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Confusion Codified: Why Trademark Remedies Make No Sense

Mark A. Thurmon

Southern University Law Center

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CONFUSION CODIFIED: WHY TRADEMARK REMEDIES MAKE NO SENSE

Mark A. Thurmon*

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INTRODUCTION

There is a glaring inconsistency in the monetary remedies provided under the federal intellectual property laws. A prevailing patent owner is entitled to at least a reasonable royalty,¹ a measure of damages that often supports large money judgments.² Copyright owners also recover monetary relief in nearly all cases, given the Copyright Act's allowance of statutory damages.³ Trademark owners, on the other hand, seldom recover money when they win.⁴ This divergence of outcomes is particularly striking because the top trademarks are the most valuable intellectual property assets in the world, with several top brands valued at over \$50 billion.⁵ What is going on? Why are trademarks treated so differently?

¹ 35 U.S.C. § 284 (2009) ("Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.").

² Very large patent infringement judgments or settlements have become rather common in recent years. In a recent decision, a district court in Texas ordered Microsoft to pay a small company \$200,000,000 in damages, \$40,000,000 in enhanced damages, \$37,097,032 in pre-judgment interest, \$140,060 per day in post-verdict damages, and \$21,102 per day in post-judgment interest. *i4i Ltd. P'ship v. Microsoft Corp.*, No. 6:07CV113, 2009 U.S. Dist. LEXIS 70104 (E.D. Tex. Aug. 11, 2009). The year 2009 has not been good for Microsoft, as it was on the losing side of a patent infringement jury verdict of almost \$400,000,000 in early April, 2009. See Ina Fried, *Microsoft Slapped with \$388 Million Patent Verdict*, CNET NEWS, Apr. 8, 2009, http://news.cnet.com/8301-13860_3-10215680-56.html.

Other large patent judgments or settlements include the high-profile Blackberry litigation, which was settled in 2006 for over \$600,000,000. See Akweli Parker, *Inventor's Reality*, PHILA. INQUIRER, Mar. 23, 2006, at C1. Microsoft paid over \$500,000,000 to settle a patent infringement suit in 2007. See *Microsoft Settles a Dispute over a Feature in Its Browser*, N.Y. TIMES, Aug. 31, 2007, at C4.

³ 17 U.S.C. § 504(c) (2009). The Copyright Act requires a claimant to make an election between actual damages or statutory damages "at any time before final judgment is rendered." § 504(c)(1).

⁴ See, e.g., Michael J. Freno, *Trademark Valuation: Preserving Brand Equity*, 97 TRADEMARK REP. 1055, 1062–63 (2007) ("Since 1993, trademark damages were awarded in less than 20 cases for any given year.").

⁵ Two services issue annual rankings of the world's most valuable brands. Interbrand has been doing such studies for about ten years, while MillwardBrown Optimor has issued its own rankings for about five years. The 2009 MillwardBrown Optimor ranking, the BrandZ Top 100, ranked Google as the most valuable brand, with a value of about \$100 billion. Microsoft, Coca-Cola, IBM, and McDonald's rounded out the top five, all with values over \$65 billion. See Millward Brown Optimor BrandZ Ranking, <http://www.millwardbrown.com/Sites/Optimor/Content/KnowledgeCenter/BrandZRanking.aspx> (last visited Feb. 26, 2010).

Interbrand's 2008 ranking had many of the same brands in top spots, but its estimates for a few brands (particularly for internet and software brands like Google and Microsoft) were considerably lower than were BrandZ's rankings of the same brands. Coca-Cola topped the Interbrand list at almost \$67 billion. Three other brands—IBM, Microsoft, and GE—were valued

The remedial scheme established by the Federal Trademark Act of 1946 (Lanham Act) is seriously flawed. Trademark infringement causes real harm,⁶ yet most victims of infringement receive no monetary compensation.⁷ Those lucky few who do obtain money judgments often receive windfalls that far exceed their injury.⁸ Indeed, the magnitude of money judgments in trademark cases depends more on the efficiency of the infringing operation than the injury to the trademark owner or culpability of the infringer.⁹ Calculators have replaced common sense.

The story becomes even more confusing when one considers what role culpability plays in the Lanham Act's remedial scheme. Punitive damages are not allowed,¹⁰ but enhanced damages are, particularly when a defendant has acted in

at over \$50 billion. See Interbrand Best Global Brands, http://www.interbrand.com/best_global_brands.aspx.

⁶ Though it is difficult to accurately estimate the overall economic cost of trademark infringement and unfair competition, a number of studies have evaluated the harm caused by trademark counterfeiting. A 2004 report by the Commission on Intellectual Property of the International Chamber of Commerce estimated that the cost of global counterfeiting and piracy was over 500 billion Euros and rising rapidly. COMMISSION ON INTELLECTUAL PROPERTY, INTERNATIONAL CHAMBER OF COMMERCE, DOC. NO. 450/986, THE FIGHT AGAINST PIRACY AND COUNTERFEITING OF INTELLECTUAL PROPERTY (June 7, 2004). According to one estimate, the United States lost over 100,000 jobs between 1988 and 1998 due to trademark counterfeiting. INTERNATIONAL TRADEMARK ASSOCIATION, STATEMENT ON TRADEMARK COUNTERFEITING, Feb. 12, 2002, http://www.inta.org/index.php?option=com_content&task=view&id=629&Itemid=152&getcontent=3.

⁷ See *supra* note 4 and accompanying text.

⁸ Windfall awards in trademark cases tend to occur when the money judgment is based on some aspect of the defendant's business rather than the plaintiff's injury. See, e.g., *Burger King Corp. v. Pilgrim's Pride Corp.*, 934 F. Supp. 425, 427 (S.D. Fla. 1996) (awarding \$1,259,663.00 in defendant's profits despite plaintiff's stipulation that it sought no actual damages); *Sands, Taylor & Wood v. Quaker Oats Co.*, 44 F.3d 579 (7th Cir. 1995) (affirming award of over \$10,000,000 in damages, an award based on a percentage of defendant's sales); *Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.*, 561 F.2d 1365 (10th Cir. 1977) (affirming award of about \$4,000,000 in damages based on a percentage of defendant's advertising expenditures).

⁹ In one case, the trial court noted that defendant failed to present any evidence of costs or deductions, but the court still awarded only 60% of the gross revenues because there was trial testimony of a 40% profit margin. *Tamko Roofing Prods., Inc. v. Ideal Roofing Co.*, 282 F.3d 23, 39 (1st Cir. 2002). In another recent case, the court held that because the defendant failed to present adequate evidence of costs and deductions, defendant's gross revenues must be awarded as "profits." *Am. Rice, Inc. v. Producers Rice Mill, Inc.*, 518 F.3d 321 (5th Cir. 2008).

¹⁰ Courts have long agreed that the Lanham Act's primary monetary relief provision prohibits all punitive monetary awards. A comprehensive review of this issue is provided in *Getty Petroleum Corp. v. Bartco Petroleum Corp.*, 858 F.2d 103 (2d Cir. 1988). The Second Circuit in *Getty* reviewed the legislative record and relevant cases, and concluded that Lanham Act "monetary relief was meant to be remedial, not punitive, in nature." *Id.* at 112. See also *Zazu Designs v. L'Oreal S.A.*, 979 F.2d 499, 507 (7th Cir. 1992); *Wm. R. Hague, Inc. v. Sandburg*, 468 F. Supp. 2d 952, 962 (S.D. Ohio 2006); *Cosmos Jewelry Ltd. v. Po Sun Hon Co.*, 470 F. Supp. 2d 1072, 1087–88 (C.D. Cal. 2006).

bad faith.¹¹ Confused? There's more. A majority of courts require proof of willful infringement before a defendant's profits will be awarded,¹² and some courts have gone so far as to approve profits awards where there is no actual injury to the plaintiff and no unjust enrichment of the defendant.¹³ These awards are, courts admit, "not compensatory in nature,"¹⁴ and yet the same courts hold that punitive awards are not available under the Lanham Act.¹⁵

This confusing mess is not the fault of the federal courts. Congress is to blame, and what makes the situation particularly striking is that the same flawed remedial rules have remained essentially unchanged since the Lanham Act was enacted in 1946. Courts and commentators have argued over certain issues¹⁶ and have agreed on others.¹⁷ But few have challenged the Act's remedial scheme as

¹¹ See, e.g., *Sands, Taylor & Wood Co. v. Quaker Oats Co.*, No. 84C8075, 1995 U.S. Dist. LEXIS 4797, at *7–8 (N.D. Ill. Apr. 11, 1995) (explaining that a doubling of a "damages" award of about \$5 million to about \$10 million was not a penalty, but was intended to ensure the infringement was not profitable).

¹² The majority view is that willful infringement must be proven to obtain an accounting of defendant's profits. See, e.g., *George Basch Co. v. Blue Coral, Inc.*, 968 F.2d 1532, 1537–40 (2d Cir. 1992) (reviewing cases and explaining majority position). There is a long-running debate among commentators on this issue, with most commentators arguing that willfulness should not be required to obtain a defendant's profits. See, e.g., Danielle Conway-Jones, *Remedying Trademark Infringement: The Role of Bad Faith in Awarding an Accounting of Defendant's Profits*, 42 SANTA CLARA L. REV. 863 (2002); Eugene W. Luciani, Note, *Does the Bad Faith Requirement in Accounting of Profits Damages Make Economic Sense?*, 6 J. INTEL. PROP. L. 69 (1998); Bryan M. Otake, Comment, *The Continuing Viability of the Deterrence Rationale in Trademark Infringement Accountings*, 5 U.C.L.A. ENT. L. REV. 221 (1998); Dennis S. Corgill, *Measuring the Gains of Trademark Infringement*, 65 FORDHAM L. REV. 1909, 1914 (1997) ("[I]t no longer makes sense to justify an accounting as compensatory."); Keith M. Stolte, *Remedying Judicial Limitations on Trademark Remedies: An Accounting of Profits Should Not Require a Finding of Bad Faith*, 87 TRADEMARK REP. 271 (1997); William G. Barber, *Recovery of Profits Under the Lanham Act: Are the District Courts Doing Their Job?*, 82 TRADEMARK REP. 141, 141–42 (1992).

¹³ See, e.g., *W. E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656, 664 (2d Cir. 1970) (holding that "a full accounting is proper as a deterrent," despite the absence of any evidence of actual injury to plaintiff or unjust enrichment to defendant).

¹⁴ *George Basch Co.*, 968 F.2d at 1539. The *Bassett* case cited above also seems to focus on punishment rather than compensation. "It is essential to deter companies from willfully infringing a competitor's mark, and the only way the courts can fashion a strong enough deterrent is to see to it that a company found guilty of willful infringement shall lose all its profits from its use of the infringing mark." *Bassett*, 435 F.2d at 664.

¹⁵ The Second Circuit Court of Appeals decided the deterrence rationale cases cited above and also decided *Getty*, the seminal case holding that punitive damages are not allowed under the Lanham Act. *Getty*, 858 F.2d at 103. In fact, the *George Basch* decision, the very case that acknowledged a deterrence-based profits award "is not compensatory in nature," cited the court's prior *Getty* decision, as well. *George Basch Co.*, 968 F.2d at 1537.

¹⁶ See *supra* note 12 (identifying the controversy over whether willful infringement should be required to obtain an accounting of defendant's profits).

¹⁷ There has been general agreement that the Lanham Act's primary monetary relief provision—15 U.S.C. § 1117(a)—prohibits punitive monetary awards. See *supra* note 10.

a whole.¹⁸ Few questions have been raised about the congressional purpose and process through which the current remedial scheme arose. This Article presents these challenges and identifies two fundamental mistakes that led to the Lanham Act's flawed remedial rules.

The first error was one of implementation. Though the purported "purpose of the Lanham Act was to codify and unify the common law of unfair competition and trademark protection,"¹⁹ the statutory text is inconsistent with the common law remedial rules of the early twentieth century. This conflict has led to some of the problems mentioned above.

Congress's second mistake was the decision to codify the common law rules. The historical development of trademark law is an interesting story of how the old law and equity court systems worked together to craft a workable scheme for the protection of trademark rights. But that scheme was far from perfect. Many of the old common law cases provided either insufficient or confusing explanations for the remedies granted.²⁰ In other cases, compensation was justified through reliance on legal fictions.²¹ Archaic legal concepts, including some concepts rejected by the Lanham Act, played an integral role in the historical development of the common law remedial rules.²² When the full historical story is understood, it becomes clear that the common law remedial rules should not have been codified.

¹⁸ Some have argued that certain types of remedies are inappropriate. See, e.g., Paul Heald, Comment, *Money Damages and Corrective Advertising: An Economic Analysis*, 55 U. CHI. L. REV. 629, 649–50 (1988) (arguing that damages should not be based on a defendant's advertising budget). It also has been argued that courts should be more willing to provide actual damages in trademark cases. *Id.* at 657–58 (arguing that courts should use the best valuation of the loss available, as is typically done in personal injury tort cases, rather than deny injured trademark owners monetary relief altogether); James M. Koelemay, Jr., *A Practical Guide to Monetary Relief in Trademark Infringement Cases*, 85 TRADEMARK REP. 263, 284 (1995) (arguing for increased use of a reasonable royalty theory in trademark cases).

¹⁹ *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 861 n.2 (1982) (citing S. Rep. 79-1333 (1946)); see also Robert C. Denicola, *Some Thoughts on the Dynamics of Federal Trademark Legislation and the Trademark Dilution Act of 1995*, LAW & CONTEMP. PROBS., Spring 1996, at 75, 79–80 ("Putting aside statutory innovations directly linked to the public notice provided by the Act's registration system, the Lanham Act codifies the basic common law principles governing both the subject matter and scope of protection."); Kenneth L. Port, *The Illegitimacy of Trademark Incontestability*, 26 IND. L. REV. 519, 520 (1993) ("Lanham Act's primary, express purpose was to codify the existing common law of trademarks and not to create any new trademark rights."). See *infra* Parts II.B.1, II.B.2, II.C.2.

²⁰ See generally *infra* Parts II.B.1, II.B.2, II.C.2.

²¹ See *infra* Parts II.A.3, II.B.2.

²² The principal example is the role the separate law and equity systems placed in the development of trademark remedies. The Lanham Act created unified trademark actions. See *infra* Parts II.A, II.B.

This Article provides the historical foundation needed to understand the congressional errors that led to the Lanham Act's flawed remedial scheme. The arguments are presented in four parts. Part I presents a brief review of the relevant statutory text. The historical story is told in Part II, and Part III provides a brief analysis of the relevant legislative history of the Lanham Act's remedial provisions.

The two historical analyses—the common law history and the Lanham Act legislative history—lead to a common conclusion. It was a mistake to try to codify the existing common law rules. In attempting to do so, Congress ended up with a set of remedial rules it never fully evaluated and surely did not fully understand. This conclusion and others are presented in Part IV, which also contains suggestions for reform. Congress needs to start from a clean slate. An appropriate remedial scheme should be crafted based on the underlying purposes and objectives of federal trademark protection.

I. THE STATUTORY TEXT

The Lanham Act's remedies provisions are found in two sections, one dealing with injunctions,²³ and another dealing with monetary remedies.²⁴ The monetary relief section of the Act is longer, more detailed, and includes the provisions responsible for the troublesome results identified above.²⁵ In fact, the following subsection of the Act defines the monetary relief available in most trademark infringement and unfair competition cases:

Profits; damages and costs; attorney fees. When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, a violation under section 1125(a) or (d) of this title, or a willful violation under section 1125(c) of this title, shall have been established in any civil action arising under this Chapter, the plaintiff shall be entitled, subject to the provisions of sections 111 and 114 of this title, and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter

²³ 15 U.S.C. § 1116 (2009).

²⁴ *Id.* § 1117.

²⁵ Other subsections deal with remedies in counterfeiting and cybersquatting cases. *Id.* § 1117(b)–(e).

judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.²⁶

It is well-established that where “the statute’s language is plain, ‘the sole function of the courts is to enforce it according to its terms.’”²⁷ Is the Lanham Act’s primary monetary relief provision “plain”? If so, what are the “terms” to be enforced? These are the questions presented in many federal trademark cases.

The statutory text is plain on some points. Two monetary remedies, and only two, are identified: “defendant’s profits” and “damages sustained by the plaintiff.”²⁸ The statute is also plain as to the types of claims covered by this provision.²⁹ The basic process for conducting an accounting of defendant’s profits is also clearly defined: the plaintiff need only establish the defendant’s gross revenue from the infringing sales; the defendant bears the burden of proving “all elements of cost or deduction claimed.”³⁰ The statute sets a clear upper limit on enhanced damages: “not exceeding three times” the amount of actual

²⁶ *Id.* § 1117(a). This section of the Lanham Act has been amended since its adoption in 1946, but the text concerning the monetary remedies has remained largely unchanged. For example, in 1976, the Act was amended to authorize awards of attorney fees. Act of Jan. 2, 1975, Pub. L. No. 93-600, § 3, 88 Stat. 1955, 1955. And in 1988, this section was amended to extend monetary relief to actions brought under § 43(a). Act of Nov. 16, 1988, Pub. L. No. 100-667, tit. I, § 129, 102 Stat. 3935, 3945. But the text identifying the two primary monetary remedies—defendant’s profits and plaintiff’s damages—and setting forth rules regarding those remedies, has remained essentially unchanged since its adoption in 1946.

