might have belonged to another. Thus, for example, while he may be granted the profits which the infringer made in territory which he, himself, had not yet exploited, he may not recover the profits made by the infringer in territory where the plaintiff had transferred his trade-mark rights to another. Where the plaintiff is a dealer or jobber and does not manufacture and therefore never could have realized the profits of a manufacturer, he may be limited to dealers' or job-

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157 L. P. Larson, Jr., Co. v. William Wrigley, Jr., Co., 20 F. (2d) 830, 831-832 (C. C. A. 7th, 1927). See also id., 275 Fed. 535, 537 (C. C. A. 7th, 1921) and id., 5 F. (2d) 731, 737 (N. D. Ill. 1925).


159 L. P. Larson, Jr., Co. v. William Wrigley, Jr., Co., 20 F. (2d) 830 (C. C. A. 7th, 1927).

160 Lawrence-Williams Co. v. Societe Enfants Gombault et cie, 52 F. (2d) 774, 11 U. S. Pat. Q. 75 (C. C. A. 6th, 1931). The plaintiff, a French manufacturer, granted exclusive licenses to sell its product, under its trade-mark, in the United States. The licensee and not the plaintiff was the one entitled to the profits made by sales under the license. An injunction for trade-mark infringement and an accounting of damages and profits was limited in time so as not to grant to the plaintiff profits made after it had transferred its rights in the United States, which equitably belonged to the licensee. "The principle seems to be that as to territory unreached by plaintiff's trade, it may be inferred that there was a latent demand for plaintiff's goods which it would eventually have supplied, except for the infringement, and hence it has sufficient equitable right to the infringer's profits. No application of this principle can reach the situation where the general trade-mark owner has transferred to another those rights from the exercise of which the profits arose." Id. at 777.
bers' profits and may be denied the manufacturing profits, provided, of course, these can be thus apportioned.161

Other cases hold that where the profits to the infringing party are due largely to the merits of the article sold, and not to the merit of the original article or trade-mark, and purchasers knew that the infringer was the maker and had never heard of the plaintiffs, the latter may recover profits only from such sales as, on direct or presumptive evidence, he can show he would have made but for the defendant's unfair acts.162 Sales under a trade name condemned as involving unfair competition, made to persons who knew the goods were not made by the plaintiff, or to persons who did not know of plaintiff's existence, are assumed not to have been injurious to plaintiff.163

Where there is no actual intent to deceive or to steal the reputation of plaintiff's goods, and the goods were different in character and were called by different names and were sold mainly in different places and by parties not likely to be mistaken for each other, the Supreme Court refused to charge the defendant with profits. "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."164

The Pennsylvania court has held that the duty of defendant to account "should only cover the profits from those sold in unfair competition with plaintiff. We do not intend to specify under what circumstances defendant's liability exists; this can only be properly determined on the accounting, when the facts are fully developed. We may say, however, that a sale made in a place where like preparations of plaintiff's were not on the market, would not necessarily be a sale in unfair competition while one made in a place where they were in competition, although not obtainable in the same store as the other, would probably be so."165

Equities peculiar to the cause on trial may be considered. Plaintiff-appellee abandoned the Chicago market and deliberately kept out of it for at least

163W. R. Lynn Shoe Co. v. Auburn-Lynn Shoe Co., 103 Me. 334, 69 Atl. 569 (1907). Profits on certain sales made by the defendant to local dealers after the change of its name were excluded because of a finding that these dealers knew that the goods purchased by them were not the product of plaintiff. Profits were excluded on sales made to parties who never had purchased from plaintiff and did not know of plaintiff's existence. It did not appear that the shoes were impressed with any deceptive trade-mark.
six years. "If it be assumed, therefore, that during all this time appellee was so little interested in the Chicago territory that it did not know of appellant's operations there, it could hardly be said that it sustained any damage there for that time; and, if during all that time they did not learn that appellant's conduct at Chicago injuriously affected its trade, or the reputation of its water and product, in any territory outside of Chicago, it cannot be said that appellant damaged them in this respect during that time. But when, early in 1919, appellee entered the Chicago market, a different situation arose. It became a competitor in a market theretofore intentionally avoided by it, and thereby sustained damage through the use of the trade name by appellant."166

The cases differ so widely in their equities and in the circumstances involved that it is almost impossible to formulate a general rule. In many cases, plaintiff can show some instances where defendant induced consumers to buy his goods in place of the plaintiff's goods, but it is obviously impossible to follow all of the competitor's goods to the retail purchaser and learn what influenced his buying of one brand instead of another. The courts now recognize this and for this reason do not order an account, but award all of defendant's profits and, in addition, damages to the extent necessary to compensate plaintiff.

The weight of authority in both trade-mark and unfair competition cases undoubtedly is that where it is impossible to determine what portion of the sales were due to the infringement or to the unfair competition, plaintiff should recover defendant's entire profits on each sale of goods bearing such trade-mark.167 The rule as applied to patent cases was considered in the

166Morand Bros., Inc. v. Chippewa Springs Corp., 2 F. (2d) 237, 239 (C. C. A. 7th, 1924). But see Matzger et al. v. Vinikow, 17 F. (2d) 581 (C. C. A. 9th, 1927), where it was held that the burden of proof was upon plaintiff to show that defendant had made substantial profits attributable in whole or in part to his trade-mark, citing Ammon & Person v. Narragansett Dairy Co., Ltd., 262 Fed. 880 (C. C. A. 1st, 1919).

167Hamilton-Brown Shoe Co. v. Wolf Bros., 240 U. S. 251, 36 Sup. Ct. 269 (1916). This rule is stated in the Saalfeld case to be in analogy to the patent cases which are reviewed in Westinghouse Electric and Manufacturing Co. v. Wagner Electric and Manufacturing Co., 225 U. S. 604, 32 Sup. Ct. 91 (1912). The latter case holds, at page 618: "Having, by books and other data, proved to the satisfaction of the Master the existence of profits, the plaintiff had carried the burden imposed by law, and established every element necessary to entitle it to a decree, except one. As to that, the act of the defendant had made it not merely difficult, but impossible to carry the burden of apportionment. But plaintiff offered evidence tending to establish a legal equivalent . . . the plaintiff
Where there is "no substantial evidence in the case that customers have in fact been deceived or that the defendant has realized profits from deceptive sales or that the plaintiff has sustained any actual damage by the defendant's competition, an accounting for profits and damages will not be granted." Nor is a party entitled to an accounting where he fails to prove any lost sales due to confusion. Plaintiff has the burden of proving his lost sales and profits and that "defendant has made profits attributable, in whole or in part, to its trade-mark."
How to Determine the Amount of Profits to be Awarded

The general rule is that in assessing profits, plaintiff is required to prove defendant’s sales only and defendant must prove all the elements of cost and expense which he claims.\(^\text{172}\) Rule 53(D) of the Federal Rules of Civil Procedure suggests, but does not require, a simplified procedure to determine profits, i.e., the master or court “may prescribe the form in which the accounts shall be submitted,” and “may require . . . a statement by a certified public accountant who is called as a witness.”

The principal cause of the complications and expense of accounting proceedings seems to be the determination, through court methods, of the profits of defendants. That process can and does become so complicated as to amount to a denial of justice to a plaintiff. It affords an almost ideal pretext to a defendant seeking by delay and technicality to force a settlement favorable to himself from a plaintiff who has become disgusted with the difficulties of obtaining prompt and effective relief through the courts.

Fixing the amount of net profit also requires fixing cost, often a most complicated procedure to an expert accountant, let alone a court which must use the process of question and answer.

In computing the profits of a defendant to be awarded to the plaintiff, the following deductions, among others, may be allowed: (a) the actual cost of producing the goods, including the cost of material which is unavoidably wasted or spoiled in the manufacturing or distributing process; (b) marketing costs, including the expense of promotion and advertising; (c) interest on capital involved; (d) salaries and wages of persons employed by the defendant to produce the goods; (e) general overhead expenses, including taxes within various limitations; (f) returned goods and uncollectable accounts (these are not deductible under ordinary circumstances). These and many other items may enter into the determination of what is net profit. The process is more one of accounting than of law. Where the patent or trade-mark is used on or in connection with one of many articles which are sold by a large corporation with large financial resources, with plants in various localities, employing modern methods of advertising and selling, some of the difficulties in checking and verifying alleged costs and expenses of manufacture and selling may be imagined.

Often it is an especially difficult matter to determine what are profits

where the infringing article is only a part of the defendant’s business. The
rule of the United States Supreme Court in patent cases is that a ratable
proportion of the general expense in carrying on the business should be
deducted from the profits made by the use of the patented device. “We
cannot see why the general expenses incurred by the defendants in carrying
on their business, such expenses as store rent, clerk hire, fuel, gas, porterage,
etc., do not concern one part of their business as much as another. It may
be said that the selling a tremelo attachment did not add to their expenses,
and therefore that no part of those expenses should be deducted from the
price obtained for such an attachment. This is, however, but a partial view.
The store rent, the clerk hire, etc., may, it is true, have been the same . . .
if instead of buying and selling one hundred organs, they had bought and
sold only ninety-nine. But will it be contended that because buying and
selling an additional organ involved no increase of the general expenses,
the price obtained for that organ above the price paid was all profit? Can
any part of the whole number sold be singled out as justly chargeable with
all the expenses of the business? Assuredly, no.” This rule has been
applied to trade-mark and unfair competition cases.

The unlawful adventure may increase the profits without measurably in-
creasing the overall expense of the business, but any expense properly
chargeable to the unfair acts of the defendant may be deducted. There are
cases holding that to allow any such deductions, unless directly attributable
to the marketing of the articles sold under the infringing mark, or to the
use of the unfair methods, is to permit the defendant to profit by his wrong.

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174 Walter Baker & Co. v. Slack, 130 Fed. 514 (C. C. A. 7th, 1904); Saxlehner v.
Eisner & Mendelson Co., 135 Fed. 22 (C. C. A. 2d, 1905); Duro Co. v. Duro Co.
(of Ohio) v. Duro Co. (of New Jersey), 56 F. (2d) 313, 12 U. S. Pat. Q. 515 (C. C. A. 3d, 1932);
Cutter v. Gudebrod Bros. Co., 190 N. Y. 252, 83 N. E. 16 (1907); C. A. Briggs Co.
v. Nat'l Wafer Co., 215 Mass. 100, 102 N. E. 87 (1913); Winthrop Chemical Co. v.
175 In Societe Anonyme v. Western Distilling Co., 46 Fed. 921, 922 (E. D. Mo.
1891), it was said: “When an unlawful business is carried on in connection with the
defendant’s regular business, and the same agencies are employed in doing that which
is lawful and that which is unlawful, no rule of law of which I am aware requires
any deduction for expenses in estimating the profits of the unlawful business. In this
case the defendant was a distilling company. It has a place of business, a license for
doing business, traveling salesmen, etc. The proof does not convince me that any addi-
tional expenses were incurred by the defendant in the manufacture and sale of Bene-
dictine, other than such as the master has allowed. The manufacture of Benedictine
was carried on in connection with its ordinary business by the usual number of em-
ployees. The unlawful venture increased the gross profits without swelling the gross
expenses.”

Again, in Regis v. Jaynes, 191 Mass. 245, 252, 77 N. E. 774, 777 (1906), “The de-
fendants in the case at bar appear to have been carrying on a large business, and they
When defendant's entire business is the manufacture and sale of the article which invades the plaintiff's rights, the former may deduct its legitimate expenses from the gross profits. But when only a part of the defendant's business is involved, only a proportionate share of the overhead and general expenses is usually deducted; together with the actual cost of the material used in the manufacture of the offending merchandise. But this rule is not universally followed. An early case in the Eastern District Court in Missouri (1883) held that the defendant must prove any expense which would not have been incurred but for the manufacture and sale of the infringing article, and that only such expenses will be deducted from gross profits. If the unfair competition "increased the profits without swelling the gross expenses," no allowance will be made for the gross expenses in estimating the profits of the unlawful business. A similar rule was applied did not offer to show that their general expenses have been at all increased by their taking up the sale of 'Rexall' goods. To allow them to charge upon the gross profits from these goods any portion of the general expenses which were not increased thereby would be to allow them to derive a direct advantage from their wrong. They were not precluded from proving and having allowed to them the amount of any expenses which were properly chargeable to these goods." Grocers Supply Co. v. L. Renaud Co., 234 Mass. 180, 184, 125 N. E. 144, 145, 10 T. M. Rep. 40, 41 (1919), "To allow the defendant as now urged in argument to charge upon the gross profits any share of its general operating expenses would be to permit it to take advantage of its own deliberate wrong when it intentionally palmed off its goods as having been made by the plaintiff." In Walter Baker & Co. v. Slack, 130 Fed. 514 (C. C. A. 7th, 1904), where an accounting of profits was ordered the court said that "in estimating those profits we feel concluded by the ruling of the ultimate tribunal, The Tremolo Patent, 23 Wall. 518, 23 L. ed. 97 (U. S. 1875) that, to ascertain the net profits accruing to the wrongdoer, as in ascertaining profits in any other case, the expense of making the sale should be deducted from the gross proceeds of its sale." See also Avery v. Meekle, 85 Ky. 435, 3 S. W. 609 (1887); Cutter v. Gudebrod, 190 N. Y. 252, 83 N. E. 16 (1907); Winthrop Chemical Co. v. Blackman, 159 Misc. 451, 453, 288 N. Y. Supp. 389, 392 (Sup. Ct. 1936); Duro Co. (of Ohio) v. Duro Co. (of New Jersey), 56 F. (2d) 313, 12 U. S. Pat. Q. 515 (C. C. A. 3d, 1932); William Wrigley, Jr., Co. v. Larson, Jr., Co., 5 F. (2d) 731, 743 (N. D. Ill. 1925); L. P. Larson, Jr., Co. v. William Wrigley, Jr., Co., 20 F. (2d) 830 (C. C. A. 7th, 1927). Societe Anonyme v. Western Distilling Co., 46 Fed. 921, 922 (E. D. Mo. 1891). N. K. Fairbank Co. v. Windsor et al., 118 Fed. 96, 98 (W. D. N. Y. 1902) followed Societe Anonyme v. Western Distilling Co., supra, but the decree was reversed, though on other grounds, the Circuit Court of Appeals holding that plaintiff was not entitled to any profits or damages. N. K. Fairbank Co. v. Windsor et al., 124 Fed. 200 (C. C. A. 2d, 1903). In New York the rule of Societe Anonyme v. Western Distilling Co. has been disregarded. Winthrop Chemical Co. v. Blackman, 159 Misc. 451, 453, 288 N. Y. Supp. 389, 392 (Sup. Ct. 1936). In Walter Baker & Co. v. Slack, 130 Fed. 514 (C. C. A. 7th, 1904) it was pointed out that the decision in Societe Anonyme v. Western Distilling Co., supra, contains no reference to the Tremolo Patent case and the rule of that case was held to govern the situation.
by the Massachusetts Court in 1906, but in a later decision (1913), the deductions were limited to the special circumstances involved, although it recognized the rule of the Tremolo Patent case.