²⁷ *United States v. Ron Pair Enters., Inc.*, 489 U.S. 235, 241 (1989) (quoting *Caminetti v. United States*, 242 U.S. 470, 485 (1917)).

²⁸ § 1117(a).

²⁹ The provision covers claims for infringement of federally registered trademarks. 15 U.S.C. § 1114 (2009). It also covers so-called “unfair competition” claims, which in fact include a broad range of claims, including infringement of unregistered trademarks and trade dress, false advertising, and certain types of false attribution. 15 U.S.C. § 1125(a) (2009). Federal dilution claims are covered only if the dilution is willful. 15 U.S.C. § 1125(c). Cybersquatting claims also are covered, though cybersquatting claimants also may be able to seek statutory damages. 15 U.S.C. § 1125(d); § 1117(d). This subsection also applies to counterfeiting actions, as those actions almost always include claims for infringement of registered trademarks. But because another subsection provides more relief (15 U.S.C. § 1117(e)), counterfeiting plaintiffs are not likely to rely, at least not entirely, on this provision.

³⁰ § 1117(a).

damages.³¹ Finally, the statutory text makes it clear that a court has the discretion to increase or decrease “the amount of recovery based on profits.”³²

Beyond these rather basic, and mostly unhelpful, points, the statute is far from plain. In fact, the statute raises more questions than it answers. For example, what is the difference between the profits remedy and the damages remedy?³³ Are both remedies available in the same case? If so, what limits, if any, should be imposed?³⁴

May a court reduce the amount of a damages award? The statute authorizes enhanced damages and limits the enhancement,³⁵ which seems to suggest that damages may not be decreased. On the other hand, the statute states that the profits and damages remedies are “subject to the principles of equity.”³⁶ What if a court concludes that a decreased damages award would be equitable? One part of the text—the reference only to enhanced damages—appears to restrict a court’s discretion, while another—the reference to the “principles of equity”—appears to grant broad discretion.

The statute says nothing about the substantive showing required to obtain damages or profits. It states that prevailing parties “shall be entitled,” but then makes that entitlement “subject to the principles of equity.”³⁷ What does this mean? Profits and damages are listed together without any sort of distinction

³¹ *Id.*

³² It is also clear that a prevailing party may recover the cost of the action, and that attorney fees are available in certain cases. These are not primary monetary remedies, and are, therefore, outside the scope of this Article.

³³ Though this distinction is well understood by most courts and commentators, a number of cases contain confusing discussions of these remedies. *See, e.g.,* IIT Indus., Inc. v. Wastecorp. Inc., 87 Fed. App’x 287, 291, 298 (3d Cir. 2004) (affirming an award of defendant’s “profits as damages”); *Jama Corp. v. Gupta*, No. 3:99-CV-01624, 2008 U.S. Dist. LEXIS 102 (M.D. Pa. Jan. 2, 2008) (jury awarded damages, expert testimony was limited to defendant’s profits, and the court indiscriminately referred to profits and damages rationales throughout its discussion).

³⁴ The courts have not been consistent in their holdings on this issue, which supports the argument that the statute lacks clarity. *See, e.g.,* Nutting v. Ram Sw., Inc., 69 Fed. App’x 454, 458–60 (Fed. Cir. 2003) (holding that awards of plaintiff’s damages and defendant’s profits raised double recovery concerns, and reducing the profits award, but for other reasons); *Dering v. Serv. Experts Alliance LLC*, No. 1:6-CV-00357-RWS, 2009 U.S. Dist. LEXIS 52295, at *15–18 (N.D. Ga. 2009) (finding identical monetary awards for a contract claim and a trademark claim were a double recovery because both claims were based on the same acts); *Gidatex, S.r.L. v. Campaniello Imports, Ltd.*, 82 F. Supp. 2d 136, 145–46 (S.D.N.Y. 2000) (finding identical profits awards under state law and federal law were not double recovery because the state and federal laws protected different interests). *But see* *Nintendo of Am., Inc. v. Dragon Pac. Int’l*, 40 F.3d 1007, 1011–12 (9th Cir. 1994) (holding that two separate awards of damages, one under the Copyright Act and the other under the Lanham Act, was not an improper double recovery).

³⁵ § 1117(a).

³⁶ *Id.*

³⁷ *Id.*

drawn between the two remedies. Does this mean that the same substantive rules should apply to both? The lack of statutory clarity on this critical point has led to much confusion and controversy, particular on the question of whether willful infringement must be proven to obtain a profits award.³⁸

The majority of federal courts have held that a plaintiff must prove willful infringement to obtain an accounting of defendant's profits.³⁹ This conclusion is not based on the text of the statute, as some commentators have pointed out.⁴⁰ When this rule is applied, it can make profits considerably harder to obtain. This result leads to yet another question: May a plaintiff seek a defendant's profits *as damages*?⁴¹ If so, would this sort of claim alter the substantive showing required to obtain an award of defendant's profits?

The statute is also silent on what the requirements are for obtaining actual damages. If a plaintiff attempts to recover defendant's profits by claiming such profits are damages, what rules should apply? Again, the statutory text is no help in answering this important question. How accurately must actual damages be quantified? In personal injury and wrongful death tort cases, monetary damages are routinely awarded, despite the fact that assigning a monetary value to such losses is a largely arbitrary process. Should prevailing trademark owners get a

³⁸ See *supra* note 12 and accompanying text.

³⁹ See, e.g., 5 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS § 30:62 (4th ed., Rel. 51, 2009) ("To obtain an accounting on profits, the courts almost always require that defendant's infringement imply some connotation of 'intent,' or a knowing act denoting an intent, to infringe or reap the harvest of another's mark and advertising.").

⁴⁰ See, e.g., Stotle, *supra* note 12, at 120–23 and accompanying text.

⁴¹ Some plaintiffs have made exactly this argument, most likely to avoid the majority rule that willful infringement must be proven to obtain a defendant's profits award. See, e.g., *ITT Indus., Inc. v. Wastecorp., Inc.*, 87 Fed. App'x 287, 291, 298 (3d Cir. 2004). The idea behind this approach is to claim the defendant's profits are being sought as a measure of plaintiff's damages, and thus should be subject only to damages rules. Under normal damages rules, however, a plaintiff making this argument should have to prove that the defendant's profits would have been earned by the plaintiff but for the infringement. In most modern markets, that connection will be difficult to establish.

A good example of this type of argument is found in *Daisy Group, Ltd. v. Newport News, Inc.*, 999 F. Supp. 548, 551–52 (S.D.N.Y. 1998). The parties did not directly compete, making it quite difficult for plaintiff to prove any actual monetary loss. Indeed, the plaintiff dropped its claim for damages during the pre-trial proceedings. *Id.* at 549. Unable to prove damages, the plaintiff characterized its request for defendant's profits as a "rough proxy" for its own losses. *Id.* at 552. See also David J. Kera & Theodore H. Davis, Jr., *A. United States The Fifty-Third Year of Administration of the Lanham Trademark Act of 1946*, 91 TRADEMARK REP. 1, 191 (2001) ("[T]he number of cases in which plaintiffs sought and obtained awards of actual damages remained few, no doubt due to the fact that such damages are notoriously difficult and expensive to prove."); *Oxford Indus. v. Hartmarx Corp.*, 15 U.S.P.Q.2d (BNA) 1648, 1654 (N.D. Ill. 1990) (explaining the difficulties faced by a trademark owner who tries to prove actual damages).

similar break and be allowed to recover actual damages where only a general showing of injury is made?

Some courts have held that the right to a jury trial in a trademark case depends on whether the plaintiff has a triable claim for damages.⁴² According to this line of cases, a claim for defendant's profits is equitable and will not support a jury demand.⁴³ But what about the plaintiff who seeks defendant's profits *as damages*, that is, using the same strategy mentioned above? Would this alter the jury analysis? Should it? Is the damages remedy a purely legal remedy and the profits remedy a purely equitable remedy? Does the "subject to the principles of equity" limitation render both profits and damages remedies equitable?

The statutory text also poses hard questions about punitive remedies. The statute authorizes increased damages and increased profits.⁴⁴ Such increases must be based on the "circumstances of the case."⁴⁵ What sort of circumstances justify increasing an actual damages award? Bad faith or willful infringement quickly come to mind. Indeed, punitive damages typically are awarded to punish exactly this kind of behavior, and punitive damages may be based on some multiple of actual damages. On the other hand, where the actual damages proven are likely to be less than the plaintiff's full injury, a damages award may be increased for purely compensatory reasons. The question is what sort of circumstances will support an enhancement. The statute doesn't say.

The statute does, however, specify that certain awards "shall constitute compensation and not a penalty."⁴⁶ Courts and commentators have consistently read this limitation as a bar to all types of punitive awards.⁴⁷ But is the statutory text plain and unambiguous on this point? The "not a penalty" prohibition surely means something, and it is reasonable to read the text to mean that this restriction applies to increased profits or damages awards. But what about a punitive

⁴² The Supreme Court has provided the following explanation of the Seventh Amendment standard:

To determine whether a particular action will resolve legal rights, we examine both the nature of the issues involved and the remedy sought. 'First, we compare the statutory action to eighteen-century actions brought in the courts of England prior to the merger of the courts of law and equity. Second, we examine the remedy sought and determine whether it is legal or equitable in nature.' The second inquiry is the more important in our analysis.

Chauffeurs, Teamsters and Helpers, Local No. 391 v. Terry, 494 U.S. 558, 565 (1990) (quoting *Tull v. United States*, 481 U.S. 412, 417–18 (1987)).

⁴³ See, e.g., *Minnesota Specialty Crops, Inc. v. Minnesota Wild Hockey Club, LP*, 2002 U.S. Dist. LEXIS 13991, at *30–31 (D. Minn., July 26, 2002); *American Cynamid Co. v. Sterling Drug, Inc.*, 649 F. Supp. 784, 788–89 (D.N.J. 1986).

⁴⁴ 15 U.S.C. § 1117(a) (2009).

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ See *supra* note 10.

damages award that is entirely distinct from any actual damages, that is, a punitive award not derived by increasing the actual damages proven by plaintiff? The statutory text makes no direct reference to such awards.

Where should courts turn when the statutory text fails to provide clear answers? The legislative history indicates that Congress intended to codify the common law, which suggests that courts should look to the common law trademark cases of the early twentieth century for answers.⁴⁸ That is largely what courts did to determine the substantive showing required to obtain a defendant's profits.⁴⁹ Most courts concluded that under the common law, willful infringement had to be proven before an accounting of defendant's profits would be ordered.⁵⁰ The same requirement, therefore, was applied to claims under the Lanham Act.

Should the same logic be applied to punitive damages? Or is the statutory text so "plain" on this issue that it is improper to look beyond the four corners of the statute? This question is worth asking, for two reasons. First, a number of modern Lanham Act cases endorse deterrence as an appropriate basis for awarding a defendant's profits.⁵¹ Though even non-punitive monetary awards will produce some deterrent effect, this line of cases comes quite close to authorizing punitive profits awards under the Lanham Act. If the Lanham Act allowed punitive damages, courts would not be placed in the difficult position of crafting remedies to deter, but not punish, truly egregious conduct.

The second reason it's important to ask whether the Lanham Act clearly prohibits all punitive awards is that such a position directly conflicts with the common law. As shown above, the common law history has been relied upon to help fix the rules for recovering a defendant's profits.⁵² Should the same approach be used on the punitive damages issue? Can one really say the "not a penalty"⁵³ text is entirely plain and unambiguous, while the "shall be entitled"⁵⁴ text is not? The answers to these questions matter because the common law allowed punitive damages in trademark cases. To the extent the Lanham Act bars such relief, the Act conflicts with the common law.

At the end of the day, the statutory text proves mostly unhelpful. Congress surely could have drafted text that would have avoided at least some of the interpretive challenges described above. If Congress intended to codify the

⁴⁸ See *infra* note 251 and accompanying text.

⁴⁹ See, e.g., *Monsanto Chem. Co. v. Perfect Fit Prods. Mfg. Co.*, 349 F.2d 389, 391–93 (2d Cir. 1968) (reviewing common law rationales for awarding profits).

⁵⁰ See *supra* note 39 and accompanying text.

⁵¹ See, e.g., *W.E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656, 664 (2d Cir. 1970); *Maltina Corp. v. Cawy Bottling Co.*, 613 F.2d 582, 585 (5th Cir. 1980); *Roulo v. Bexrie & Co.*, 886 F.2d 931, 941 (7th Cir. 1989).

⁵² See *supra* note 49 and accompanying text.

⁵³ 15 U.S.C. § 1117(a).

⁵⁴ *Id.*

common law, why did Congress use language that, on its face, seems to create conflicts with important common law practices? This is perhaps the most vexing question of all. But to fully appreciate the common law context from which the Lanham Act arose, one must understand the history of remedies in trademark cases. It is to that history that we now turn.

II. THE HISTORICAL DEVELOPMENT OF COMMON LAW TRADEMARK REMEDIES

The Lanham Act supposedly codified the common law, but what were the common law rules? To understand the common law remedial rules that existed when the Lanham Act was adopted is no small challenge. One can approach the challenge by reading cases from the period immediately preceding the passage of the Lanham Act in 1946. That approach, however, leaves gaps and unanswered questions. How far back should one go to get a reasonable understanding of the common law rules? Which issues should be examined? How and why did these rules develop?

To fully appreciate the nature of the common law remedial scheme that existed when the Lanham Act was enacted, it is helpful to review the historical development of that scheme. The common law is an ever-changing creation. To take a snapshot of such a creation at a particular point in time (e.g., determining what the common law remedial rules were in trademark cases in 1946) provides only a small part of the full picture. To fill in the rest of the scene, one must go back in time. Only when the full historical context is understood, will one appreciate the full scene captured by the snapshot.

This part of the Article presents the needed historical review. Though much has been written about trademark remedies over the last twenty years or so, almost none of that commentary examines the historical development of common law trademark remedies.⁵⁵ The presentation in this part helps to fill that void. It is a long section, accounting for a substantial portion of the Article. To make the presentation a bit easier to follow, it is divided into three time periods, with each period being discussed in a separate section below. The time periods are based on significant events and points of change in the development of trademark law remedies.

The early period, described in Part II.A, covers the development of trademark remedies from the earliest known trademark case through 1870. The middle

⁵⁵ One recent article provides an examination of the historical development of trademark law, but the primary focus is on the underlying basis for protection, not on the remedies provided. The article, however, does provide an excellent review of the early period of trademark law. Mark P. McKenna, *The Normative Foundations of Trademark Law*, 82 NOTRE DAME L. REV. 1839 (2007). See also Stolte, *supra* note 12.

period is reviewed in Part II.B and extends from 1870 through 1905. The final time period, referred to as the late period and examined in Part II.C, extends from 1905 through the 1946 enactment of the Lanham Act.

It is helpful to keep in mind the purpose of this historical expedition. The Lanham Act identifies three primary remedies: damages, profits, and the injunction.⁵⁶ The historical review traces the development of these three remedies, and also examines the common law courts' positions on punitive damages. Though the injunction has posed little interpretive difficulty in modern times, the development of the primary monetary remedies is inextricably intertwined with the history of the injunction. For this reason, all four of the remedies listed above are examined in each of the sections that follow.

A. THE EARLY PERIOD (1584–1870)

Trademarks and brands have been used for thousands of years.⁵⁷ Trademark law, on the other hand, is a much more recent development.⁵⁸ The earliest known

⁵⁶ See *supra* text accompanying notes 23–24.

⁵⁷ See, e.g., FRANK I. SCHECHTER, *THE HISTORICAL FOUNDATIONS OF THE LAW RELATING TO TRADE-MARKS* (1925) (acknowledging early uses of ownership marks, but arguing the modern practice of using marks to indicate source began in the English guilds); Daniel M. McClure, *Trademarks and Unfair Competition: A Critical History of Legal Thought*, 69 TRADEMARK REP. 305, 310 (1979) (“The earliest use of marks on goods dates to antiquity . . .”); Gerald Ruston, *On the Origin of Trademarks*, 45 TRADEMARK REP. 127, 128 (1955) (“The history of marks is very old indeed. I have seen reproductions of some examples of stone-age pottery bearing markings of perhaps 5,000 B.C.”); WILLIAM H. BROWNE, *A TREATISE ON THE LAW OF TRADE-MARKS* § 1 (2d ed. 1885) (“The main subject of this treatise—the symbolism of Commerce—may well be deemed to be as old as commerce itself.”); Benjamin G. Paster, *Trademarks—Their Early History*, 59 TRADEMARK REP. 551 (1969).

⁵⁸ Beverly W. Pattishall, *Two Hundred Years of American Trademark Law*, 68 TRADEMARK REP. 121, 121 (1978) (citing Sidney A. Diamond, *The Historical Development of Trademarks*, 65 TRADEMARK REP. 265, 266 (1975) (“The history of trademarks extends for at least four thousand years, but that of trademark law, hardly four hundred.”)); EDWARD S. ROGERS, *GOOD WILL, TRADE-MARKS AND UNFAIR TRADING* 33–47 (1914); and, Edward S. Rogers, *Some Historical Matter Concerning Trade-Marks*, 9 MICH. L. REV. 29 (1910)).

Frank Schechter, an influential commentator on trademark law during the first half of the twentieth century, provides the following illustration of the rise in significance of trademarks during the late nineteenth and early twentieth centuries:

Up to 1870 only sixty-two trade-mark cases in all were decided by American courts. An idea of the growth of the importance of trade-marks to their owners may be gathered from the fact that in 1870 only one hundred and twenty-one trademarks were registered under the Trademark Act, . . . while in 1923 almost fifteen thousand were registered.

SCHECHTER, *supra* note 57, at 134; see also SIR DUNCAN M. KERLY, *LAW OF TRADE MARKS AND TRADE NAMES* 2 (5th ed. 1923) (“The law on this subject cannot be traced back further than the nineteenth century.”); JAMES L. HOPKINS, *THE LAW OF UNFAIR TRADE* § 4 (1900) (“The growth of that recognition [of trademark rights] was very gradual.”).

trademark case in England was decided in approximately 1584.⁵⁹ The early history of trademark law in England is a story of how the separate law and equity systems jointly shaped the law. The first trademark case was an action at law, but trademark law did not really begin to develop until the equity courts intervened in the early nineteenth century. We begin with the common law action, and the first remedy granted in trademark cases: damages.

1. *Actual Damages—The First Trademark Remedy.* The oldest known trademark case involved a dispute similar to modern trademark counterfeiting. The case, identified as *Sandforth's Case*⁶⁰ by a commentator, was an action on the case for deceit.⁶¹ The alleged deceit was the defendant's knowing and intentional use of a trademark quite similar to the mark used by plaintiff. Both the plaintiff and the defendant were clothiers, and both made woolen cloth.⁶² The plaintiff marked his cloth with the letters "J.G." (apparently his initials) and with a design called a tucker's handle.⁶³ According to the complaint, "the plaintiff had 'lawfully and

Schechter attributed the relatively recent development of modern trademark law to the changes wrought by the Industrial Revolution in England. Schechter, *supra* note 57, at 41, 48, 63, 78, 129–30.

[T]rade-marks did not develop as valuable symbols of good-will so long as producer and consumer were in close contact. . . . Close upon the Industrial Revolution came a tremendous expansion not only in the means of production and distribution but, proportionately, in the advertising of goods, in which process trade-marks for the first time acquired a national and not merely local significance.

Id. at 129–30. The changes in trade resulting from the Industrial Revolution were, in Schechter's view, the primary reason for the relatively late development of trademark law.

⁵⁹ The case is discussed in some detail in Keith M. Stolte, *How Early Did Anglo-American Trademark Law Begin? An Answer to Schechter's Conundrum*, 8 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 505 (1998). There is some ambiguity in the reports as to the year *Sandforth's Case* was decided. *Id.* at 529 n.101.

⁶⁰ "There is a discrepancy among the six sources as to the name of the case." *Id.* at 506 n.2. At least two of the sources identify the claimant as Sandforth. Stolte identified the case as *Sandforth's Case* "[t]o preserve the historical quality of the case." *Id.* The English scholar who discovered the case and who compiled the reports of the case, identifies the case as *J.G. v. Samford*. See J.H. BAKER, AN INTRODUCTION TO ENGLISH LEGAL HISTORY 522 n.68 (3d ed. 1990). Baker first identified the case in an earlier edition of his book. J.H. BAKER, AN INTRODUCTION TO ENGLISH LEGAL HISTORY 385 n.45 (2d ed. 1979). Some of the source documents with reports on *Sandforth's Case* are provided in J.H. BAKER & S.F.C. MILSOM, SOURCES OF ENGLISH LEGAL HISTORY: PRIVATE LAW TO 1750, at 615–18 (1986).

⁶¹ Stolte, *supra* note 59, at 530–32 (noting the numerous references to defendant's allegedly deceitful conduct in the complaint); *id.* at 533–36 (noting the disagreement among the judges as to whether an action for deceit would lie based on the plaintiff's allegations).

⁶² *Id.* at 529–31. The complete text of the complaint from *Sandforth's Case* is provided in an appendix to the Stolte article. *Id.* at 545–47.

⁶³ *Id.* at 529. It is not clear what a "tucker's handle" was. Stolte suggests that the tucker's handle "could have been a tool of a clothier's trade," based on the meaning of the word tuck. *Id.*

honestly obtained and acquired much gain and profit from the making and selling of such cloths, for the further support and living of the same plaintiff and his whole family.’”⁶⁴ Customers apparently identified the plaintiff’s woolen cloth by the presence of his mark, just as consumers identify desired goods by their trademarks today.⁶⁵

The *Sandforth’s Case* complaint further “alleged that the defendant willfully schemed and plotted ‘to hinder the same plaintiff in selling such cloths of his and to take away and worsen the opinion and esteem which the aforesaid merchants and subjects had concerning the cloths of the same plaintiff.’”⁶⁶ The defendant made lower quality woolen cloth “‘and deceitfully marked the same cloths with the aforesaid letters ‘J.G.’ and with the aforesaid mark called a tucker’s handle; and exposed for sale the same cloths . . . as the cloths of the same plaintiff.’”⁶⁷

Sandforth’s Case sets out a straightforward claim of trademark infringement, at least when viewed from the context of modern trademark practice.⁶⁸ The plaintiff used a distinctive mark and developed a strong reputation for quality with his customers. The defendant used a highly similar mark on inferior goods without the plaintiff’s authorization. Customers apparently bought the defendant’s cloth thinking the cloth was made by the plaintiff and were disappointed to find the cloth was a lower quality than expected. The plaintiff lost sales directly (i.e., each sale made by the defendant apparently was a sale the plaintiff would have made but for the infringement) and his reputation was injured by the poor quality of the infringing cloth. As a result of the latter injury, which likely led to additional lost sales, the plaintiff’s ultimate injury likely exceeded any amount calculated from the defendant’s sales volume.⁶⁹

If the plaintiff in *Sandforth’s Case* proved his allegations at trial, a point not entirely clear from the reports,⁷⁰ the common law court would have awarded damages, the sole remedy available in an action at law.⁷¹ But how would the plaintiff quantify his damages? The common law did not allow discovery,⁷² so it

at 529 n.106.

⁶⁴ *Id.* at 530 (citation omitted).

⁶⁵ *Id.* at 530–31 (citation omitted).

⁶⁶ *Id.* at 530 (quoting BAKER & MILSOM, *supra* note 60, at 616).

⁶⁷ *Id.* at 530–31 (citation omitted).

⁶⁸ *Id.* at 531–32 (noting the strength of the plaintiff’s claims in *Sandforth’s Case*).

⁶⁹ The difficulty in determining the volume of sales lost due to infringement is noted in many trademark cases. See *supra* note 41.

⁷⁰ Stolte, *supra* note 59, at 533.

⁷¹ As noted above, the reports do not discuss the remedy. In addition, the reports are not entirely clear as to the result, though it appears the majority of the judges concluded the action would lie and that plaintiff had presented sufficient proof of deceit. *Id.* at 533–36.

⁷² *Hilton Davis Chem. Co. v. Warner-Jenkinson Co.*, 62 F.3d 1512, 1567 (Fed. Cir. 1995) (one reason patent owners preferred to bring patent infringement actions in equity was the availability of discovery, which was lacking in the law courts); *Zenith Radio Corp. v. Matsushita Elec. Indus.*

may have been difficult for the plaintiff to determine the actual volume of sales made by the defendant under the infringing mark.⁷³ Without such evidence, the plaintiff would be left to speculate at how much its losses were.

The plaintiff in *Sandforth's Case* may have faced an even more troubling problem than an inadequate damages award. The common law courts did not issue injunctions.⁷⁴ Thus, even if the plaintiff prevailed in *Sandforth's Case*, the defendant remained free to continue using the plaintiff's mark, albeit at the risk of further damages awards. This risk may have been insufficient to deter infringers, given the difficulty a plaintiff faced in proving its damages.⁷⁵

The inadequacy of the damages remedy provided in common law trademark infringement actions remained a problem for over 200 years after *Sandforth's Case*. The following excerpt from a letter written by a Philadelphia businessman to a Boston newspaper in 1791 provides a good illustration of the problem:

[W]hen a person thus injured [by trademark infringement], discovers and brings to publick notice the aggressor, he can obtain no redress adequate to the magnitude of the injury he has sustained, although he may go to an enormous expense and deal of trouble in the business, as well as a waste of time, and after all is perhaps allowed

Co., 478 F. Supp. 889, 918 n.45 (E.D. Pa. 1979) (“[O]nly in equity could discovery be compelled.”); 1 JOSEPH STORY, COMMENTARIES ON EQUITY JURISPRUDENCE AS ADMINISTERED IN ENGLAND AND AMERICA §§ 109–115 (14th ed. 1918) (describing the discovery practice in equity); Patrick Devlin, *Equity, Due Process and the Seventh Amendment: A Commentary on the Zenith Case*, 81 MICH. L. REV. 1571, 1573 (1983) (discovery was “unknown to the common law”); John C. McCoid, II, *Right to Jury Trial in Bankruptcy*: *Granfinanciera, S.A. v. Nordberg*, 65 AM. BANKR. L.J. 15, 20 (1991) (“[T]here were some procedures, such as discovery and accounting, that were available only in equity.”); Sarah N. Welling, *Discovery of Nonparties’ Tangible Things Under the Federal Rules of Civil Procedure*, 59 NOTRE DAME L. REV. 110, 130–31 (1983).

⁷³ “In many cases, the aggrieved party might be at a great disadvantage, unless he had some means of access to his opponent’s books and papers. To enable him to fix the amount of injury done by the wrongful conduct of the other, he must look to discovery.” BROWNE, *supra* note 57, § 469.

⁷⁴ *Hilton Davis*, 62 F.3d at 1567; 5 SIR WILLIAM HOLDSWORTH, A HISTORY OF ENGLISH LAW 287–88 (2d ed. 1937); Devlin, *supra* note 72; C.C. Langdell, *A Brief Survey of Equity Jurisdiction*, 1 HARV. L. REV. 111, 120–21 (1887).

⁷⁵ See, e.g., Langdell, *supra* note 74, at 126 (noting that the common law remedy was “very inadequate” in cases of patent or copyright infringement, in part because it was “extremely difficult to prove the extent of the infringement . . .”). The concern that undercompensating prevailing plaintiffs could encourage further infringement has been recognized by modern courts too. See, e.g., *Otis Clapp & Son, Inc. v. Filmore Vitamin Co.*, 754 F.2d 738, 744 (7th Cir. 1985) (“The trial court’s primary function is to make violations of the Lanham Act unprofitable to the infringing party.”); *Playboy Enters., Inc. v. Baccarat Clothing Co.*, 692 F.2d 1272, 1274 (9th Cir. 1982) (noting that monetary awards failing to render intentional infringement unprofitable “would encourage a counterfeiter to merely switch from one infringing scheme to another . . .”).

by a jury, moderate damages by no means equivalent to the loss sustained, much less does it prove a salutary remedy against future offences of the like nature.⁷⁶

The writer called for a “general act of Congress” to end these difficulties.⁷⁷ No such Congressional action occurred until almost 100 years later.⁷⁸

The damages remedy provided in early common law trademark actions was grossly inadequate. Indeed, there are no known common law trademark cases between *Sandforth's Case* in about 1584 and the first reported trademark case in equity in 1803, a period of over 200 years.⁷⁹

⁷⁶ SCHECHTER, *supra* note 57, at 133.

⁷⁷ *Id.*

⁷⁸ Thomas Jefferson, however, recommended in 1791 that Congress enact a federal trademark statute. As Secretary of State, Jefferson received a petition from certain makers of sail cloth in Boston, a petition that apparently raised concerns similar to those quoted above. Jefferson responded:

The Secretary of State . . . Reports, That it would, in his opinion, contribute to fidelity in the execution of manufacturers, to secure to every manufactory an exclusive right to some mark on its wares, proper to itself. That this should be done by general laws, extending equal right to every case to which the authority of the legislature should be competent.

3 THE WRITINGS OF THOMAS JEFFERSON 156–57 (Andrew A. Lipscomb & Albert E. Bergh eds., 1904).

⁷⁹ One of the primary resources used for the analysis of older cases is an early digest of trademark cases. ROWLAND COX, A MANUAL OF TRADE-MARK CASES (2d ed. 1892). The Cox digest does not directly identify or discuss *Sandforth's Case*, but Cox does provide citations and summaries of other early trademark cases. Three actions at law are identified in the Cox digest during the period between 1584 and 1803, but none of the cases involved trademark infringement claims. Indeed, a review of the earliest cases in the Cox digest shows the inclusion of many cases involving disputes over the right of heirs and other successors to business interests. These disputes did at times include questions of whether certain parties were entitled to continue business under a particular trade name, but the issues were resolved on grounds other than the common law action of deceit.

The three actions at law reported in the Cox digest for the time period stated above are: *Worral v. Hand*, Peake 105 (Nisi Prius 1791) (an action on the case for assumpsit for goods sold and delivered; no trademark or trade name issue involved); *Jendwine v. Slade*, 2 Esp. N.P.C. 572 (Nisi Prius 1797) (action for damages based on copied paintings; facts resemble a copyright dispute, but the action was brought as a warranty claim; the court rejected the claim); *Bunn v. Guy*, 4 East 190 (King's Bench 1803) (contract dispute sent to the King's Bench from chancery (i.e., equity) court; the court held that a non-compete agreement was enforceable under contract law).

The *Bunn v. Guy* case did involve a trade name issue, because the defendant sold his law practice and agreed not to practice law using his name for a certain period of time. The issue, however, was presented and resolved on the contract question.

2. *Equity Intervenes to Grant Injunctions.* The first report of an injunction being granted in a trademark case occurred in 1803, in the case of *Hogg v. Kirby*.⁸⁰ The facts of the case are roughly analogous to those in *Sandforth's Case*, but the impact of the decision could hardly have been more different. While the common law trademark action languished for over 200 years, the trademark action in equity quickly became the driving force in the development of trademark law.

The trademark infringement action seemed a perfect fit for equity. One of the primary justifications for equity jurisdiction during this period was the inadequacy of the relief provided at common law.⁸¹ As explained in the preceding section, the damages remedy provided in early common law trademark actions was clearly inadequate. It failed to stop the infringement, and it probably failed to adequately compensate the trademark owner in most cases. Indeed, the most surprising fact concerning the development of the equitable trademark action is that it came so late.⁸²

The plaintiff in *Hogg v. Kirby* was owner of "The Wonderful Magazine."⁸³ Defendant was a former publisher of plaintiff's magazine.⁸⁴ After a dispute, the plaintiff discharged the defendant, and the plaintiff began publishing the magazine himself.⁸⁵ The defendant responded by publishing a magazine under an almost identical name and touting the magazine as a "New Series Improved" version of the plaintiff's magazine.⁸⁶ Unlike the plaintiff in *Sandforth's Case*, who filed his claim as a common law action for deceit, the magazine owner in *Hogg v. Kirby* petitioned the Court of Chancery for an injunction and an accounting of the defendant's profits.⁸⁷ The equity court allowed the petition because:

A Court of Equity in these cases is not content with an action for damages; for it is nearly impossible to know the extent of the damage ; and therefore the remedy here, though not compensating

⁸⁰ 8 Ves. Jun. 215, 32 Eng. Rep. 336 (Ch. 1803). There is an earlier reported trademark infringement action in equity, but the Chancellor denied relief in that case. *Blanchard v. Hill*, 2 Atk. 484, 26 Eng. Rep. 692 (Ch. 1742).

⁸¹ Devlin, *supra* note 72, at 1572 ("[E]quity created the greater part of its jurisdiction by abstractions from the common law. Suitors at common law who found its processes inequitable petitioned the Chancellor to intervene."); 1 JOHN N. POMEROY, A TREATISE ON EQUITY JURISPRUDENCE § 108, at 138–40, § 127, at 168–69, § 139, at 191–93 (5th ed. 1941); 4 *id.* § 1420, at 1076–77; GEORGE W. KEETON, AN INTRODUCTION TO EQUITY 20 (5th ed. 1961).