The general expenses which may be deducted in ascertaining net profits include the wages or salaries of employees and managing officers; also machinery, tools, rent, cost of power, advertising expense, interest on invested capital, depreciation, the expense of a cost system, profit-sharing coupons and lost accounts, etc. The expenses of salesmen who sell goods

[178] Regis v. Jaynes, 191 Mass. 245, 77 N. E. 774 (1906). See also Nelson v. J. H. Winchell & Co., 203 Mass. 75, 89 N. E. 180 (1909); Grocers Supply Co. v. Renaud Co., 234 Mass. 180, 184, 125 N. E. 144, 146 (1919), "To allow the defendant, as now urged in argument to charge upon the gross profits any share of its general operating expenses would be to permit it to take advantage of its own deliberate wrong when it intentionally palmed off its goods as having been made by the plaintiff."

[179] C. A. Briggs v. National Wafer Co., 215 Mass. 100, 102 N. E. 87 (1913) where it is said: "It appears from the master's report that the defendant has made substantial profits from its sales of goods bearing the plaintiff's label or an imitation thereof, unless a deduction is made of a part of its general expenses to be determined by apportioning them in the ratio which its sales of Boston Wafers bear to its total sales. If such a deduction is made, the defendant has obtained no profits from the sales in question."

"It has been held by the Supreme Court of the United States that such a deduction should be made in ascertaining the profits realized by the infringer of a patent. The Tremolo Patent, 23 Wall. 518, 23 L. ed. 97 (U. S. 1875). The same rule has been followed since that decision in trade-mark cases and cases of unfair competition, some of which are collected in Regis v. Jaynes & Co., 191 Mass. 245, 77 N. E. 774 (1906). In the last named case this court declined to follow the rule of the Tremolo Patent, deeming it inapplicable to the facts before the court. In the Regis Case, the defendants were carrying on a large business, of which their dealings in goods bearing the plaintiff's trade-mark constituted only a small part, and the defendant's general expenses did not appear to have been at all increased by those dealings. Here the defendant's dealings in Boston Wafers have been a substantial and integral part of its entire wafer and lozenge business, averaging about 10 per cent thereof; and its general expenses were incurred for this department and its increase and extension just as for any part of its business. The defendant has used considerable and cumulative effort to push and increase these sales, very probably more than it has applied to other parts of its business. While there is no direct evidence on the subject, it seems to manifest to us, looking at the master's report, that the defendant's general expenses have been at least proportionately increased by this department. The rule adopted in the Tremolo Patent is the general rule, to be applied where special circumstances do not make its application unjust."

[180] The Providence Rubber Company v. Charles Goodyear, 9 Wall. 788, 19 L. ed. 566 (U. S. 1869) a patent infringement case, has been followed on this question. For a detailed discussion of the allocation of expenses and the amortization of institutional advertising and the allocation of contingent liabilities for unredeemed profit-sharing coupons, see L. P. Larson, Jr., Co. v. William Wrigley, Jr., Co., 20 F. (2d) 830 (C. C. A. 7th, 1927) and in the decision below, William Wrigley, Jr., Co. v. Larson, Jr., Co., 5 F. (2d) 731 (N. D. Ill. 1925) the Circuit Court of Appeals allowed a deduction of federal income and excess profits taxes, but as to this the Supreme Court reversed the decree. L. P. Larson, Jr., Co. v. William Wrigley, Jr., Co., 277 U. S. 97, 48 Sup. Ct. 449 (1928). See also Avery v. Meikle, 85 Ky. 435, 3 S. W. 609 (1889); Globe-Wernicke Co. v. Safe Cabinet Co., 110 Ohio St. 609, 144 N. E. 711, 15 T. M. Rep. 14 (1924); Lever Brothers v. J. Eavenson & Sons, Inc., 261 App. Div. 583, 585, 26 N. Y. S. (2d) 649, 650, 49 U. S. Pat. Q. 570 (1st Dep't 1941). Saxlehner v.
other than those complained of should not be charged exclusively against the profits from the goods complained of, and where some individual in defendant's organization causes defendant to continue the use of an infringing symbol and to gamble on the outcome of the litigation, his salary is not deductible. 1

In 1941 in the Aladdin case, the Second Circuit Court of Appeals held that although an individual was the dominant force in the defendant corporation and responsible for its torts, the court was not dealing with punitive damages but with actual profits and the salary was deducted. This decision seems contrary to that of the Maine Court in 1907 in the Lynn Shoe case. There, "The defendant corporation claimed that in determining its profits made in unfair competition with the plaintiff, there should be included in the cost of manufacture and sale the sums paid as salaries for services to Mr. Lynn, its president and one of its three directors, and to Mr. Lunn, its treasurer and another of its three directors. . . ."

"If the bill and the claims made under the bill were against Lynn and Lunn as a form of partnership, it is clear that the value of their time, talent and services expended in wronging the plaintiff by unfair competition should not be deducted from the plaintiff's damages. To do so would com-

Eisner & Mendelson Co., 138 Fed. 22 (C. C. A. 2d, 1905); Dickinson v. O. & W. Thom Co., 8 F. (2d) 570, 573 (C. C. A. 6th, 1925); Duro Co. (of Ohio) v. Duro Co. (of New Jersey), 56 F. (2d) 313, 12 U. S. Pat. Q. 515 (C. C. A. 3d, 1932). In Coca Cola Co. v. Nashville Syrup Co., 215 Fed. 527 (C. C. A. 6th, 1914) the salary of the general manager and organizer of a corporation was allowed as a disbursement, the general manager being a minority stockholder, and no claim being made by the complainant that the corporation was a mere sham or subterfuge.

In Duro Co. (of Ohio) v. Duro Co. (of New Jersey), 56 F. (2d) 313, 315, 12 U. S. Pat. Q. 515 (C. C. A. 3d, 1932), it was found by the master that "after the suit was started, it was Mr. Robert M. Perkins [perhaps with the advice of Mr. M. G. Perkins] who decided to continue the use of the trade-mark 'Duro,' and to take the chances on the outcome of the suit. He had full knowledge that the plaintiff objected to that use. His action was intentional. He was responsible for the infringement of the plaintiff's trade-mark by the defendant company. While it does not appear that he acted in bad faith, his use of the plaintiff's trade-mark was found by this Court to be wrongful. . . . To permit the defendant to deduct his salary or part of its costs, would be to require the plaintiff to pay him a salary for doing intentional wrongful acts in violation of the plaintiff's rights." See also Aladdin Mfg. Co. v. Mantle Lamp Co. of America, 116 F. (2d) 708, 713, 48 U. S. Pat. Q. 268 (C. C. A. 7th, 1941), where it was contended that the salary paid to one of the officers should not have been allowed as a deduction because "he was the dominant force responsible for appellee's torts." The court said: "But we are not dealing now with punitive damages but rather with actual profits. The amount deducted as salary was actually paid Sachsteder for the management and conduct of the business and in determining the actual profits for which appellee should account, we must credit all costs. Salaries paid to officers are proper deductions." Likewise in Nashville Syrup Co. v. Coca Cola Co., 215 Fed. 527, 533 (C. C. A. 6th, 1914), the salary of the general manager and organizer of a corporation was allowed as a disbursement, the general manager being a minority stockholder, and no claim being made that the corporation was a sham or subterfuge.
pel the plaintiff to pay them for wronging it. . . . If Lynn and Lunn were nothing more than servants, or even managing officers, of the corpora-
tion acting under the directors and had no other connection with the
wrongs done the plaintiff, there might be some force in the argument. But
the record before us discloses that in fact the corporation was practically
the servant of Lynn and Lunn, not they its servants. They organized it,
directed it, set it and kept it in unfair competition with the plaintiff. The
wrong to the plaintiff was conceived, brought forth and nurtured by them.
Whether they wrought the wrong as individuals, or as a partnership, or as
a corporation, they were the real wrongdoers. The court should penetrate
through the form to the substance. The exception must be overruled."