⁸² Schechter posited that trademark law developed slowly until the nineteenth century because most commerce was local prior to the industrial revolution. SCHECHTER, *supra* note 57.

⁸³ *Hogg*, 8 Ves. Jun. at 215, 32 Eng. Rep. at 336.

⁸⁴ *Id.*

⁸⁵ *Id.* at 215, 32 Eng. Rep. at 336.

⁸⁶ *Id.* at 215, 32 Eng. Rep. at 336–37.

⁸⁷ *Id.* at 215–16, 32 Eng. Rep. at 337.

the pecuniary damage except by an account of the profits, is the best: the remedy by an injunction and account.⁸⁸

Despite this language, the chancellor in *Hogg v. Kirby* refused to order an accounting, a point taken up in the next section. An injunction was entered, however, and a clear precedent established.⁸⁹

For many decades after *Hogg v. Kirby* was decided, the trademark action in equity was greatly preferred over the action at law. During the period of 1803–1849, for example, there were 43 reported trademark actions in equity in England and the United States.⁹⁰ There were only seven reported trademark actions at law during the same period.⁹¹

Not only were there more trademark cases in equity, the reported equity cases led the way in the development of the substantive standards for the trademark infringement action. In *Hogg v. Kirby*, the Chancellor noted that defendant's actions had confused purchasers and he found the infringement a "fraud on the

⁸⁸ *Id.* at 223, 32 Eng. Rep. at 339 (the cases referred to in the quote were copyright cases, not trademark cases, but the Lord Chancellor relied upon those decisions as support for his jurisdiction over the trademark dispute in *Hogg v. Kirby*).

⁸⁹ See, e.g., *Featherstonhaugh v. Fenwick*, 17 Ves. Jun. 298, 34 Eng. Rep. 115 (Ch. 1810) (injunction granted citing *Hogg v. Kirby* as authority); *Sedon v. Senate*, 2 V. & B. 220 (Master Rolls 1811) (reported at No. 18 in COX, *supra* note 79) (injunction granted where defendant sold medicine similar to that sold by plaintiff and where defendant's advertising used phrases also used by plaintiff); *Day v. Day*, (reported at No. 21 in COX, *supra* note 79) (injunction restraining use of infringing labels); *Harrison v. Gardner*, 2 Madd. 198 (Ch. 1817) (reported at No. 25 in COX, *supra* note 79) (injunction granted to block operation of similar business under similar name); *Edmunds v. Benbow*, (reported at No. 33 in COX, *supra* note 79) (injunction granted blocking use of similar name on competing newspaper); *Henry v. Price*, 1 Leg. Obs. 364 (Ch. 1831) (reported at No. 48 in COX, *supra* note 79) (injunction granted blocking use of similar labels on medicine); *Gout v. Aleploglu*, 5 Leg. Obs. 495 (Ch. 1833) (reported at No. 51 in COX, *supra* note 79) (injunction granted blocking use of same mark on watches).

⁹⁰ COX, *supra* note 79. Cox reports considerably more equity cases from this time period, but as noted above, many of the cases did not involve trademark claims. Based on a review of the reports of each case, it appears that forty-three equity trademark cases were decided between 1803 and 1849.

The first reported equitable trademark action in the United States courts is *Taylor v. Carpenter*, an 1844 circuit court decision by Justice Story of the United States Supreme Court. Story made it clear that no controversy existed concerning the jurisdiction of equity over a trademark infringement claim. "I do not quote cases, to establish the principles above stated. They are very familiar to the profession; and are not now susceptible of any judicial doubt . . ." 23 F. Cas. 742, 744 (C.C.D. Mass. 1844) (No. 13784).

⁹¹ COX, *supra* note 79. Cox reports on twelve actions at law between 1803 and 1849, but only seven of those cases involved trademark claims.

public.”⁹² This recognition of the public interest in avoiding confusion quickly became a mainstay in equity.⁹³

The desire to avoid consumer confusion led the chancellors in equity to depart from the intentional deception standard of the early common law trademark action.⁹⁴ As explained in the preceding section, trademark infringement was recognized by the common law as action for deceit, and therefore, required proof of intentional deception by the defendant.⁹⁵ By the middle of the nineteenth century, equity had replaced this requirement with a likelihood of confusion standard.⁹⁶

⁹² *Hogg*, 8 Ves. Jun. at 226, 32 Eng. Rep. at 340.

⁹³ The decision by Lord Langdale in *Perry v. Truefitt*, 6 Beav. 66, 1 L.T. 384 (Master Rolls 1842) (reported at No. 73 in COX, *supra* note 79), provides a good example of this shift. Notice how Langdale’s explanation of the “principle” at issue resembles modern courts’ concern over consumer confusion.

I think that the principle on which both the Courts of law and of Equity proceed, in granting relief and protection in cases of this sort, is very well understood. A man is not to sell his own goods under the pretence that they are the goods of another man; he cannot be permitted to practise such a deception, nor to use the means which contribute to that end. He cannot therefore be allowed to use names, marks, letters, or other *indicia*, by which he may induce purchasers to believe, that the goods which he is selling are the manufacture of another person.

Id. Though Langdale states that the law and equity courts relied upon the same principle, his strong statements that one “cannot be permitted” and “cannot, therefore, be allowed” reflect equity’s power to grant injunctions. The underlying principle may have been the same, but equity was beginning to apply that principle in a more flexible way than the common laws did. *See also* *Edelstein v. Edelsten*, 1 De. G.J. & S. 185, 199, 46 Eng. Rep. 78 (Ch. 1863) (“[I]t is not necessary for the injunction to prove fraud in the defendant . . .”).

Equity courts in the United States took the same approach. “It would seem that an intentional fraud is not necessary to entitle the plaintiff to protection; but that where . . . the spurious article cannot be distinguished from the genuine one, an injunction will be granted . . .” *Coffeen v. Brunton*, 5 F. Cas. 1184, 1185 (C.C.D. Ind. 1849) (No. 2947); *see also* BROWNE, *supra* note 57, § 468 (“In equity, if the defendant, without fraud, use the trade-mark of the complainant, he is still liable.”); James M. Koelemay, Jr., *Monetary Relief for Trademark Infringement Under the Lanham Act*, 72 TRADEMARK REP. 458, 473 (1982).

⁹⁴ One of the leading American trademark cases of the early period held “that an injunction must be granted whenever the public is in fact misled, whether intentionally or otherwise . . .” *Amoskeag Mfg. Co. v. Spear*, 2 Sand. 599, 606 (N.Y. Sup. Ct. 1849). The *Amoskeag* court, however, also explained that one who copies another’s trademark commits a fraud on the public, and it is not clear whether the court viewed the infringement in that case as willful or not. *Id.* at 605–06.

⁹⁵ *See supra* notes 60–79 and accompanying text.

⁹⁶ *See, e.g.,* *Millington v. Fox*, 3 Myl. & Cr. 338, 352–53, 40 Eng. Rep. 956, 961–62 (Ch. 1838) (“In short, it does not appear to me that there was any fraudulent intention in the use of the marks. That circumstance, however, does not deprive the Plaintiffs of their right to the exclusive use of those names.”); *Shrimpton v. Laight*, 18 Beav. 164, 164, 52 Eng. Rep. 65, 65 (Master Rolls 1854) (describing standard as “whether the public . . . would probably be deceived”). Earlier cases seemed

The chancellors, however, moved cautiously during this period. Injunctions were granted only where the plaintiff's claim of right seemed clear.⁹⁷ There are several reported instances of a chancellor refusing to grant an injunction, and instead directing the plaintiff to bring an action at law to establish its right to relief.⁹⁸ There are few reported cases where this process was used successfully by the trademark owner, though it required at least a three-step process before a permanent injunction would issue.⁹⁹

to rely on a confusion standard, too, but none were as clear in their finding of no deceptive intent. See, e.g., *Archbold v. Sweet*, 1 M. & Rob. 162, 5 C. & P. 219 (Nisi Prius 1832) (reported at No. 49 in COX, *supra* note 79) (asking whether defendant's work "would be understood by purchasers to be by the plaintiff," but identifying the case as a copyright action); *Ransome v. Bentall*, 3 L.J. Ch. N.S. 161 (Ch. 1833) (reported at No. 53 in COX, *supra* note 79) (granting an injunction because it was possible that some uses by the defendant "may have the effect of misleading persons"); *Knott v. Morgan*, 2 Keen 213 (Master of Rolls 1836) (reported at No. 57 in COX, *supra* note 79) (enjoining defendant from "attracting custom on the false representation that carriages, really the defendant's, belong to and are under the management of the plaintiffs").

⁹⁷ See, e.g., *Martin v. Wright*, 6 Sim. 297 (Ch. 1833) (reported at No. 52 in COX, *supra* note 79) (injunction refused because Chancellor was not persuaded of plaintiff's injury); *Snowden v. Noah*, 1 Hopkins Ch. 347 (N.Y. Ch. 1825) (reported at No. 41 in COX, *supra* note 79) (injunctions refused because newspapers names—*The National Advocate* and *The New York National Advocate*—"were sufficiently distinct to prevent deception") (quotation from Cox); *Canham v. Jones*, 2 V. & B. 218 (Ch. 1813) (reported at No. 19 in COX, *supra* note 79) (injunction refused where plaintiff's claim could be presented as a contract matter); *Cruttwell v. Lye*, 17 Vesey Rep. 335, 1 Rose 123 (Ch. 1810) (reported at No. 17 in COX, *supra* note 79) (injunction refused despite uses of identical trade name for identical businesses).

These early cases show both a reluctance to intervene and a willingness to allow simultaneous uses of the same or similar trade names. Indeed, it appears that prior to the nineteenth century it was common for shops to operate in the same city with very similar trade names and signs. See SCHECHTER, *supra* note 57, at 134–35 n.6.

⁹⁸ *Pidding v. How*, 8 Sim. 477 (Ch. 1837) (reported at No. 60 in COX, *supra* note 79) (injunction refused until plaintiff established its right to relief at law); *Motley v. Downman*, 3 My. & Cr. 1 (Ch. 1837) (reported at No. 61 in COX, *supra* note 79) (existing injunction dissolved because a substantial question was raised concerning plaintiff's right to relief; plaintiff given liberty to bring an action at law to establish its right to relief); *Spottiswoode v. Clarke*, 2 Ph. 154, 1 Coop. 254 (Ch. 1846) (reported at No. 85 in COX, *supra* note 79) (injunction dissolved, but defendant ordered to keep an account until an action at law was concluded); *Purser v. Brain*, 17 L.J. Ch. 141 (Ch. 1848) (reported at No. 92 in COX, *supra* note 79) (injunction dissolved in case involving almost identical trademarks because question raised about plaintiff's rights to the mark; the Chancellor held that the issue should be resolved by a jury in an action at law); *Foot v. Lea*, 13 Ir. Eq. 484 (Ch. Ir. 1850) (reported at No. 107 in COX, *supra* note 79) (injunction denied because an action at law was needed to determine whether the marks were sufficiently similar); *Merrimack Mfg. Co. v. Garner*, 2 Abb. Pr. 318 (N.Y. Ch. 1855) (reported at No. 134 in COX, *supra* note 79) (injunction refused because infringement was not clear without a trial at law).

⁹⁹ See, e.g., *Turner v. Evans*, 2 De. G., M. & G. 740 (Ch. 1853) (injunction refused until after a trial at law); 2 E. & B. 512 (Queen's Bench 1853) (verdict returned in favor of plaintiff). These proceedings are reported at No. 114 in COX, *supra* note 79, where it is noted that an injunction was granted after the plaintiff's successful action at law. In *Farina v. Silverlock*, 1 K. & J. 509, 69 Eng.

This interplay between the law and equity courts may help explain a somewhat surprising fact from the early period. Accountings were very seldom ordered in the early equity actions. Though *Hogg v. Kirby* endorsed this remedy, it was not until 1861 that the first accounting was ordered in a reported trademark case in equity.¹⁰⁰ What did trademark owners do if they obtained an injunction, but no accounting? The reports don't answer this question, but it is quite plausible that at least some plaintiffs obtained damages in an action at law brought before or after the infringement was enjoined.

3. *Equity and the Accounting of Defendant's Profits.* Equity intervened in trademark law because of the need for injunctive relief to stop an infringement, not because the common law damages remedy was unable to provide adequate compensation. A number of equity cases from the early period show that chancellors felt some issues should be resolved by juries in trials at law.¹⁰¹ In theory at least, the combination of the injunction, granted in equity, and damages, granted at law, would provide complete relief. In practice, however, there were two problems with this approach.

First, the common law process did not entitle plaintiff to discovery from the defendant. That surely left many trademark owners unable to quantify their losses. In addition, determining the actual monetary impact of trademark infringement is inherently impossible, because part of the injury is the damage done to the plaintiff's reputation. This type of injury is real, but cannot be accurately quantified. For these reasons, the damages remedy provided in early common law trademark actions was unlikely to provide adequate compensation.

The second problem with the dual trademark action approach—that is, one action in the equity court and another in the law court—was the inherent inefficiency of such a procedure. Over time, equity developed a “general principle

Rep. 560 (Ch. 1855), the plaintiff initially received an injunction from a Vice Chancellor. The matter was appealed and the Lord Chancellor dissolved the injunction because the allegedly infringing labels made by defendant could be used for a proper purpose. Plaintiff was given liberty to bring an action at law. *Farina v. Silverlock*, 25 L.J. Ch. 11 (1856). The plaintiff brought an action at law in the Queen's Bench court and prevailed. *Farina v. Silverlock*, 30 L.T. 242 (Q.B. 1858). Finally, plaintiff returned to equity, where an injunction was granted. *Farina v. Silverlock*, 4 K. & J. 650 (Ch. 1858).

One of the leading early American trademark cases of the nineteenth century seems to have proceeded in the opposite sequence. In *Taylor v. Carpenter*, 23 F. Cas. 742 (C.C.D. Mass. 1844), the plaintiff obtained an injunction. The plaintiff then proceeded to trial on its common law claim, prevailed, and obtained a damages award. *Taylor v. Carpenter*, 23 F. Cas. 744 (C.C.D. Mass. 1846). In another action involving the same parties, the plaintiff obtained an injunction from a New York equity court. *Taylor v. Carpenter*, 2 Sand. Ch. 603 (N.Y. Ch. 1846).

¹⁰⁰ *Dent v. Turpin*, 2 J. & H. 139, 30 L.J. Ch. 495 (Ch. 1861) (reported at No. 196 in COX, *supra* note 79).

¹⁰¹ See *supra* note 98 and accompanying text.

against multiplicity of suits,¹⁰² a development that likely led to the increased use of the accounting remedy in trademark cases. After all, the trademark action in equity was essential because of the need for an injunction. The action at law served a limited purpose if an equity court already had considered the merits of the claim. Though it took some time to become widely accepted, by the end of the early period, the accounting remedy was the preferred monetary remedy in trademark cases.¹⁰³

There is another important point concerning the accounting remedy during the early period. In determining whether to award an accounting of defendant's profits, the equity courts of the early period used the same deceit standard used in the early common law actions seeking damages. The chancellors viewed an award of defendant's profits as equity's alternative to common law damages.¹⁰⁴ Because deceptive intent was required to obtain damages in a common law trademark action,¹⁰⁵ the chancellors imposed the same requirement on trademark owners seeking monetary relief in equity (i.e., accountings of defendant's profits).¹⁰⁶

¹⁰² Devlin, *supra* note 72, at 1573. The author described the problems of the dual approach as follows:

In many, perhaps most, of these cases the Chancellor could have granted the relief sought without interfering with the trial of the main point by a jury at common law On occasions this is what the Chancellor did. But in general, he found, as we still find today, that most cases cannot be split between courts without the certainty of additional expense and the risk of injustice.

Id. “[T]he notion developed that if a ground for equitable relief existed, equity would not stop with the granting of equitable relief but would (at least if plaintiff wished) decide all aspects of the controversy, and this would often include issues which were ordinarily for the law courts.” Fleming James, Jr., *Right to a Jury Trial in Civil Actions*, 72 YALE L.J. 655, 658–59 (1963).

¹⁰³ Koelemay, *supra* note 93, at 466 (“By the time the United States Congress enacted the first federal trademark statute in 1870, an accounting of the defendant's profits was the primary pecuniary remedy sought by trademark owners and awarded by the courts, the action at law for damages being little used.”) (citation omitted).