Extraordinary salaries, which actually are profits under another name, may
not be deducted. The Supreme Court has refused to allow the deduction of federal income
and excess profits taxes, saying that no doubt there are cases in which such
a deduction would be proper, and that while it would be unjust to charge
an infringer with the gross amount of his sales without allowing him for
the materials and labor that were necessary to produce the things sold,
". . . it does not follow that he should be allowed what he paid for the chance
to do what he knew that he had no right to do." Hence where a defendant
has been guilty of conscious and deliberate wrongdoing, he should not be
allowed to deduct federal income and excess profits taxes, particularly where
plaintiff will have to pay a tax on the infringer's profits when he receives
them.

The Massachusetts Court treats sales which involve actual losses because
of bad debts as if they had not been made, neither increasing nor diminu-
ting the account on such losses.

\[182\] W. R. Lynn Shoe Co. v. Auburn-Lynn Shoe Co., 103 Me. 334, 69 Atl. 569 (1907),
citing Callaghan v. Myers, 128 U. S. 617, 663-664, 9 Sup. Ct. 177, 190-191 (1888), a
copyright infringement case. See also Duro Co. (of Ohio) v. Duro Co. (of New Jersey),

\[183\] The Providence Rubber Co. v. Charles Goodyear, 9 Wall. 788, 19 L. ed. 566 (U. S.
1869), a patent infringement case; Aladdin Mfg. Co. v. Mantle Lamp Co. of America,

\[184\] The Providence Rubber Co. v. Charles Goodyear, 9 Wall. 788, 19 L. ed. 566 (U. S.
1869), a patent infringement case; Aladdin Mfg. Co. v. Mantle Lamp Co. of America,

\[185\] Nelson v. Winstead & Co., 203 Mass. 75, 89 N. E. 180 (1909), following Edel-
stein v. Edelstein, 10 L. T. (n. s.) 780, 1 De G. & S. (Ch.) 185 (1863). In Duro Co.
The burden of proving expenses to be deducted rests on the infringer.\textsuperscript{186} If they were incurred in good faith, they may be allowed even though they may have been unwise and improvident and may have resulted in a considerable reduction, perhaps in the extinguishment of recoverable net profits. They must, however, be adequately proved. Where a statement of manufacturing costs is "so indefinite and uncertain . . . as to render it utterly impossible to determine with any approach to accuracy any approximation of the profits," none of the items of cost could be allowed.\textsuperscript{187}

Sometimes the Court will permit finished goods labeled with the infringing marks, which were on hand at the date of the filing of the opinion, to be sold. "The permission to sell was in order to save the defendant from the destruction of this investment. In availing himself of that privilege he was charged with the duty of keeping that stock and the cost and expense of marketing it, separate from his other operations. He should and must have known that he was entitled to no deductions from the sale price except such as were incident to the making of such sales and as pertained strictly to these goods. . . . In lieu of any definite record, defendant's expert undertook to apportion the disputed items, using as a basis average inventory or number of cases sold. All agree that separation could be made in no other way. In our opinion, the master was right in refusing to accept this substituted method and in applying the rules of law applicable to a wrongdoer who knowingly confuses and commingles trust property with his own so that no separation can be later made."\textsuperscript{188}

Where, due to the infringer's fault, no direct evidence of his expenses can be procured, and there is evidence that his costs were similar to plaintiff's


\textsuperscript{187} Howard Dustless Duster Co. v. Carleton, 244 Fed. 881, 884 (D. Conn. 1916); L. P. Larson, Jr., Co. v. William Wrigley, Jr., Co., 20 F. (2d) 830, 832 (C. C. A. 7th, 1927).

\textsuperscript{188}Dickenson v. O. & W. Thum Co., 8 F. (2d) 570 (C. C. A. 6th, 1925).
it may be inferred that the infringer’s expenses were substantially the same as plaintiff’s during the period of the accounting.\textsuperscript{189}

In New York, in \textit{Conviser v. Brownstone & Co.},\textsuperscript{190} the trial justice took the amount of sales which plaintiff was able to prove had been made by defendant to plaintiff’s customers and allowed the profit which plaintiff would have made from the sales. “It is not what profit, if any, the wrongdoer made, it is the profit the lawful owner would have made if his property had not been stolen. The rights of the owner are not limited by the rogue’s manipulation of the stolen property.” This statement should be considered in connection with the rule that when the facts cannot be shown, all of defendant’s profits go to plaintiff.

When the entire business of the defendant consists of the manufacture and sale of the article involved, he may deduct from his gross profits his legitimate expenses,\textsuperscript{191} and losses actually sustained because of bad debts, or otherwise.\textsuperscript{192} Interest on capital used in the production of the infringing article may be deducted as an operating expense.\textsuperscript{193} The expense of notices


\textsuperscript{190}209 App. Div. 584, 205 N. Y. Supp. 82 (2d Dep’t 1924), aff’d, 120 Misc. 92, 197 N. Y. Supp. 682 (Sup. Ct. 1922). In Walter Baker & Co. v. Slack, 130 Fed. 514, 520 (C. C. A. 7th, 1904), “It does not seem quite just that the wrongdoer should be permitted to escape without pecuniary loss to himself, and yet we must remember that here the appellant has chosen to prove, as the basis of recovery, merely the profits which the wrongdoer has made, and in estimating those profits we feel concluded by the ruling of the ultimate tribunal, The Tremolo Patent, 23 Wall. 518, 23 L. ed. 97 (U. S. 1875) that, to ascertain the net profits accruing to the wrongdoer, as in ascertaining profits in any other case, the expense of making the sale should be deducted from the gross proceeds of the sale, upon the same principle that the cost of the spurious article is deducted from the gross receipts of its sale.” See supra note 176.

\textsuperscript{191}Walter Baker & Co. v. Slack, 130 Fed. 514 (C. C. A. 7th, 1904); Nelson v. J. M. Winchell & Co., 203 Mass. 75, 89 N. E. 180 (1909) (Holding that a cost sheet of defendants may be used by a master, as evidence of the cost of shoes manufactured by them, in absence of explicit evidence to the contrary). Regis v. Jaynes, 191 Mass. 245, 77 N. E. 774 (1906); W. R. Lynn Shoe Co. v. Auburn-Lynn Shoe Co., 103 Me. 334, 69 Atl. 569 (1907). In Avery v. Meikle, 85 Ky. 435, 3 S. W. 609 (1887), the cost of material, hire of employees, expenses of selling and advertising and the value of the labor and superintendence of the work by defendants were all held to be deductible as expenses. See also J. W. Jenkins’ Sons’ Music Co. v. Armstrong-Byrd Music Co., 4 T. M. Rep. 530 (W. D. Okla. 1913).


sent by plaintiff to its customers to correct misapprehensions caused by defendant's acts are proper damages, as is the cost of defending vexatious suits brought against plaintiff as a part of a conspiracy to injure plaintiff by unfair competition.\footnote{194}

In \textit{Larson v. Wrigley}, the infringer spent large sums advertising several brands including the infringing one. The master charged off one-fourth of a large part of this advertising cost each year as the advertising cost for that year on the theory that although the advertisement was contracted and paid for the first year, it was effective as an advertisement for four years. The Circuit Court of Appeals disagreed and said that "the expense for this advertising had been contracted and paid for in good faith and however it may have been wholly or partly unearned at the close of the accounting period, it was none the less an expense which should be deducted in fixing the net profits" on the infringing product. "Where the injured party seeks the profits of an infringer, he takes the chance of their reduction, or even extinguishment, through expenses and losses actually incurred, however unwisely or even improvidently, so long only as they were incurred in good faith."\footnote{185}

The rules to be applied where defendant is guilty of contempt are discussed by Judge Bright in \textit{John B. Stetson v. Stephen L. Stetson Co., Ltd.}\footnote{198}

\textbf{Period of Time During Which Profits May Be Recovered}

No account will be ordered of sales innocently made prior to notice; sales made after notice must be accounted for.\footnote{197} One who believes his rights are invaded is entitled to a reasonable time after first learning of the infringement to investigate the facts and be sure that his information is correct before his failure to give notice has any bearing on his rights, but within a reasonable time after he has such information he will do well to warn the invader. Failure to do so, however, has no bearing on his right to an injunction.\footnote{198}

\footnote{195}20 F. (2d) 830, 832 (C. C. A. 7th, 1927). In Aladdin Mfg. Co. \textit{v. Mantle Lamp Co. of America}, 116 F. (2d) 708, 714, 48 U. S. Pat. Q. 268 (C. C. A. 7th, 1941), the court allowed the costs of advertising and of an advertising campaign to be deducted as a business expense in determining profits. "Even though the methods employed in realizing gains were not proper, yet they were a part of the costs of realization from sales from which the profits resulted."
\footnote{196}Supp. 586, 64 U. S. Pat. Q. 153 (1944).
\footnote{188}Worcester Brewing Corp. \textit{v. Rueter}, 157 Fed. 217 (C. C. A. 1st, 1907); The International Sliver Co. \textit{v. Wm. H. Rogers Corp.}, 66 N. J. Eq. 140, 57 Atl. 725 (Ch. 1904).
UNFAIR COMPETITION

One who continues use of a mark after notice of infringement subjects himself to the risk that the claim of infringement is well founded and he may become liable for profits and damages accruing or sustained thereafter.199 If a trade-mark is knowingly infringed, an accounting will run from the beginning of its use by defendant.200 Interest on profits runs from the date of notice.201 Where a complainant did not begin suit until more than a year after defendant was organized and went into business, did not notify defendant of its intention to proceed against it, and during this interval defendant expended large sums in developing its business, no accounting for profits was ordered. The complainant “should not be permitted to stand by, knowing that defendant is devoting its money and efforts to building up a business, wait until after he has made profits, and then come in and demand them as its own.”202 But where such a notice is given promptly, a considerable delay in bringing suit, especially if negotiations for settlement are going on, is not laches.203

If the plaintiff fails to attach the required statutory notice of registration to his goods or packages, and an action is brought in a federal court between citizens of the same state and jurisdiction is based solely on federal registration, no profits or damages may be recovered for the period prior to the giving of notice of infringement.204 But if a suit is brought both for trade-mark infringement and unfair competition and comes within the rule of Hurn v. Oursler,205 damages for unfair competition based on profits made prior to notice of infringement may be awarded. However, in a suit brought for trade-mark infringement and unfair competition where there was no diversity of citizenship, and hence jurisdiction rested on the statute, profits made prior to the registration of plaintiff’s trade-mark and prior to notice of infringement were not awarded because there was no jurisdiction

202The International Silver Co. v. Wm. H. Rogers Corp., 66 N. J. Eq. 140, 57 Atl. 725 (Ch. 1904).
over the unfair competition claim even under the doctrine of *Hurn v. Oursler*.

The Second Circuit Court of Appeals affirmed a decree denying plaintiff's recovery for unfair competition for failure of proof. One circuit judge, however, disagreed with the lower court's finding that it was without jurisdiction, while the other two judges, in a separate opinion, considered that the District Court did not have jurisdiction of the claim of unfair competition by reason of acts committed prior to the date of registration of plaintiff's trade-mark. There may be doubt whether the rule of the *Stark* case, that no damages will be awarded resulting from unfair competition prior to registration of the plaintiff's trade-mark, remains in force today.

"The facts are that the term 'certified' as applied to bread was first employed by plaintiff's intestate; that defendant was notified of his claim to the exclusive use of the term in 1923, and knew of its use before that time, and that, in disregard of the claim of the plaintiff and her intestate, it has continued to use the term. It took the chance of its continued use, and, under these circumstances, the legal rights of the parties should be determined without regard to what the defendant did in the way of expenditures after it knew of the claim of the plaintiff's intestate."

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**Where No Accounting Will Be Ordered**

The question as to whether or not the court should order either an accounting for profits or a proceeding to determine the amount of an award of damages seems to be based on so many considerations as to make it largely a matter of discretion. The decision may rest on whether such proceedings are "appropriate and necessary"; or whether a substantial recovery is likely; or whether a sufficient number of instances of deception are

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likely to be shown,\textsuperscript{212} or whether the wrongful use was accidental,\textsuperscript{213} or whether it continued for a sufficiently long time without protest;\textsuperscript{214} or whether the wrongful act was innocent or accidental;\textsuperscript{215} and many others.

The following are some of the reasons for refusal of an accounting:

I. \textit{Where Others Than the Plaintiff Have a Right to Receive the Profits}

Defendant’s profits will not be awarded to the plaintiff after the latter, by contract, gave to a third party the right to distribute plaintiff’s trademark product exclusively. Since the contract carried with it the right to recover profits arising after its date thereof, it was the third party who would have realized the profits if it had not been for the infringement.\textsuperscript{216}

Where the owner of a trademark was a jobber and never expected to get a manufacturer’s profits, the defendant was not liable for the manufacturing profits.\textsuperscript{217}

II. \textit{Where There Is Difficulty of Computation}

The Pennsylvania Court states the general principle thus: “... defendant’s wrongful conduct has occasioned the trouble and it must bear all the burdens growing out of that fact. It would be intolerable if one could wrong another and escape all liability, because it was difficult to prove the amount of the loss.”\textsuperscript{218} But various cases hold that an accounting may be denied where there is no theory on which a substantial recovery may be based nor a rational rule of damages applied, or where an attempt to separate defendant’s legitimate profits from his illegitimate profits would be futile and based on speculation and conjecture.\textsuperscript{219} Under such a rule any compensation to plaintiff may depend upon the degree of stealth with which defendant manipulates his imitation of plaintiff’s symbols or makes use of plaintiff’s

\textsuperscript{212} J. C. Penney \textit{v.} H. D. Lee Mercantile Co., 120 F. (2d) 949, 50 U. S. Pat. Q. 165 (C. C. A. 8th, 1941).
\textsuperscript{216} Giragosian \textit{v.} Chutjian, 194 Mass. 504, 80 N. E. 647 (1907); Barnett \textit{v.} Leuchars, 13 L. T. R. (n. s.) 495 (1865).
reputation and good-will and is able to conceal his profits. Where such conditions are found, it should not be difficult for equity to find a basis for an award of damages that will repair the wrong that has been committed.