¹⁰⁴ “The principle is that equity converts the infringer into a trustee as to the profits, a principle appropriate in equity by reference to a master, who can examine books and papers and examine the infringer and his employees on oath.” 2 STORY, *supra* note 72, § 1262 n.3 (discussing the defendant's profits award in patent cases); see also *Tilghman v. Proctor*, 125 U.S. 136, 148 (1888) (accounting was “an equivalent or a substitute for legal damages”); *Hogg v. Kirby*, 8 Ves. Jun. at 223, 32 Eng. Rep. at 339; Devlin, *supra* note 72, at 1624 (discussing accountings in equity).

¹⁰⁵ See, e.g., *Crawshay v. Thompson*, 4 Man. & G. 357, 134 Eng. Rep. 146 (C.P. 1842) (relief denied because plaintiff failed to prove fraudulent intent by defendant). There were, however, some actions at law during the early period that are less clear as to whether deceptive intent must be proven. See, e.g., *Davis v. Kendall*, 2 R.I. 566, 566 (1850) (describing the standard in an action at law as whether defendant's label was “so like the plaintiff's as to mislead the public”).

¹⁰⁶ See, e.g., *Cartier v. Carlile*, 31 Beav. 292, 297, 54 Eng. Rep. 1151, 1153 (1862) (in opposing the plaintiff's request for an accounting, defendants argued the plaintiff “cannot recover at law [because there was no proof of fraud, so] he ought not to recover in equity.”); Koelemay, *supra* note 93, at 467 (“[I]n accord with the maxim *aequitas sequitur legem* (‘equity follows the law’), the

Given the clear separation of the law and equity courts during this period, it is easy to appreciate the distinct nature of common law damages and equitable accountings. These were alternative remedies. The accounting was provided in equity to replace a damages award in order to eliminate the need for a separate action at law for damages. It follows, therefore, that if the plaintiff obtained an award of damages in an action at law, equity would not provide an accounting of defendant's profits. It was not possible to obtain actual damages and defendant's profits in a single case during the early period.

4. *Punitive Damages Were Not Granted.* There is almost no mention of punitive damages during the early period. This is not particularly surprising given the nature of the early common law trademark action. A plaintiff had to prove intentional deception to recover actual damages. What more could a plaintiff prove to justify punitive damages? Only one early period case was found that mentioned punitive relief, and the court rejected the claim.¹⁰⁷

B. THE MIDDLE PERIOD (1870–1905)

The remedial scheme that developed during the early period was relatively clear. Unfortunately, that clarity began to break down in the middle period. Equity courts began to award both damages and profits, sometimes in the same case. The substantive standards for obtaining monetary relief also became less clear during this period. On the other hand, courts during this period consistently held that injunctions would be granted more liberally than would money remedies. Finally, courts began to signal their willingness to grant punitive damages during the middle period. These changes are reviewed in the following sections.

1. *Damages—No Longer Just a “Legal” Remedy.* One of the most striking changes of the middle period was an apparently abrupt shift by the equity courts. During the early period, equity courts explained that accountings were equity's alternative to damages.¹⁰⁸ A wall seemed to separate the monetary remedies proved in the law and equity courts. That changed during the middle period, as equity courts in

chancellors refused to award an accounting of profits against innocent infringers and required showings of fraudulent intent.”).

¹⁰⁷ *Taylor v. Carpenter*, 23 F. Cas. 742, 751 (C.C.D. Mass. 1844). The court noted that if evidence were presented of “a known and deliberate imitation, often renewed and very prejudicial to the plaintiffs,” the jury would “not be very nice in their data and inferences.” *Id.* But the court ruled that “smart money” or “vindictive damages” could not be awarded. *Id.*

¹⁰⁸ See *supra* note 104 and accompanying text.

England and the United States began to grant damages in trademark cases.¹⁰⁹ Why did this change happen?

One factor that contributed to this change came from England. Parliament passed Lord Cairn's Act in 1858, a law that authorized the English equity courts to award damages.¹¹⁰ United States courts relied heavily on English trademark cases during the nineteenth century, so this change in English equity practice surely had an impact on the practices in equity courts in the United States. The first reported English trademark case in equity to award both profits and damages was decided in 1865.¹¹¹ The first such case in the United States came in 1867.¹¹²

Another factor was the enactment in 1870 of a sweeping new intellectual property statute in the United States. The legislation was titled "An Act [t]o revise, consolidate, and amend the Statutes relating to Patents and Copyrights,"¹¹³ but it also included the first federal trademark laws.¹¹⁴ The statute established a trademark registration system and created federal trademark actions for infringement of registered marks. The owner of a registered mark could bring "an action in the case for damages,"¹¹⁵ and "shall also have his remedy according to the course of equity to enjoin the wrongful use of his trade-mark and to recover compensation"¹¹⁶

Ironically, it was a change to patent law remedies that may have had the most impact on trademark practices during the middle period. Under the patent law provisions of the 1870 Act, federal courts, sitting in equity, were authorized to award injunctions, damages, *and* profits.¹¹⁷ This was an important change, because

¹⁰⁹ See *Graveley v. Winchester*, (Ch. 1867) (reported at No. 272 in COX, *supra* note 79); *Gillott v. Esterbrook*, 47 Barb. 455 (N.Y. Gen. Term 1867); *Leather Cloth Co. v. Hirschfeld*, 1 Eq. 299 (Ch. 1865) (granting an injunction and directing an inquiry into plaintiff's damages; no damages were awarded because plaintiff failed to prove its damages).

¹¹⁰ 21 & 22 Vic., ch. 27, § 2 (1858).

¹¹¹ *Southorn v. Reynolds*, 12 L.T.N.S. 75 (Ch. 1865).

¹¹² *Gillott v. Esterbrook*, 47 Barb. 455 (N.Y. Gen. Term 1867), *aff'd*, 48 N.Y. 374 (N.Y. 1872). It is possible that the lower court misused the term damages, and that the actual relief was an accounting of defendant's profits. One commentator has opined that this type of error may explain the reported equity cases that mention "damages." Koelemay, *supra* note 93, at 464–65. There is no way to be sure of what happened in *Gillott*, but it is clear that subsequent equity cases awarded both damages and profits. See *infra* notes 118–27.

¹¹³ Act of July 8, 1870, ch. 230, 16 Stat. 198–217.

¹¹⁴ *Id.* §§ 77–84. The trademark provisions of the 1870 Act included a fundamental change to the law of trademarks, with trademark rights being created by registration. Use was not required to register a trademark under the 1870 Act. *Id.* § 77.

¹¹⁵ *Id.* § 79.

¹¹⁶ *Id.*

¹¹⁷ *Id.* § 55.

earlier patent statutes had required patent owners to elect either damages *or* profits, but not both.¹¹⁸ The 1870 Act allowed recovery of both.

The trademark provisions of the 1870 Act authorized equity courts to provide “compensation” in trademark cases, but said nothing about what form such compensation should take. With both English trademark actions and U.S. patent actions allowing recovery of damages and profits in equity, it was probably a small step for the U.S. courts to do the same in trademark cases. Damages are a form of “compensation,” so this shift was, at least arguably, within the scope of the statutory text of the 1870 Act’s trademark remedy provision.¹¹⁹

Whatever the reasons, the result was clear. Equity courts in the United States began awarding damages in trademark cases during the middle period. For example, in *Wolfe v. Barnett*,¹²⁰ the Louisiana Supreme Court reversed a lower court

¹¹⁸ See, e.g., *Elizabeth v. Pavement Co.*, 97 U.S. 126, 138 (1877) (noting that an equity court could not award damages and profits in patent case brought prior to Patent Act of 1870).

¹¹⁹ The 1870 Act’s trademark provisions were short-lived. They were struck down by the United States Supreme Court in the *Trade-Mark Cases*, 100 U.S. 82 (1879). The Court also invalidated an 1876 Act that criminalized trademark counterfeiting.

Two arguments were made in support of the new federal trademark laws. First, the United States argued the patent and copyright clause of the Constitution authorized the new federal trademark laws. *Id.* at 93–94. This clause authorizes Congress to pass laws “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” U.S. CONST. art. I, § 8, cl. 8. The Court quickly rejected this argument, noting that a trademark is neither an invention nor a creative work. *The Trade-Mark Cases*, 100 U.S. at 94.

The second potential source of congressional power identified by the United States was the Commerce Clause of the Constitution. *Id.* at 95. This grant of power was a closer fit, but the actual legislation ultimately went beyond Congress’ regulatory power, because it applied to all commerce. *Id.* at 95–96 (“[T]here still remains a very large amount of commerce, perhaps the largest, which, being trade or traffic between citizens of the same State, is beyond the control of Congress.”).

The Supreme Court also took a rather dim view of Congress’ tinkering with the existing trademark rules. One can hardly help but get the sense that the Court was telling Congress that it ought to leave well enough alone.

The right to adopt and use a symbol or a device to distinguish the goods or property made or sold by the person whose mark it is, to the exclusion of use by all other persons, has been long recognized by the common law and the chancery courts of England and of this country, and by the statutes of some of the States. It is a property right for the violation of which damages may be recovered in an action at law, and the continued violation of it will be enjoined by a court of equity, with compensation for past infringement. This exclusive right was not created by the act of Congress, and does not now depend upon it for its enforcement. The whole system of trade-mark property and the civil remedies for its protection existed long anterior to that act, and have remained in full force since its passage.

Id. at 92.

¹²⁰ 24 La. Ann. 97 (La. 1872).

decision that granted a limited injunction, but denied the plaintiff's claim for damages. Finding the plaintiff "entitled to a perpetuation of the injunction originally issued and to damages," the court directed the trial court to award \$1,500 in damages to plaintiff.¹²¹ This clearly was a damages award, and not an accounting of defendant's profits.¹²²

Another illustrative case is *Collins Co. v. Oliver Ames & Sons Corp.*¹²³ The plaintiff was a respected maker of "axes and other edge-tools" that bore the trademark "Collins & Co."¹²⁴ Defendant engaged in a similar business, making "shovels, spades, scoops, and other similar implements and tools."¹²⁵ Defendant's agent received a large order from Australia for Collins & Co. shovels. The defendant filled the order with its own shovels, but marked them with the plaintiff's Collins & Co. trademark. The markings on the shovels also identified the city and state in which defendant operated, not the city and state of the plaintiff. In the litigation, the defendant argued that the accurate location information on the shovels was enough to avoid infringement. The court disagreed and awarded damages *and* defendant's profits.¹²⁶

By the end of the middle period, some courts treated this issue as resolved. For example, one court said:

The rule which now prevails in the equity courts, respecting the wrongdoer's accountability for the "profits and damages" resulting from his unlawful acts, requires the master, not only to take an account of all profits made by the defendant, but also to make an

¹²¹ *Id.* at 98.

¹²² It was, however, an odd damages award. The case contains no mention whatsoever of the volume of defendant's sale or of his profits. Nor does the case discuss the amount of plaintiff's losses. The Louisiana Supreme Court simply stated, "[w]e fix the damages in this case at \$1500," and gave no explanation whatsoever. *Id.*

¹²³ 18 F. 561 (C.C.S.D.N.Y. 1882).

¹²⁴ *Id.* at 562.

¹²⁵ *Id.* at 563.

¹²⁶ *Id.* at 570–71. This award was striking for two reasons. First, it illustrates the willingness of some equity courts to grant damages. But it is also noteworthy given the facts. The plaintiff did not make shovels, and the infringing shovels made by defendant were sold outside the United States. Both of these facts could have had a bearing on the plaintiff's right to relief. The court, however, was not persuaded. It ordered the defendant to pay over to plaintiff the entire profit obtained from the infringing sales, despite the fact that plaintiff apparently could not have filled the order if it had wished to do so. *Id.*

It is quite possible the plaintiff did not ultimately obtain both damages and profits. The matter was referred to a master "for an accounting . . . as to profits and damages." It is hard to imagine what damages the plaintiff could establish given the facts. Nevertheless, the court's decree expressly authorized an award of both "profits and damages." *Id.* at 571.

inquiry in regard to all damages sustained by the plaintiff on account of the defendant's wrongful acts¹²⁷

There are other equity cases from the period that reach this conclusion (i.e., that profits *and* damages are to be granted),¹²⁸ and there are equity cases that award damages, but not profits.¹²⁹

With equity courts granting damages, a new issue arose. What is the difference between damages and profits? This question did not arise during the early period, because these two remedies were never available in the same action. Once that changed, some courts struggled to clearly distinguish between the remedies. A good example is found in a case decided by the Florida Supreme Court.

That a man whose trade-marks have been infringed upon, as in this case, is entitled to compensation for the infringement, is unquestionable; and it strikes us that it makes no difference whether the compensation to which the complainant is entitled is called 'profits' or 'damages.' What is an accounting, but the method by which to ascertain the complainant's damages or compensation for the wrong and injury done him by the defendants?"¹³⁰

The court continued, "a party whose trade-mark has been violated is entitled to recover all the profits realized by the wrong-doer from sales of the spurious article, and also all damages resulting from such violation."¹³¹ After providing this "helpful" explanation, the court "remanded for further proceedings consistent with this opinion."¹³² Similar confusion can be found in other cases from this period.¹³³

¹²⁷ W.R. Lynn Shoe Co. v. Auburn-Lynn Shoe Co., 62 A. 499, 506–07 (Me. 1905).

¹²⁸ See, e.g., Benkert v. Feder, 34 F. 534 (C.C.N.D. Cal. 1888).

¹²⁹ The case of *Faber v. Hovey*, (N.Y. Sup. Ct. 1875) (reported at No. 481 in COX, *supra* note 79), *aff'd*, 73 N.Y. 592 (N.Y. Ct. App. 1878), provides a good example. The case involved the well-known maker of lead-pencils. An injunction was granted and the case sent to a referee to determine plaintiff's damages. The court approved the referee's assessment, holding "the damages were equal to the profits which the plaintiff would have made from the manufacture and sale of the same number of articles as the defendant had sold under the spurious mark." *Id.* One can question whether a one-to-one relationship between sales of counterfeit goods and sales of authentic goods is an accurate measure of a plaintiff's losses, but it is beyond question that the court here awarded damages, not defendant's profits. See also *Hostetter v. Vowinkle*, 12 F. Cas. 546 (C.C.D. Neb. 1871) (same).

¹³⁰ *El Modelo Cigar Mfg. Co. v. Gato*, 7 So. 23, 28 (Fla. 1890).

¹³¹ *Id.*

¹³² *Id.*

¹³³ In *Atlantic Milling Co. v. Rowland*, 27 F. 24 (C.C.S.D.N.Y. 1886), the court ordered an accounting of "profits" to be based on the volume of defendant's sales multiplied by the plaintiff's

Some equity courts during the middle period refused to grant both profits and damages. As one court explained, a “plaintiff is not entitled . . . ‘to an account of profits, and also an inquiry as to damages.’ ”¹³⁴ Despite the equity court’s authority to award damages, this court held that plaintiff had to choose between the two remedies: “‘You may elect to claim such damages as you have sustained, or take an account of profits.’ ”¹³⁵

The damages remedy became more common during the middle period, largely because this remedy was available in the same suit needed to obtain an injunction. Unfortunately, the cases from this period are not clear about what showing was required to obtain damages. There were a few reasons for this result. First, most trademark cases from this period simply lack detailed discussions of remedies. Second, many cases refer to damages and profits together, making it impossible to determine whether the same or a different substantive requirement existed for the two remedies. Third, courts from this period were quick to find fraudulent intent, especially when a technical trademark was copied. Once a court has found deceptive intent, there is little reason to discuss what the outcome might have been had the defendant acted innocently. The end result is ambiguity, though there were some subtle signs that courts were shifting the focus of the damages inquiry from the defendant’s bad faith to the plaintiff’s injury.¹³⁶

profit margin. Such a calculation is a measure of plaintiff’s damages, not defendant’s profits, thus further illustrating the level of confusion in the courts during this period. *See also* *Graham v. Plate*, 40 Cal. 593, 598 (1871) (“It is evident that the profit realized by the wrong-doer is not the *only* measure of damages.”).

Even leading commentators of this era seemed to confuse the two monetary remedies. Consider the following explanation from a leading treatise: “The proper measure of damages, in case of violation of a trade-mark, is generally the profit realized upon the sales of goods to which the spurious marks were attached. The actual damages for the infringement would seem, as a general rule, to be all that could be reasonably claimed.” BROWNE, *supra* note 57, § 503.

¹³⁴ *Avery v. Meikle*, 3 S.W. 609, 613 (Ky. 1887).

¹³⁵ *Id.* The separation of the legal and equitable remedies was also noted in a common law case from this period. *Addington v. Cullinane*, 28 Mo. App. 238 (Mo. Ct. App. 1887). The court held that using defendant’s profits as a measure of plaintiff’s damages was improper, because “in a common-law action for damages, in cases of this class, such a method of arriving at the plaintiffs’ rights has never been sanctioned.” *Id.* at 241. The court noted that accountings of defendant’s profits were appropriate in trademark actions in equity. *Id.*

¹³⁶ It is difficult to be sure what rule courts were using during this period, because courts found intentional deception in most of the cases where relief was granted. In other cases, deceptive intent was strongly implied. For example, in *Wolfe v. Barnett*, 24 La. Ann. 97 (La. 1872), the court concluded that defendant’s “excuse” of having someone’s permission to use the plaintiff’s trademark was not credible. *Id.* at 99–100.