In Oregon, where defendant took the name of plaintiff and used it in the same business, the Court decided that "there is no satisfactory basis in the evidence for an accounting and that relief, therefore, will be denied." The result was that defendant's experiment in piracy of good-will cost him nothing.\(^{220}\)

In the State of Washington, where plaintiffs used the word "Orpheum" on signs to designate their theater, and the defendants' signs led people to believe that theirs was a theater of the plaintiffs rather than one in which the Orpheum Circuit vaudeville was being given, defendant was held for unfair competition and the signs removed, but no damages were allowed because "so many uncertain elements are involved in determining the extent of plaintiffs' damage, occasioned by the acts of defendant that it is impossible to fix any definite award."\(^{221}\)

In a New Jersey case, the defendant cut timber on the plaintiff's land, some before the suit was brought and some after. Plaintiff was nonsuited because the jury on the evidence could not measure accurately the damage recoverable. On appeal, the Court said that "where actionable misconduct is shown on the part of the defendant on the breach of a covenant, the law implies nominal damages at the least."\(^{222}\)

### III. Where the Profits Are Likely to Be Insignificant

Where the sales of a defendant are small, he should not be required to account for gains and profits,\(^{223}\) and where "there is no evidence of lost sales . . . plaintiff is not entitled even to an accounting of damages."\(^{224}\)

Where there is little probability that evidence of any substantial number of sales due to defendant's conduct can be shown, before subjecting defendant to the burden of a reference, plaintiff may be required to satisfy the court of its ability to establish some actual material customer deception. The


\(^{221}\)New York Life Ins. Co. et al. v. Orpheum Theatre & Realty Co. et al., 100 Wash. 573, 171 Pac. 534 (1918).

\(^{222}\)Peter Lance et al. v. Nathan L. Apgar, 60 N. J. L. 447, 448, 38 Atl. 695 (1897).

\(^{223}\)Saxlehner v. Siegel-Cooper Co., 179 U. S. 42, 21 Sup. Ct. 16 (1900).

certainty of some damage must, as in any other case, be established, for "equity will not delve into the realm of purely nominal damages."228

In an old case where it appeared that the amount of damages or profits was likely to prove insignificant,226 the Second Circuit Court of Appeals said: "We see no reason to differ with the Circuit Court in its refusal to order an accounting. If we could discover any theory upon which a substantial recovery might be had, we would not hesitate to direct a reference, but it is plain that such a proceeding will prove abortive after subjecting both parties to large additional expense and the defendants to unnecessary annoyance. The master would be involved in an inextricable tangle from which it will be impossible to emerge with a substantial recovery based upon a rational rule of damages. . . . An attempt to segregate the profits, if any, resulting from the illegitimate use of the word would require an excursion into the realms of conjecture and speculation without hope of any tangible result."227 This case has created discussion and is still cited in support of the view that if difficulty is likely to exist in ascertaining the infringer's profits, no accounting will be ordered.228

In 1918, the same court again ruled to the same effect. "An accounting will not be ordered, unless it is clear that either upon the record, or upon
a record which the appellants might present to the master, there could be a substantial recovery." In *Vogue Co. v. Thompson-Hudson Co.*, the Sixth Circuit Court said: "However, we find no satisfactory basis for an accounting against either the manufacturer or retailer for profits or damages. The case is peculiarly one where such damage as has occurred, like that which is still in prospect, is incapable of computation. We see no reasonable probability that any substantial damages could be proved and reduced to dollars and cents with that degree of accuracy that is essential in such a case." Here plaintiff sold a magazine and defendant sold millinery and hence there could hardly be any lost sales.

Where there is damage but it is impossible to trace it to the defendant, an accounting and damages will not be awarded, but if the infringer purposely so keeps his books as to conceal his profits, the strictness of the rules of evidence to be applied to proof of profits will be substantially diminished.

Other cases hold, however, that a plaintiff is entitled to his day in court and a chance to prove his damages and show defendant's profits if he can. In 1911 the Second Circuit Court of Appeals took this position, saying: "This is not a case where this court or the Circuit Court can say in advance that the complainant will be unable to establish the amount of the gains and profits which the defendants have made by reason of the unfair methods employed by them in dressing up their brushes to resemble the complainant's brushes. Except in those cases where the court is convinced that such proof is impossible, an accounting should be ordered. . . . That the complainant's task seems difficult and the result an inadequate return for time and labor expended is not now important. The complainant is entitled to its hearing before the master; if it fails in its proof the Circuit Court will deal with the situation as to costs and expenses when it enters the final decree."
UNFAIR COMPETITION

The Sixth Circuit took the same position in 1912: "The usual practice contemplates an accounting, and... such practice should be followed, and an accounting ordered, unless it is made clearly and certainly to appear that neither upon the existing record, nor upon any record which complainant can make before the master, could there be any substantial recovery." They dismissed *Ludington Novelty Co. v. Leonard* with the remark, "We are satisfied that such case presented a very different problem of accounting from that now involved." If no actual damage has been sustained, the court will confine its relief to an injunction against any further infringement.

The Pennsylvania Court, in 1924, said that difficulties involved present no excuse. "A different question would arise if its imitation had been an innocent one; being intentional the duty to account is ordinarily a matter of right and of course. The difficulty of stating the account is no excuse; defendants' wrongful conduct has occasioned the trouble, and it must bear all the burdens growing out of that fact. It would be intolerable if one could wrong another and escape all liability, because it was difficult to prove the amount of the loss."

To order an accounting when there is no likelihood of recovery puts the defendant to the expense of it, but if he has committed a fraud he is not entitled to much sympathy; and if he is forced to defend himself he has only himself to blame. There seems little reason for the court to protect him from expense and effort although it should not authorize an accounting where it is certain to produce no results whatever. But if plaintiff can show no profits of defendant but can show nominal damages, the Court may well impose compensatory damages which will adequately indemnify the plaintiff for the injury which he has suffered.

IV. WHERE THERE HAS BEEN LACHES OR ACQUIESCENCE

Where there is laches or acquiescence on plaintiff's part, coupled with absence of fraudulent intent on defendant's part, an accounting and damages are usually refused. Holding that a delay of four years barred an account-

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233127 Fed. 155 (C. C. A. 2d, 1903).
ing, the New Jersey Chancery Court quoted Vice-Chancellor Wood in Beard v. Turner: "... if you induce another to lay out money by keeping back a right, which you intend at some future time to assert, you may induce him to incur serious expenditure. ... But suppose you wish to profit by that act of which you say you have a right to complain, and shall at some future period complain of, then I apprehend this Court will say, you must come here at once: for this reason, that you ask in the bill for an account of the profits made by this gentleman upon the sale of the goods." Where a controversy involves difficulty and doubt, it should be taken to court promptly, and if this it not done the delay may bar an accounting. This was the position of the Second Circuit in 1926.

No rule exists as to the length of time which will constitute a bar. This must depend on the circumstances of each case.

V. Where Both Parties Are at Fault

Where both parties are at fault, usually no accounting is ordered. Thus in G. & C. Merriam Co. v. Ogilvie, the First Circuit Court of Appeals, in 1909, denied an accounting to a plaintiff, who had claimed exclusive rights in the name "Webster" on a dictionary, because this claim was false; it interfered with defendant's lawful competition and served as one of the causes of the litigation. But defendant, who had also filed a bill for relief, was denied an accounting because he "had used artifice with the view of inducing the public to purchase his dictionaries in lieu of those of the Merriam to indicate acquiescence by the plaintiff, nothing to show that the defendant's use of the label was with the belief that its conduct was not objectionable. The International Silver Co. v. Win. H. Rogers Corp., 66 N. J. Eq. 140, 142, 57 Atl. 725 (1904).

The Merriam Company commenced with, and insisted on, the proposition that it was entitled to the exclusive use of the word 'Webster'; and it was out of this that the litigation arose. Under the circumstances which we have explained, equity would not be able to do clear justice if it now permitted that corporation to demand an accounting of profits and damages incident to the changed position which the case has taken on."
UNFAIR COMPETITION

Company." An accounting was denied under somewhat similar circumstances by the same court in 1922, in O'Sullivan Rubber Co. v. Genuine Rubber Co.\textsuperscript{241}

VI. Where the Defendant Has Abandoned His Acts

Where a defendant abandons his acts and was not using the infringing trade-mark when the decree was entered, and the circumstances were such that all that is necessary to protect the plaintiff is to enjoin future use of the mark, an accounting is not usually ordered, for plaintiff's remedy is at law.\textsuperscript{242}

VII. Where the Article Involved Is of Such a Character That the Ultimate Purchaser Cares Nothing About Who Makes or Sells It

This ground for refusing an accounting was applied in 1943 by the Second Circuit, where the article involved was a toy bank.\textsuperscript{243}

VIII. Where There Is No Evidence of Lost Sales Due to Defendant's Acts

This seems to be true in both trade-mark infringement and unfair competition cases.\textsuperscript{244}

IX. Where the Defendant Has Acted in Good Faith

(See the heading below entitled Good Faith as an Excuse for Relieving Defendant from Accounting.)

X. Where There Is No Fraudulent Intent and an Injunction Will Provide All Necessary Relief

There are also cases in which the competitive rivalry between the parties is so remote and indirect that, where there is no fraudulent intent, an injunction alone will provide all relief to which the plaintiff is entitled, and for this reason an accounting may be denied. This was the opinion of three dissenting justices of the Supreme Court in the Mishawaka case.\textsuperscript{245}


Burden of Proof

Where a defendant has infringed a trade-mark of plaintiff, the plaintiff's burden is to prove his ownership of the trade-mark and its infringement. That he is injured will be presumed. In cases of unfair competition, however, plaintiff must show that he is injured unless defendant's goods are so similar to plaintiff's goods that they are easily confused—in which case there may be a similar presumption of injury. Proof of the extent of his injury in such cases, the measure of his damage, is another matter. It is very seldom possible for a plaintiff to present to a court an accurate picture of his position before defendant's acts and another of his position at the time of trial. That would involve the extent of the public's knowledge of his goods and his business, the extent to which his goods have been displaced by defendant's infringing goods, etc. Rarely can his injury be accurately portrayed in court or expressed accurately in dollars. It must be an approximation.

But he can try. He can attempt to show his loss of sales and other injuries that he has suffered. These, together, must be the measure of his damages. Defendant's profits are not a measure of plaintiff's injury or his damages, but they may be considered in fixing the award. Presumably, at least, he lost the sales that defendant made due to his infringing acts and was damaged to the extent of the profits he would have made on them. But where the goods are different, as in the Vogue case, there is no presumption that he lost sales and plaintiff carries the burden of proving that he was injured and the extent of that injury. He must prove that he is injured to some extent before exemplary damages are awarded, and also he must show that defendant acted with malice or spite or with definite purpose to defraud.

Where the plaintiff's trade-mark is registered "the burden is the infringer's to prove that his infringement had no cash value in sales made by him. If he does not do so, the profits made on sales of goods bearing the infringing mark properly belong to the owner of the mark." This is the position of the Supreme Court in the Mishawaka case, citing the Hamilton-Brown Shoe case.

In proving damages, a plaintiff has the burden of establishing both that he lost sales and that the defendant's conduct caused the loss and the Sixth

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Circuit stated in a trade-mark infringement case that in proving damages, "there is no presumption of law or fact that a plaintiff would have made the sales that the defendant made." But even in proving damages, this burden should not include a showing that each sale for which the defendant must account was due to deceit of consumers caused by the infringement. To limit plaintiff's recovery to the profits on such sales is impracticable. Such a rule is impossible of application in most cases involving low priced articles, particularly if the sales cover a wide area.

Where the infringer obtained some advantage from his tort, particularly where he asserts that his books are lost, or he has concealed his profits, or is unable to show them with reasonable definiteness, any burden that rested on plaintiff to prove his loss is shifted to defendant, and the Court may then base the award on the general situation involved. The opinion by Judge Biggs in *Gotham Hosiery Co. v. Artcraft Hosiery Mills*, a patent case, is an exhaustive summary of this rule.

The Restatement asserts that "if the defendant made some sales infringing the plaintiff's trade-mark or trade name and others not infringing it, he is liable to account for his profits on the former but not on the latter. The burden of making the segregation is on the plaintiff..." This rule must be taken with definite qualifications, for, as stated above, to make such a "segregation," in many instances, is quite impossible as a practical matter. This is a reason for the further principle that damages in unfair competition cases need not be proved "with mathematical certainty or anything like it." This principle as noted elsewhere was laid down by the Maine court many years ago in the *Lynn* case and should be applied today wherever possible.

**Good Faith as an Excuse for Relieving Defendant from Accounting**

An accounting may be denied where the defendant has acted in good faith, or acted innocently or in ignorance of the plaintiff's rights, pro-

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250ReSTATEMENT, TORTS (1938) § 747 (c).
vided he stops his illegal practices after he discovers the truth. The Pennsylvania Court refused to order an accounting where substitution was due to innocent mistakes of defendant's sales people, and the amount involved was small. The Michigan rule is that "an account of profits will not be taken where the wrongful use of a trade-mark or trade name has been merely accidental or without any actual or wrongful intent to defraud the original owner or to deceive the public."

Where a previous decision between the parties justifies defendant in believing that, with some changes in its mark, it would not be chargeable with unfair competition, an accounting will not be ordered. Where the acts complained of had been done in reliance on a decision that was reversed and had ceased as soon as this reversal occurred, Judge Lacombe said: "It would be straining the doctrine of implied intent beyond all reasonable

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1928), aff'd, 27 F. (2d) 538 (C. C. A. 2d, 1928) (Accounting denied where defendant was not using infringing mark at the time of suit and had voluntarily abandoned its use). See also Dorothy Gray Salons v. Lander Co., 22 N. Y. S. (2d) 704, 46 U. S. Pat. O. 571 (Sup. Ct. 1940); Straus v. Notaseme Hosiery Co., 240 U. S. 179, 36 Sup. Ct. 288 (1916). In Rubber & C.H.T. Co. v. F. W. Devoe & C. T. Reynolds Co., 233 Fed. 159 (D. N. J. 1916), the unfair competition was not "wilful and fraudulent" so as to justify an accounting of profits, though damages were allowed.

256Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co., 119 F. (2d) 316, 323, 49 U. S. Pat. O. 419 (C. C. A. 6th, 1941), citing Liberty Oil Corp. v. Crowley, Milner & Co., 270 Mich. 187, 258 N. W. 241, 25 T. M. Rep. 124 (1935); Hemmeter Cigar Co. v. Congress Cigar Co., 118 F. (2d) 64, 49 U. S. Pat. O. 122 (C. C. A. 6th, 1941). See also Straus v. Notaseme Hosiery Co., 240 U. S. 179, 36 Sup. Ct. 288 (1916). In Champion Spark Plug Co. v. Emener, 16 F. Supp. 816, 826, 32 U. S. Pat. O. 152 (E. D. Mich. 1935), it was said: "In view of the defendant's apparent good faith and not unreasonable belief that he was doing all that could be expected of him in the way of avoiding deception of the public, and it appearing uncertain as to whether the plaintiff could establish sufficiently definite and substantial injury from the past acts of the defendant to justify the expense of an accounting, I am not satisfied that plaintiff has sustained the burden of showing that it is entitled to such an accounting." But see Pease v. Scott County Milling Co., 5 F. (2d) 524, 527 (E. D. Mo. 1925), where the court limited the accounting to a time subsequent to the filing of the bill of complaint on the grounds that no "actionable recalcitrancy or any malicious or intentional infringement" was shown. "... the parties honestly believed that they had the right to use the trade-mark in question." On this point see also Holley Milling Co. v. Salt Lake City & Jordan M. & E Co., 58 Utah 149, 197 Pac. 731, 11 T. M. Rep. 222 (1921) and cases cited therein. Gehl v. Hebe Co., 276 Fed. 271 (C. C. A. 7th, 1921) (While defendant's good faith might have a bearing on the question of punitive damages, it did not affect the award of actual damages, if any).