It is, however, clear that courts were using a likelihood of confusion standard to determine whether to grant injunctions, and that equity courts were often granting injunctions and damages by the end of the middle period. This fact, combined with the fact that a number of cases from this period are not clear about the showing required to obtain damages, suggests that, at a minimum,

2. *Defendant's Profits—Was Intent Still Required?* The showing required to obtain an accounting of defendant's profits became somewhat less clear during the middle period. The majority of equity courts continued to adhere to the intent requirement established during the early period of trademark law.¹³⁷ For example, in an equity case involving the intentional passing off of an inferior product as Hennessy brandy, a court concluded that aggravated circumstances were required to obtain monetary relief.¹³⁸ The court was satisfied that plaintiff had carried this burden, and therefore, awarded both profits and damages.¹³⁹ Though there was "some conflict in the decisions," the weight of authority by the end of the middle period was "in favor of the rule that an account of profits will not be taken where the wrongful use of a trade-mark or a tradename has been merely accidental or without any actual wrongful intent to defraud a plaintiff or to deceive the public."¹⁴⁰

There were, however, exceptions. One court held "the case may go to a master for an account of gains and profits, on account of the unauthorized, though not intentional and fraudulent, use by respondents . . ."¹⁴¹ No other cases were found that went this far, but there are other cases from this period that suggest profits could be obtained without proof of intent.¹⁴²

courts were beginning to move away from the fraud of the early common law cases.

A good example of a case suggesting this shift began during the middle period is *Amoskeag Manufacturing Co. v. Garner*, 4 Am. L.T.N.S. 176 (N.Y. Sup. Ct. 1876) (reported at No. 500 in COX, *supra* note 79). The court held that defendant's intent was immaterial on the issue of whether an injunction should issue. The court also held that no damages or profits would be awarded because plaintiff delayed bringing the action. The latter holding suggests that if the action had been timely, monetary relief would have been awarded, even though fraudulent intent was not established. *See also* *Faber v. D'Utassey*, 11 Abb. Pr. N.S. 399 (N.Y. Sup. Ct. 1871) (reported at No. 355 in COX, *supra* note 79) (holding that a defendant's lack of knowledge of plaintiff's ownership of the mark might not be a defense). There is one case from the early period that also seems to indicate some relaxation of the fraud requirement. *See* *Davis v. Kendall*, 2 R.I. 566, 566 (R.I. 1850) (holding that the key issue in an action at law was defendant's mark was "so like the plaintiff's as to mislead the public").

¹³⁷ *See, e.g.,* *Wharton v. Thurber*, (N.Y. Sup. Ct. 1879) (discussed at No. 663 in COX, *supra* note 79) (where "defendants inadvertently employed the [plaintiff's] designation," an injunction was granted, but accounting denied); *Weed v. Peterson*, 12 Abb. Pr. N.S. 178 (N.Y. Sup. Ct. 1872) (reported at No. 387 in COX, *supra* note 79) (infringement was unintentional; injunction granted, but no monetary relief awarded).

¹³⁸ *Hennessy v. Wilmerding-Loewe Co.*, 103 F. 90, 94 (C.C.N.D. Cal. 1900).

¹³⁹ *Id.* at 94–96.

¹⁴⁰ *Regis v. Jaynes*, 77 N.E. 774, 776 (Mass. 1906).

¹⁴¹ *Oakes v. Tonsmierre*, 49 F. 447, 453 (C.C.S.D. Ala. 1883).

¹⁴² *Stonebraker v. Stonebraker*, 33 Md. 252 (Md. 1870) provides a good example. The court found "an evident purpose to deceive," based on the defendant's actions. *Id.* at 268. Despite this finding, the court also asserted that an injunction and accounting would be awarded "even where it does not appear there was any fraudulent intent . . ." *Id.* *See also* *Hostetter v. Vowinkle*, 12 F. Cas. 546

One other issue concerning the accounting remedy arose during this period. The question was how profits should be calculated, and specifically, whether the profits to be awarded were limited to those proven to be attributable to defendant's use of the infringing trademark. Some defendants argued plaintiff had the burden of proving what portion of the defendant's profits were attributable to the trademark, as compared to the market demand for the article itself.¹⁴³ Courts uniformly rejected this argument, as illustrated by the following excerpt from a decision by the California Supreme Court:

[E]very consideration of reason, justice and sound policy, demands that one who fraudulently uses the trade-mark of another should not be allowed to shield himself from liability for the profit he has made by the use of the trade-mark, on the plea that it is impossible to determine how much of the profit is due to the trade-mark, and how much to the intrinsic value of the commodity.¹⁴⁴

3. *Injunctions—Equitable Principles Take Center Stage.* The middle period also saw an increasing emphasis on equitable principles, particularly in cases where defendants challenged a prevailing plaintiff's right to an injunction. During this period, it became clear that injunctions in trademark cases were based, in part, on the public interest, and for that reason, injunctions were granted even when the equities did not clearly favor the plaintiff. The leading cases on this point came from the United States Supreme Court. The first case, *McLean v. Fleming*,¹⁴⁵ dealt with the equitable defense of laches. The Court held that a laches defense may bar recovery of monetary relief, but rarely will bar an injunction.¹⁴⁶ The second

(C.C.D. Neb. 1871) (awarding damages and an injunction after stating that a likelihood of confusion is sufficient to establish infringement; it seems clear from the decision, however, that the court believed the defendant acted with deceptive intent).

¹⁴³ See *Saxlehner v. Eisner & Mendelson Co.*, 138 F. 22 (2d Cir. 1905); *Benkert v. Feder*, 34 F. 534 (C.C.N.D. Cal. 1888).

¹⁴⁴ *Graham v. Plate*, 40 Cal. 593, 599 (1871). The case involved counterfeit Derringer pistols sold in California. The defendant argued that plaintiff had never sold its pistols in California, and therefore had no trademark rights in California. The Derringer brand, however, was well known throughout the country, and the California court was not receptive to the defendant's arguments. *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 418 (1916) (explaining that Derringer's pistol was on sale in San Francisco, and that was why defendant had adopted the same trademark).

¹⁴⁵ 96 U.S. 245 (1877).

¹⁴⁶ It is not at all clear what the monetary remedy was in this case. The district court referred the matter "to a master, to compute the amount of the gains and profits." *Id.* at 248. The Supreme Court referred to the defendant's challenge "to a decree for gains, profits, or damages." *Id.* at 256. In the end, all that is clear on this point is that the Supreme Court vacated the monetary award in its entirety. *Id.* at 257–58.

Supreme Court case, *Menendez v. Holt*,¹⁴⁷ presented essentially the same issue and, not surprisingly, reached the same result.¹⁴⁸

Why the distinction between injunctions and monetary remedies? One of the best explanations from this period is found, ironically, in the arguments by counsel for *Menendez* to the Supreme Court:

We feel satisfied that, in the light of these numerous authorities, the question of laches as between the interest of private litigants is one proper to be raised by defendant, and will avail him if the charge is proven. *McLean v. Fleming* seems to mark the distinction that where the general public is interested as a third party, and where it appears that the public will be injured by the false representations of the defendant, the question of laches will be pertinent only so far as complainants' right to an accounting is concerned; the injunction being, however, granted, not because complainant is in an equitable position, but because the public, and the public only, has to be protected.¹⁴⁹

This explanation seems to capture the underlying principles of both *McLean* and *Menendez*. It shows why the injunction was treated differently than monetary remedies in trademark cases. There was a third interest at stake—the public interest in being protected from confusion in the market—and that interest shifted the equitable balance in favor of granting injunctions. The same could not be said of monetary remedies.

There were, however, a substantial number of cases from this period where courts denied all relief based on the equitable defense of unclean hands. These cases typically involved a plaintiff who made serious misrepresentations to the public about its goods. A somewhat common storyline involved disputes over “medicinal” products. In the typical dispute, plaintiff used a particular trademark and trade dress for its “medicine” and achieved some degree of success in the market.¹⁵⁰ In achieving that success, the plaintiff made certain misrepresentations

¹⁴⁷ 128 U.S. 514 (1888). The Court again did little to clarify what monetary remedy or remedies were involved. At one point the Court refers to “an account of gains and profits,” and at another to “damages.” *Id.* at 523, 524.

¹⁴⁸ *Id.* at 524; see also *Julian v. Hoosier Drill Co.*, 78 Ind. 408 (1881) (a delay in bringing suit blocked a claim for damages, but would not bar an injunction).

¹⁴⁹ 128 U.S. at 519 (1888) (arguments of counsel for appellant). This argument was an honest characterization of the relevant principles, but it did not seem to help the appellant, who was trying to convince the Supreme Court to bar all relief. Appellant’s counsel went on to argue that there was no public interest in an injunction in the *Menendez* case because of allegedly widespread third party use of the plaintiff’s trademark. *Id.*

¹⁵⁰ See, e.g., *Manhattan Medicine Co. v. Wood*, 108 U.S. 218, 222 (1883) (holding that a “court

to purchasers, for example, that the product had some actual medicinal value.¹⁵¹ Courts tended to deny all relief to the plaintiffs in these cases.¹⁵²

Is there an inconsistency between the cases barring all relief in equity due to misrepresentations by the plaintiff (e.g., the questionable medicine cases described above) and the *McLean* and *Menendez* decisions that allowed injunctions to issue despite laches by plaintiffs? At a superficial level, it appears these results are inconsistent, because one equitable defense (unclean hands) barred all relief, while another equitable defense (laches) did not. But upon closer examination, there is a common thread that runs through both groups of cases: the public interest in preventing deception of consumers. In the unclean hands cases, the courts refused to aid a plaintiff who had made serious, and potentially harmful,

of equity will extend no aid” to a plaintiff who has made misrepresentations to the public about its own goods); *A.N. Chamberlain Medicine Co. v. H.A. Chamberlain Medicine Co.*, 86 N.E. 1025, 1026–27 (Ind. App. 1909) (affirming dismissal of plaintiff’s trademark claims because of the gross misrepresentations plaintiff made about its own product and citing several other cases to the same effect).

¹⁵¹ The *Chamberlain Medicine* case cited above provides a good example of such misrepresentations. The plaintiff developed its medicine in 1850 and sold it under the name “A.N. Chamberlain’s Immediate Relief.” 86 N.E. at 1026. In promoting this “medicine,” plaintiff claimed it cured the following maladies:

Eczema or yellow fever, Asiatic cholera in its first stages or chilblains, catarrh or seasickness, diphtheria or pimples, cholera morbus or bee stings, bites of poisonous reptiles or piles, dysentery or scratches on horses, scarlet fever or sour stomach, measles or cramps, neuralgia or general debility, hysterics or hog cholera, la grippe or bloat and scours in horses, cattle and sheep, diarrhoea or itching and eruptions, bilious fever or wind galls on horses, bloody flux or sick headache, fever and ague or heaves in horses, colic or toothache, spotted fever or nervous tremors, sore throat or chicken cholera, cold feet or scalds and burns, rheumatism or earache, dumb ague or cuts and bruises, colds or summer complaint, coughs or colic in man or beast, griping pains or nervous headache, sprains and wounds or diseases of young lambs.

86 N.E. at 1026. The court clearly was disturbed by such claims, but the plaintiff did not stop with this impressive list of problems its medicine allegedly cured. Plaintiff expressly promoted its medicine as a cure for diphtheria, a potentially fatal disease that was somewhat common during this period. It was this act, more than anything else, that offended the court and justified the dismissal of plaintiff’s trademark claims.

This wanton advice, with reference to this known deadly disease, this reckless disregard for the consequences on human life, this palpable falsehood, put forth to deceive distressed, ignorant, and credulous people to their detriment, in cases of life and death, in order to make a few more sales of this nostrum, is atrocious and little less than a crime.

86 N.E. at 1026.

¹⁵² See *supra* note 150.

misrepresentations to consumers. In the laches cases, injunctions were granted to prevent confusion due to defendant's trademark infringement.¹⁵³

The laches cases of this period are important because they highlight the public interest at stake in trademark cases. That interest justified different rules for injunctions and monetary remedies. But what about the substantive standards for obtaining these remedies? The cases discussed above focus on whether an equitable defense will bar some or all remedies. Does it follow that different substantive showings should be required for injunctions and monetary remedies? Injunctions that stop or prevent consumer confusion directly benefit the public, but monetary payments from one party to another do not.¹⁵⁴ This distinction could be used to support the use of a different substantive requirement for the different remedies in trademark cases. The cases from the middle period, however, do not address this point.

4. *Punitive Damages in Trademark Cases.* Common law courts began to move toward approval of punitive damages in trademark cases during the middle period. Equity courts generally refused to grant punitive relief,¹⁵⁵ and that may have led some trademark owners to return to the action at law in the hope of obtaining punitive damages. We see the first signs of such a move during the middle period, and then a clear trend during the late period, as will be explained in a later section of this Article.¹⁵⁶

There is one known trademark case that may have included an award of punitive damages during this period, but the report is not clear.¹⁵⁷ The trial judge instructed the jury as follows:

¹⁵³ It must be pointed out that the unclean hands cases present something of a Hobson's choice. The decisions cited above dismissed plaintiff's claims because the courts did not want to aid a party guilty of misleading consumers. But by barring all relief, the courts gave a green light to defendants and others to use identical trademarks on competing goods, a practice sure to confuse consumers. Either way, consumers are misled. But by refusing to enforce trademarks being used to mislead consumers, courts make it harder for the users of such marks to distinguish their products in the market, which may undermine the entire market for such goods.

¹⁵⁴ Monetary remedies can have a deterrent effect, which provides a secondary public benefit.

¹⁵⁵ "Where a court of equity has power to award damages, it cannot go beyond compensation; by applying to such a court, the complainant waived all claim to exemplary damages." 1 SEDGWICK, A TREATISE ON THE MEASURE OF DAMAGES 727 (9th ed. 1920); *see also* Tull v. United States, 481 U.S. 412, 422 (1987) ("Remedies intended to punish culpable individuals, as opposed to those intended simply to extract compensation or restore the status quo, were issued by courts of law, not courts of equity."); *Livingston v. Woodworth*, 56 U.S. 546, 559 (1853) ("We are aware of no rule which converts a court of equity into an instrument for the punishment of simple torts . . ."); AMASA C. PAUL, THE LAW OF TRADE-MARKS INCLUDING TRADE-NAMES AND UNFAIR COMPETITION § 326 (1903) ("In equity, exemplary (vindictive or punitive) damages will never be awarded or decreed."); James, *supra* note 102, at 672 (equity refused to enforce penalties).

¹⁵⁶ *See infra* notes 203–27 and accompanying text.

¹⁵⁷ *Warner v. Roehr*, 29 F. Cas. 266 (C.C.N.D. Ill. 1884).

In cases of this character, where you are satisfied from the proof and from the admissions in the case that the fraud — the intention to defraud — is at the bottom of the matter, * * * *the jury are not confined to the exact monetary damages shown by the evidence, but may give what are known as vindictive or exemplary damages, for the purpose of deterring others from embarking in the same scheme of fraud or deception.*¹⁵⁸

The jury awarded \$2,650.¹⁵⁹ It is not clear whether that was an award of actual damages, exemplary damages, or some combination of the two. All that one can say with certainty about this case is that the trial judge believed exemplary (i.e., punitive) damages were appropriate in “cases of this character.”¹⁶⁰

The only other case from the middle period addressing the punitive damages issue is *Hennessy v. Wilmerding-Loewe Co.*¹⁶¹ The plaintiff argued that it was entitled to punitive damages because of defendant’s intentionally deceptive acts. Plaintiff cited a copyright case in support of the proposition.¹⁶² The defendant relied upon *Taylor v. Carpenter*,¹⁶³ the trademark case from the early period in which the court refused to award exemplary damages. The court in *Hennessy* evaluated the parties’ arguments and concluded that punitive damages are available in a trademark infringement action at law.¹⁶⁴

None of this mattered, however, because the *Hennessy* case was an equity action. “There does not appear to be any example of a case in equity in which a master, upon an accounting, has acted as a jury in a case at law, and awarded punitive damages.”¹⁶⁵ Despite the *Hennessy* plaintiff’s loss on this issue, the case provided some support, albeit dicta, for the proposition that punitive damages could be obtained in a trademark action at law.¹⁶⁶

Thus ends the review of the middle period. Much happened in trademark law during this period. On the positive side, courts began to provide consistent, coherent explanations for why injunctions were easier to obtain in equity than

¹⁵⁸ *Id.* at 266 (internal ellipsis in original, emphasis added).