257B.V.D. Co. v. Kaufmann & Baer Co., 279 Pa. 152, 156, 123 Atl. 656, 657, 14 T. M. Rep 203 (1924). "We are convinced that each of these sales was innocently made, partly because defendant's salespeople erroneously believed the initials B.V.D. designated a particular character of underwear, rather than a specific make, and partly because of the facts hereinafter set forth. Any other conclusion than that of innocence, would convict them of conduct which would subject them to the risk of discharge [since they were directed never to make substitutions, but always to give to customers the exact goods asked for], without there being any possibility of individual gain to them."
bounds to hold that one who bought, made and sold while that decision... remained in force, intended to enter into an 'unlawful competition.'

New York courts follow the *Fairbank* case and hold that a defendant must account if he knows, or must be presumed to know, the probable effect of his act on the rights of others. There is a similar rule in Massachusetts: "The account is ordered to be taken only since the filing of the original bill, upon the charge made in the supplemental bill... It cannot be said that this conduct on their part was in ignorance of the plaintiff's rights; they were at least put upon inquiry, and must be charged with knowledge of what they would have learned upon reasonable inquiry." This decision was in 1906.

"In view of the defendant's apparent good faith and not unreasonable belief that he was doing all that could be expected of him in the way of avoiding deception of the public, and it appearing uncertain as to whether the plaintiff could establish sufficiently definite and substantial injury from the past acts of the defendant to justify the expense of an accounting, I am not satisfied that plaintiff has sustained the burden of showing that it is entitled to such an accounting."

In 1937, the Illinois court held that even where the defendant had acted in good faith and tried to settle with plaintiff, since it was shown that defendant made profits through the means he used, plaintiff is entitled to an accounting. The Missouri court in 1911, citing an earlier California case, said that whether the defendant acted in good faith or not, the plaintiff was entitled to compensation for injury, and if defendant acted with malice, "the idea of compensation is abandoned and that of punishment introduced."

Where defendant is guilty of bad faith, an account is justified and plaintiff should have opportunity to show any profits or damages or both which he

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261 Jacob Lampert v. Judge & Dolph Drug Co., 238 Mo. 409, 419, 141 S. W. 1095, 1098 (1911).
can, even though only nominal damages of one cent were awarded. Such a decree may carry all costs since plaintiff will be presumed to have suffered some injury and that injury will be increased by the expense of the account proceedings. 263 But where a defendant furnishes plaintiff with accounts before a reference for profits and offers settlement, the master’s fee may be assessed against the plaintiff. 263

Reference will be found in the cases to the motive or intent of defendants and to the necessity of a showing by plaintiff of willful misrepresentation or fraudulent intent and the like. But plaintiff’s loss is loss regardless of the defendant’s motive and in most cases of unfair competition the defendant’s acts were planned with a sinister motive and with definite purpose of misrepresenting his goods to a rival’s injury, or of injuring him in some other manner. The California courts hold that where no actual fraud or intent to injure is shown and defendant acted in good faith, no accounting will be ordered. 264

On April 1, 1946 the President approved a bill revising Section 70 of the Patent Law.

Prior to this amendment, this statute provided that in the event of infringement of a patent “the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby, and the court shall assess the same or cause the same to be assessed under its direction.” 265

The amendment provides that “the complainant shall be entitled to recover general damages which shall be due compensation for making, using, or selling the invention, not less than a reasonable royalty therefor, together with his costs and reasonable attorney’s fees to be fixed by the court and interest from the time the infringement occurred.”

No one knows to what extent this statute will cure the conditions, of which Mr. Frederick P. Fish in 1929 said: “The result is that there is a complete failure of justice in almost every case in which supposed profits are recovered or recoverable.” 266 This amendment does eliminate profits except as a possible element in damages and it is hoped that it may do away with most references before Masters to establish profits.

265 Letter to Howson, January 4, 1929.
266 Letter to Howson, January 4, 1929.
In any event, this legislation is an indication that Congress, the legal profession, and business men, at last, recognize some of the evils of the present system which Mr. Fish so vigorously characterized in another place in his letter as "a complete and absolute failure."

Perhaps our equity courts in deciding trade-mark and unfair competition cases will adopt the suggestion of Congress in this amendment with respect to patent cases, and will refuse to order accounting of profits in such cases. Unfortunately, the Federal Trade-Mark Act of July 5, 1946 (Section 35) provides that the owner of a trade-mark registered under that Act may recover the defendant's profits as well as damages and costs. This provision, however, need not affect unfair competition cases and cases not involving marks registered under this Act.

Conclusion

A reading of the foregoing pages of this article will, perhaps, give one a reasonably realistic idea of the many, many rules and principles, technicalities and time-consuming processes involved in determining an award to a plaintiff, and the possibilities which the present procedure affords for delaying, prolonging and adding to the expense and irritation of the one who is seeking to obtain his rights through the courts. This procedure is unnecessarily complicated and technical; it requires far too great an expenditure of time and money; it lends itself far too readily to abuse in that it can be used to wear down a plaintiff and force settlements; it fails to afford an effective deterrent against unfair practices; in some instances, it brings discredit on courts and the law; it plays into the hands of litigants with great resources and is correspondingly unfair to litigants of small means; and hence often constitutes a denial of justice to the latter.

Where a defendant is found to have infringed a trade-mark or committed unfair acts, it is usually impossible, in the very nature of things, to translate into dollars the exact injury he has inflicted. Almost never can the exact amount of his profits be computed. Too many considerations, too many uncertain elements, are involved to permit of exactness. These rules were formulated when they were fewer articles of merchandise sold and fewer sales by each merchant, and sales were made under far different conditions, all of which made the ascertainment of profits and damages a simple matter compared with conditions today.

The courts might well hold that accountings of profits will not be ordered except where justice can be had in no other way, that awards to plaintiffs in equity causes will be ascertained by the court, not by masters, and
that the evidence on which they are based will be limited to enough facts about plaintiff's business and the extent and effect of defendant's wrongful acts to enable the court or jury to make a fair approximation of the injury which plaintiff has suffered. This is all that is permitted in various kinds of other tort actions, and is all that should be permitted here. The principles which underlie exemplary damages, which have been recognized for generations, afford ample basis for such modification of the rules discussed above, applied as they are in cases where fraud is almost always present. Profits and damages in unfair competition cases are controlled by the common law of the states. So also in trade-mark cases, except where action is based on a federal registration. These common law rules can be changed by the courts of the states, and where legislation is necessary, by state legislatures. It will be seen from the foregoing pages how great a part the state courts have had in formulating the present principles. It seems not too much to hope that the same courts will now modify these rules, without legislation, adapt them to modern requirements and do away with existing abuses—for abuses they certainly are—that cry out for improvement.