¹⁵⁹ *Id.*

¹⁶⁰ The entire report consists of the jury instruction on damages and the following statement: “There was a verdict for twenty-six hundred and fifty dollars, with costs.” *Id.*

¹⁶¹ 103 F. 90 (C.C.N.D. Cal. 1900).

¹⁶² *Id.* at 95. The case relied upon by the plaintiff was *Publishing Co. v. Monroe*, 73 F. 196 (2d Cir. 1896). Monroe, the plaintiff, had written a poem for the Chicago World’s Fair. The defendant newspaper printed the poem in its entirety without the plaintiff’s permission, despite being warned of this fact. The case was tried to a jury, and Monroe was awarded \$5,000 in exemplary (i.e., punitive) damages. *Id.* at 201.

¹⁶³ 23 F. Cas. 744, 751 (C.C.D. Mass. 1846).

¹⁶⁴ *Hennessy*, 103 F. at 95.

¹⁶⁵ *Id.* at 95–96.

¹⁶⁶ Two later cases addressing the same issue cited *Hennessy* as support for the view that punitive damages are available in trademark cases. See *infra* notes 219, 227.

monetary relief. Unfortunately, some confusion and uncertainty developed concerning the nature of and rules governing money remedies in trademark cases.

C. THE LATE PERIOD (1905–1946)

This period takes us from Congress' second major attempt at a federal trademark statute¹⁶⁷ (1905) through the passage of the Lanham Act (1946), which was Congress' last sweeping overhaul of federal trademark law.¹⁶⁸ The limits of trademark and unfair competition law were being tested during this period. Several of the most important cases in the history of trademark law came during this time. Indeed, this period produced the seminal cases dealing with the territorial nature of common law trademark rights and trademark dilution (though the cases did not use that term). The period also saw important developments in the area of remedies.

The review of the late period follows the same pattern used in prior sections, with one exception. As in the two preceding sections, damages are considered first, followed by defendant's profits, injunctions, and, finally, punitive damages. But the late period presentation does not stop there. In a final section, a new development is discussed: large monetary awards in trademark cases. Though such awards were the exception, these awards captured the attention of those involved in the trademark reform process that led to the Lanham Act.

1. *Damages—Distinct from Profits, But Hard To Prove.* The late period brought much needed clarity to the remedial rules in trademark cases. Courts began to clearly distinguish between the two monetary remedies in trademark cases. The 1905 Trademark Act probably contributed to this change. Unlike the 1870 Act, which simply stated that a plaintiff may "recover compensation" in equity or damages at law,¹⁶⁹ the 1905 Trademark Act clearly identified and distinguished the

¹⁶⁷ There was another federal trademark statute passed in 1881, following the Supreme Court's invalidation of the 1870 Act. Act of March 3, 1881, ch. 138, 21 Stat. 502–04 (authorizing the registration of trade-marks and protecting the same). The 1881 Trademark Act was limited to commerce with foreign nations and Indian tribes. As these types of commerce were within Congress' express power to regulate, the fatal flaw of the 1870 Act was avoided.

The 1881 Act dropped perhaps the most sweeping change found in the 1870 Act. Under the 1881 Act, only trademarks actually in use could be registered. This approach has remained a fundamental aspect of trademark law in the United States to this day.

¹⁶⁸ Some may argue that the 1988 Trademark Law Revision Act (TLRA) was a sweeping change to federal trademark law. See generally Trademark Law Treaty Implementation Act, Pub. L. No. 105-330, tit. I, § 101, 112 Stat. 3064, 3064; Trademark Law Revision Act of 1988, Pub. L. No. 100-667, tit. I, § 129, 102 Stat. 3935, 3945. The TLRA made important changes to the Lanham Act, but did not replace it. The Lanham Act completely replaced the 1905 Trademark Act.

¹⁶⁹ Act of July 8, 1870, ch. 230, § 79, 16 Stat. 198, 211. Not only was the 1870 Act vague about the specific remedy or remedies available in equity, the Act identified the remedies at law and in equity in the same provision.

profits and damages remedies.¹⁷⁰ In an equity action, a plaintiff could “recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby”¹⁷¹

The focus of the damages inquiry shifted from the defendant’s bad faith to the plaintiff’s injury. This change is conceptually sound, but was not helpful to trademark owners, who now faced a difficult challenge:

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. There is no presumption of law or of fact that a plaintiff would have made the sales that the defendant made.¹⁷²

Few plaintiffs could satisfy this requirement, and the damages remedy became rare in trademark cases.¹⁷³

The late period marked the final departure from the old common law deceit-based trademark action. Though few cases are explicit on this issue, it seems that by the end of the late period, plaintiffs no longer had to prove deceptive intent to recover damages.¹⁷⁴ The focus of the damages inquiry was on the plaintiff’s injury, not the defendant’s culpability.¹⁷⁵

¹⁷⁰ Act of Feb. 20, 1905, ch. 592, §§ 16, 19, 33 Stat. 724, 728, 729.

¹⁷¹ *Id.* § 19. The section describing the action at law identified only damages, but did authorize courts to increase damages by up to three times. *Id.* § 16.

In an ironic twist, the text quoted above appears to have been borrowed directly from the 1870 Act’s patent provisions. Language identical to that found in § 19 of the 1905 Trademark Act is found in § 55 of the 1870 Act, the provision identifying the remedies a patent owner could obtain in equity. This borrowing is ironic because courts during the middle period seemed to have been doing the same thing. That is, equity courts began awarding damages and profits in trademark cases after 1870, a result probably due, at least in part, to the change to the patent law brought by § 55 of the 1870 Act. *See supra* notes 109–36 and accompanying text (discussing why equity courts began awarding damages in trademark cases during the middle period).

¹⁷² *Dickinson v. O. & W. Thum Co.*, 8 F.2d 570, 575 (6th Cir. 1925).

¹⁷³ *See, e.g., Coca-Cola Co. v. Dixi-Cola Labs., Inc.*, 155 F.2d 59, 63 n.1 (4th Cir. 1946) (noting the plaintiff was unable to prove any actual monetary injury despite evidence of an intentionally deceptive product substitution scheme by defendants).

¹⁷⁴ *Gehl v. Hebe Co.*, 276 F. 271, 274 (7th Cir. 1921) (noting the a defendant’s good faith would “have a bearing on the question of punitive damages, but would not affect the proposition of actual damage”); *P. E. Sharpless Co. v. Lawrence*, 213 F. 423, 426 (3d Cir. 1914) (holding that evidence of willful infringement is relevant to an award of profits, but may not be required to obtain damages); *Rubber & Celluloid Harness Trimming Co. v. F. W. Devoe & C. T. Reynolds Co.*, 233 F. 150, 160 (D.N.J. 1916) (following *P.E. Sharpless*).

¹⁷⁵ The *Dickinson* case quoted above provides a good example. The district court directed a master to report on profits and damages. On appeal, the Sixth Circuit addressed the profits remedy

2. *Defendant's Profits—Clarity Emerges, Then Fades.* There was some confusion during the middle period concerning the showing required to obtain an accounting of defendant's profits. Most courts required proof of deliberate infringement. At the beginning of the late period, the Massachusetts Supreme Court endorsed this view in a decision that was followed by many courts. After a careful review of cases addressing this issue, the court concluded:

There is some conflict in the decisions; but we think that the weight of modern authority is in favor of the rule that an account of profits will not be taken where the wrongful use of a trade-mark or a tradename has been merely accidental or without any actual wrongful intent to defraud a plaintiff or to deceive the public.¹⁷⁶

Courts in other states followed this lead, and by the time the Lanham Act was enacted, one could say with some certainty that a plaintiff in a trademark case had to prove deceptive intent to obtain a defendant's profits.¹⁷⁷ In fact, no cases were

and damages remedy separately. In reviewing the objections to the profits award, the court focused on the defendant's actions, and noted that the accounting began from the date defendant was put on notice of the alleged infringement. *Dickinson*, 8 F.2d at 572. This approach is entirely consistent with the discussion above, as it looks solely to the defendant's culpability and not to the plaintiff's injury.

When the Sixth Circuit turned to the damages issue, it began with the language quoted above. *Id.* at 575. The court then noted the absence of evidence to support each of plaintiff's damages theories. *Id.* See also *Coca-Cola*, 155 F.2d at 63–64 (rejecting claim for actual or enhanced damages because plaintiff failed to prove any actual injury, but allowing profits based on defendants' bad faith).

The *Dickinson* case contains another indication that intent was no longer an element of a damages claim in a trademark case. The court cited six cases in support of its ruling on the damages issue. Every case was a patent infringement action decided under the 1870 Patent Act. *Dickinson*, 8 F.2d at 575. The Patent Act provided damages as a right upon proof of infringement. There was no requirement to prove bad faith or willful infringement in a patent case to recover damages. The reliance on such cases is a strong indication that courts had dropped the intent requirement in trademark cases.

¹⁷⁶ *Regis v. Jaynes*, 77 N.E. 774, 776 (Mass. 1906). The maintenance of the intent requirement for profits claims, while dropping this requirement for damages claims is ironic. In the early trademark cases in equity, the chancellors required proof of intent because the early common law actions had required such proof. Equity was simply following the maxim *aequitas sequitur legem* ("equity follows the law"). The rule of law changed, but this time equity did not follow.

¹⁷⁷ *Liberty Oil Corp. v. Crowley, Milner & Co.*, 258 N.W. 241, 243 (Mich. 1935); *Globe-Wernicke Co. v. Safe-Cabinet Co.*, 144 N.E. 711, 713 (Ohio 1924) ("[T]he 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."); *United Drug Co. v. Kovacs*, 123 A. 654, 655 (Pa. 1924) ("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."); *Holley Milling Co. v. Salt Lake & Jordan Mill & Elevator Co.*, 197 P. 731, 733 (Utah 1921); *Kickapoo Dev.*

found from the late period where a court purposefully awarded an accounting of defendant's profits absent evidence of willful infringement or some other form of bad faith.¹⁷⁸

Some courts, however, did question the majority rule. When presented with the argument that an accounting of profits required proof of willful infringement, the Sixth Circuit responded: "We do not understand upon what theory the profits should be so confined, and do not get anything satisfactory to that effect out of the authorities cited."¹⁷⁹ Though this statement seems to indicate a break from the majority position, the statement was dicta because the court found the infringement was willful.¹⁸⁰

It should also be noted that courts during this period were quick to find a defendant guilty of intentional infringement. Several cases held that where a defendant adopted a trademark that was a colorable imitation of another's

Corp. v. Kickapoo Orchard Co., 285 N.W. 354, 359–60 (Wis. 1939); Wood v. Pepper, 130 P.2d 220, 225–26 (Cal. Dist. Ct. App. 1942); Notaseme Hosiery Co. v. Straus, 209 F. 495, 496 (S.D.N.Y. 1913); Rubber & Celuloid Harness Trimming Co. v. F. W. Devoe & C. T. Reynolds Co., 233 F. 150, 160 (D.N.J. 1916).

A leading commentator of the period took the same view. "An accounting will not be ordered where the infringing party acted innocently and in ignorance of the plaintiff's rights, provided such party stops his illegal practices after he discovers the truth." HARRY D. NIMS, *THE LAW OF UNFAIR COMPETITION AND TRADE-MARKS* 1078 (3d ed. 1929).

¹⁷⁸ The qualified language is intentional, because a full accounting of defendant's profits was inadvertently granted in a leading case from this period, the *Mishawaka Woolen* case, which is discussed below. Profits were awarded despite the district court's conclusion that the "infringement was neither deliberately willful nor in bad faith." *Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co.*, 67 F. Supp. 1000, 1002 (E.D. Mich. 1946). For reasons explained below, it is not wise to place any weight on this aspect of the *Mishawaka Woolen* litigation. See *infra* notes 189–201 and accompanying text.

¹⁷⁹ *Lawrence-Williams Co. v. Societe Enfants Gombault Et Cie*, 52 F.2d 774, 778 (6th Cir. 1931).

¹⁸⁰ *Id.* ("[T]he case does not sufficiently show that the infringement was not willful."). Despite this comment, the case does provide some support for the proposition that some courts awarded profits without evidence of willful infringement, at least by modern standards. In this case, the defendant believed it had a legal right to use the trademark at issue. It turned out defendant was wrong, but there was no evidence of an intent to trade on the good will of the plaintiff. Consider the court's justification for questioning the defendant's innocence:

[Defendant's] use of the mark was deliberate. The situation is about the same as where a defendant infringes a patent under the advice of counsel that it is invalid. Such infringement is not usually so willful as to justify treble damages, but we think it does justify, here as there, turning over to the plaintiff the actual profits received.

Id. By modern standards, this defendant probably would not have been deemed a willful infringer. Most courts now focus on whether the defendant intended to trade on the plaintiff's good will, and reject allegations of willful infringement based only on knowledge of the plaintiff's trademark and an intent to compete. See, e.g., *General Mills, Inc. v. Kellogg Co.*, 824 F.2d 622, 627 (8th Cir. 1987).

technical trademark,¹⁸¹ fraudulent intent would be presumed.¹⁸² Given this practice, it is not as clear that courts required proof of actual culpability as a prerequisite to obtaining an accounting of defendant's profits.

Two important decisions by the United States Supreme Court provide good illustrations of this point, and help demonstrate why this issue was not entirely clear when the Lanham Act was adopted. In *Hamilton-Brown Shoe Co. v. Wolf Brothers & Co.*,¹⁸³ the Court stated, "Having reached the conclusion that complainant is entitled to the use of the words 'The American Girl' as a trademark, it results that it is entitled to the profits acquired by defendant from the manifestly infringing sales"¹⁸⁴ This proposition seems to indicate that a finding of trademark infringement automatically entitles a plaintiff to an award of defendant's profits.

The Court's position in *Hamilton-Brown Shoe*, however, is far from clear. The defendant argued that plaintiff had the burden of proving what portion of the profits were attributable to the infringement, a task the Court described as "inherently impossible."¹⁸⁵ As an additional reason for rejecting this argument, the Court noted "that defendant does not stand as an innocent infringer."¹⁸⁶ The "findings of the court of appeals, supported by abundant evidence, show that the imitation of complainant's mark was fraudulent"¹⁸⁷

The Court's analysis does not clarify the requirement for obtaining an accounting. When the Court discusses the accounting remedy—and here the Court provides the most complete explanation of the rationale for this remedy to be found in any leading trademark case¹⁸⁸—there is no mention whatsoever that

¹⁸¹ A technical trademark is what we now call an inherently distinctive trademark. Sidney A. Diamond, *Untangling the Confusion in Trademark Terminology*, 73 TRADEMARK REP. 290, 291 (1983) ("Historically, the term 'trademark' (the older spelling was 'trade mark' or 'trade-mark') was restricted to inherently distinctive marks, sometimes known as 'technical trademarks.'").

¹⁸² As one court explained, "in cases involving a technical trade-mark, where fraud will be presumed from the wrongful use of the trade-mark, without regard to the intent." *Daviess County Distilling Co. v. Martinoni*, 117 F. 186, 188 (C.C.N.D. Cal. 1902); *see also Church & Dwight Co. v. Russ*, 99 F. 276, 279 (C.C.D. Ind. 1900); *Reymer & Bros. v. Huyler's*, 190 F. 83, 87 (C.C.W.D. Pa. 1911).

¹⁸³ 240 U.S. 251 (1916).

¹⁸⁴ *Id.* at 259.

¹⁸⁵ *Id.* at 261.

¹⁸⁶ *Id.*

¹⁸⁷ *Id.*

¹⁸⁸ The Court provided the following explanation of the reason defendant's profits are awarded in trademark cases:

The right to use a trademark is recognized as a kind of property, of which the owner is entitled to the exclusive enjoyment to the extent that it has been actually used. The infringer is required in equity to account for and yield up his gains to the true owner, upon a principle analogous to that which charges a trustee with the profits acquired by wrongful use of the property of the *cestui que*

a plaintiff must prove willful infringement. Instead, the Court's statements could be read as support for the argument that no such requirement exists.

On the other hand, the Court did accept the finding of intentional infringement, and used that fact as a reason for not reducing the amount of the profits award. That is, however, not the same as requiring proof of willful infringement to obtain an accounting. In fact, perhaps the most accurate description of the Court's analysis in *Hamilton-Brown Shoe* is that a plaintiff may be entitled to an accounting of profits without any showing of willful infringement, but if the infringement is innocent, the defendant may be entitled to more generous deductions from the calculated profits. What kind of standard is that?

The Supreme Court addressed the profits remedy again in *Mishawaka Rubber & Woolen Manufacturing Co. v. S. S. Kresge Co.*¹⁸⁹ This case may have done more to confuse the issue of whether willful infringement was required to obtain an accounting than any other case ever decided. Yet ironically, the Supreme Court never even addressed that issue:

Deeming the matter to present an important question under the Trade-Mark Act, we brought the case here solely to review the provisions of the decree dealing with the measure of profits and damages for the infringement found by the two lower courts.

*Whether there was such an infringement as to entitle the petitioner to the remedies provided by the federal trade-mark laws is therefore not open here.*¹⁹⁰

The Supreme Court's intervention was due to the nature of the accounting granted by the district court. Defendant was ordered to pay to plaintiff those profits from sales "to purchasers who were induced to buy because they believed the heels to be those of plaintiff and which sales plaintiff would otherwise have made." ¹⁹¹

The rest of the Supreme Court's analysis in *Mishawaka* focuses on the burden of proof in an accounting and whether the plaintiff is limited to those profits proven to be attributable to the infringement.¹⁹² The Court rejects the approach taken by the district court because the statute (i.e., the 1905 Trademark Act) places the burden on the defendant to prove deductions from its gross sales revenue. The accounting order of the district court was not consistent with the statute, the Supreme Court held, and therefore the order was reversed.

trust. . . And profits are then allowed as an equitable measure of compensation, on the theory of a trust *ex maleficio*.

Id. at 259 (citations omitted).

¹⁸⁹ 316 U.S. 203 (1942).

¹⁹⁰ *Id.* at 204–05 (emphasis added).

¹⁹¹ *Id.* at 204.

¹⁹² *Id.* at 205–08.

There is, however, more to the *Mishawaka* story. The trademark at issue was a red rubber plug in the heel of shoes made by plaintiff. The prevailing rule at the time was that color alone could not be a trademark.¹⁹³ Defendant did not believe plaintiff had exclusive rights in the red plug, a reasonable view under the law at that time. The district court found the overall appearance of the heel of plaintiff's shoes was distinctive, and thus, defendant's actions were deemed to be unfair competition. Defendant was enjoined, and a limited accounting was ordered.

When the Sixth Circuit reviewed the case on appeal, it noted that proof of deceptive intent was required to obtain an accounting of defendant's profits.

The rule prevails in Michigan 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. This is in harmony with the rule prevailing in the federal courts.¹⁹⁴

The court later stated, "There is no finding of fact in the case at bar, and we find no evidence in the record to support the inference that appellee adopted the symbol used on its heels for the fraudulent purpose of attracting to itself business or sales which belonged to appellant"¹⁹⁵ In fact, the Sixth Circuit noted that plaintiff's case was "not very strong on the facts, yet it seems to be entitled to the carefully limited injunction and accounting of profits which was granted."¹⁹⁶

Based on the Sixth Circuit's statement of law, and the findings of fact, it would seem no accounting should have been granted. Why didn't the Sixth Circuit so hold? Why didn't the district court refuse plaintiff's request for an accounting? When the case was later remanded for a full accounting, the district court was quite clear: "Defendant's infringement was neither deliberately wilful nor in bad faith."¹⁹⁷ Indeed, the worst the district court could say of defendant was that "prior to this suit . . . it regarded plaintiff's claim of infringement as lacking in merit."¹⁹⁸

What happened in this case? The Supreme Court ordered a full accounting of defendant's profits in a case where the defendant did not willfully infringe. But because the Supreme Court purportedly limited its review to the question of how

¹⁹³ See, e.g., Stewart W. Richards & H. Kenneth Haller, *Shade and Scent Marks*, 44 TRADEMARK REP. 1125, 1126 (1954) ("It is, of course, axiomatic that color alone cannot ordinarily be appropriated as a trademark apart from symbol or design.").

¹⁹⁴ *Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co.*, 119 F.2d 316, 323 (6th Cir. 1941).

¹⁹⁵ *Id.* at 324.

¹⁹⁶ *Id.* at 326.

¹⁹⁷ *Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co.*, 67 F. Supp. 1000, 1002 (E.D. Mich. 1946).

¹⁹⁸ *Id.*

an accounting should be conducted—that is, to the computational process—the Court never reached the question of whether an accounting was warranted.¹⁹⁹ Every court that dealt with this case mishandled it.

The accounting ordered by the district court in *Mishawaka* looks as much like a damages remedy as an accounting of defendant's profits. The court limited plaintiff's recovery to profits from sales plaintiff would have made but for the infringement. That is a damages approach, because it is based on plaintiff's losses, not defendant's gains. But the district court ordered defendant to pay its profits on the sales plaintiff would have made. The remedy provided by the district court was a cross between a damages award and an accounting of defendant's profits. Indeed, the district court's hybrid award was closer to a damages award, with the error being the court's use of defendant's profit margin rather than plaintiff's to measure the damages.

And a damages award in *Mishawaka* would have been consistent with the general trend at that time. Damages were available to a prevailing plaintiff, even if defendant's infringement was innocent.²⁰⁰ The problem for plaintiffs was the proof of injury. The plaintiff in *Mishawaka* probably would have recovered little, if anything, under the district court's order, because it would have been difficult to prove the portion of defendant's sales that plaintiff would have made.

In the end, *Mishawaka* created confusion on an issue that was relatively clear in the lower federal courts and in the state courts. Either the Supreme Court or the Sixth Circuit should have reversed the district court and remanded with clear instructions about the difference between plaintiff's damages and defendant's profits. It seems clear the district court never intended to grant the type of monetary relief the Supreme Court ultimately ordered. The district court should have been given the opportunity to correct its error. Instead, the Supreme Court perpetuated that error and made it worse.

After the Supreme Court muddled the waters, it was a bit less clear what the standard was for obtaining a defendant's profits. Was deceptive intent merely a factor to consider in determining the amount of a profits award, as *Hamilton-Brown Shoe* seemed to suggest? Was it appropriate to award a full accounting when the defendant's infringement was wholly innocent, as ultimately happened in *Mishawaka*?

¹⁹⁹ The Supreme Court should have realized that its narrow focus was not workable in the *Mishawaka* case, because the allegedly computational error was not computational at all. As explained above, the trial court granted a limited, hybrid remedy based on the weakness of plaintiff's claim. By treating the appeal as merely a question as to the computational process that should be used to conduct a normal accounting of defendant's profits, the Supreme Court forced a specially crafted remedy into a standardized procedure that did not fit the facts of the case.

²⁰⁰ See *supra* notes 173–74.

This section began with a discussion of a Massachusetts Supreme Court decision that helped clarify the law on this issue at the start of the late period. Indeed, state courts led the way on this issue. Their views were consistent and clear. Most federal courts followed the same rules.²⁰¹ In the end, the United States Supreme Court's two late period decisions dealing with the accounting remedy were more of a distraction than anything else. The clear majority rule remained that proof of deliberate deception was required to obtain an accounting of defendant's profits in a trademark case.

3. *Injunctions—Little Change.* The rules regarding injunctions in trademark cases were clear well before the Lanham Act was enacted. Injunctions were granted upon proof that defendant's actions were likely to cause confusion. Equitable defenses rarely would block an injunction, but often would bar money relief.²⁰² These rules were established during the middle period and remained unchanged through the late period.

4. *Punitive Damages.* The middle period ended with a hint that punitive damages might be available in trademark cases.²⁰³ As noted above, the 1905 Trademark Act appeared to sanction that view, as well.²⁰⁴ Finally, two trademark law treatises published in the early twentieth century indicated that punitive damages were, or should have been, available.²⁰⁵ The author of one treatise made

²⁰¹ *Mishawaka* provides a good illustration of this point. In discussing this issue in the *Mishawaka* case, the Sixth Circuit noted, "The rule prevails in Michigan 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." *Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co.*, 119 F.2d 316, 323 (6th Cir. 1941).

²⁰² There was one exception to this proposition, as noted above. Some courts refused to provide any relief to plaintiffs who made material misrepresentations to consumers about their product. The questionable medicine cases of the mid-nineteenth century provide examples of this practice. See *supra* notes 150–52 and accompanying text.

²⁰³ See *Hennessy v. Wilmerding-Loewe Co.*, 103 F. 90, 94 (C.C.N.D. Cal. 1900).

²⁰⁴ Did Congress intend to authorize punitive damages in the 1905 Act? The answer to that question is not clear. Congress, for the first time, expressly authorized courts to increase actual damages awards by up to three times. Act of Feb. 20, 1905, ch. 592, §§ 16, 19, 33 Stat. 724, 728, 729. The margin note summarizing Section 16 of the 1905 Act (i.e., the section specifying the remedies available in an action at law) states that it identifies "punishment for counterfeiting, etc." Act of Feb. 20, 1905, Ch. 592, § 16, 33 Stat. 724, 728 (margin notes).

The statutory authority to award enhanced damages did not escape the attention of the courts. The Seventh Circuit held that the 1905 Trademark Act "does not exclude exemplary damages," and that "punitive damages may be allowed" in an action under the Act. *Aladdin Mfg. Co. v. Mantle Lamp Co. of Am.*, 116 F.2d 708, 716 (7th Cir. 1941); see also *Coca-Cola Co. v. Dixie-Cola Labs., Inc.*, 155 F.2d 59, 63 (4th Cir. 1946) (holding that punitive damages under the 1905 Trademark Act are available only if one has proven actual damages, because the Act authorized increases of actual damages by up to three times; absent proof of actual damages, there was nothing to increase).

²⁰⁵ PAUL, *supra* note 155, § 324 (punitive damages available in trademark actions at law);

a passionate argument in favor of punitive damages: "It is manifest that in a case of deliberate counterfeiting of a trade-mark there should be a recovery of punitive damages, or at least an opportunity given the jury to assess punitive damages."²⁰⁶ The author believed punitive damages were needed "to protect society from the ravages of trade-mark infringers"²⁰⁷

With this foundation laid, it is not surprising that courts began to accept that punitive damages were available in trademark cases. The earliest reported trademark case that clearly involved an award of punitive damages is *Lampert v. Judge & Dolph Drug Co.*,²⁰⁸ a case decided by the Supreme Court of Missouri. Lampert was a cigar maker who had established a reputation for quality.²⁰⁹ Defendants operated a retail store in St. Louis and sold various items, including cigars.²¹⁰ Defendants purchased some cigars from plaintiff. The cigars were contained in boxes with the plaintiff's trademark. These boxes were used by defendant to display the cigars in its store.

Defendant engaged in an illegal substitution scheme. Instead of selling plaintiff's high-quality, and apparently expensive, cigars, defendant would place lower quality cigars in the plaintiff's cigar box.²¹¹ When a customer requested plaintiff's cigars, defendant would take the inferior cigars from the box and sell them to the customer. Because the cigars were taken from plaintiff's cigar box, the customer believed he was getting plaintiff's cigars. Plaintiff proved this scheme at trial.²¹²

The plaintiff, however, was unable to quantify his losses. He was awarded one cent in nominal damages and \$500 in punitive damages. On appeal, the defendant argued that punitive damages were not appropriate in a trademark infringement case. The Missouri Supreme Court considered a number of cases and the views of leading commentators on trademark law. In the end, the court held that punitive damages are proper in trademark cases where willful infringement is shown.²¹³

HOPKINS, *supra* note 58, § 112, at 243–44.

²⁰⁶ HOPKINS, *supra* note 58, § 112, at 243–44.

²⁰⁷ *Id.* § 112, at 242.

²⁰⁸ 141 S.W. 1095 (Mo. 1911). As noted above, the earlier case of *Warner v. Roehr* may have involved a punitive damages award. See *supra* note 157 and accompanying text. There is no doubt on this point in the *Lampert* case.

²⁰⁹ *Id.* at 1096.

²¹⁰ *Id.*

²¹¹ *Id.*

²¹² *Id.* at 1096–97.

²¹³ *Id.* at 1099. The court also ruled on another important question: Could punitive damages be awarded where only nominal damages were granted? Yes, the court answered, because the purpose of punitive damages was not dependent upon the plaintiff's ability to quantify its actual losses. *Id.* at 1097–98.

The Montana Supreme Court followed Missouri's lead and approved a punitive damages award in *Truzzolino Food Products Co. v. F. W. Woolworth Co.*²¹⁴ *Truzzolino* involved a fact pattern somewhat similar to that of the *Lampert* case described above. Plaintiff was a tamale maker who had developed a reputation for making excellent tamales.²¹⁵ Defendant operated a large store with a lunch counter. Defendant told customers that it sold plaintiff's tamales, but in fact sold a less expensive, inferior product.²¹⁶ The jury awarded plaintiff \$750 in actual damages and \$5,000 in punitive damages.²¹⁷ The Montana Supreme Court affirmed.²¹⁸

Another important, but rather confusing, punitive damages case from this period is *Aladdin Manufacturing Co. v. Mantle Lamp Co. of Am.*²¹⁹ In the case's third appearance before the Seventh Circuit Court of Appeals,²²⁰ the court addressed the remedies available to the prevailing party. The district court had referred the matter to a master to conduct hearings and to make a recommendation as to the remedies that should be awarded. The master issued detailed findings and recommended awarding defendant's profits and punitive damages. The district court rejected the master's recommendation and awarded no monetary relief.

The Seventh Circuit reversed. Much of the decision addresses the computation of the profits. When the court turned to the punitive damages issue, it held, "If the facts warranted, exemplary or punitive damages were properly

²¹⁴ 91 P.2d 415 (Mont. 1939).

²¹⁵ *Id.* at 416–17.

²¹⁶ *Id.* at 417.

²¹⁷ *Id.*

²¹⁸ *Id.* at 420.

²¹⁹ 116 F.2d 708 (7th Cir. 1941).

²²⁰ This case was a priority dispute concerning the Aladdin trademark. Mantle, the defendant and counter-plaintiff, began using the Aladdin trademark on kerosene lamps in 1908. Mantle Lamp Co. of Am. v. Aladdin Mfg. Co., 78 F.2d 426, 427 (7th Cir. 1935). Mantle heavily promoted its product and the Aladdin trademark became well-known. In fact, Mantle's efforts had been so successful, the Seventh Circuit concluded use of the same mark on any type of lamp by another "must invariably deceive and confuse the buying public." *Id.* at 428.

The district court initially held that Mantle had the exclusive right to use the mark on kerosene lamps and Aladdin had the exclusive right to use the mark on electric lamps. This was a bad result for Mantle, the senior user, because the use of electric lighting was quickly replacing kerosene lamps. The Seventh Circuit reversed, finding that Mantle was entitled to an injunction barring any use on lamps by Aladdin. The appeals court also concluded that Aladdin had intentionally misled the public and caused actual confusion. *Id.* at 428–29.

On remand, the district court held that Mantle was barred from recovering monetary relief because of its delay in bringing suit. A second appeal was brought by Mantle, and the Seventh Circuit reversed again. *Aladdin Mfg. Co. v. Mantle Lamp Co. of Am.*, 86 F.2d 141, 141 (7th Cir. 1936). The Seventh Circuit held that its prior decision resolved the laches and acquiescence issues and, therefore, those issues were not open to review by the district court. *Id.*

The case was remanded again, which brings the matter to the point discussed above.

allowed.”²²¹ And the court seemed to conclude that the facts warranted such relief. “In the present case the master concluded and we agree that the acts of the infringer were wanton, wilful and intentionally fraudulent”²²² The Seventh Circuit cited numerous cases as support for its holding that punitive damages are available in a trademark infringement action.²²³

After so unequivocally approving of punitive damages and finding the infringement deserving of punishment, one would have expected the court to approve a substantial punitive damages award. But that is not what happened. In fact, it is difficult to say whether the damages award approved by the Seventh Circuit was punitive, compensatory, or some combination of the two. The opinion read:

[Mantle] was entitled to compensatory damages and in addition such limited exemplary damages as the facts and circumstances justify. Considering all of the evidence, we think that the total damage, including the injury to appellant’s business and its good name, the nullification of its advertising, and all other elements, both compensatory and exemplary, amounted to not less than \$25,000 and not in excess thereof, in addition to the expenditures incurred in litigation. Indeed we believe the evidence sustains the allowance of this sum purely as compensatory damages. We are not inclined to approve further punitive damages in view of the punishment meted out in the contempt proceedings.²²⁴

The Seventh Circuit ultimately added about \$18,500 more to the damages award, an amount the court linked directly to the “fraudulent and wilful infringement and unfair competition”²²⁵

The trend toward the acceptance of punitive damages is further illustrated by the analysis found in a number of other cases. None of these cases involved an award of punitive damages, but all clearly suggest such an award would have been available in an appropriate case. For example, when a defendant argued the

²²¹ 116 F.2d at 716.

²²² *Id.*

²²³ *Id.* at 716–17.

²²⁴ *Id.* at 717. The court indicated that the full award could be sustained “purely as compensatory damages,” immediately after saying the award was “both compensatory and exemplary.” The reference to an apparently punitive sanction for contempt indicates that the Seventh Circuit felt the infringer was punished, a conclusion that is consistent with the court’s strong language concerning the need for a punitive remedy in the case.

²²⁵ *Id.* This award was based on the attorney fees and costs Mantle spent to oppose a federal trademark application filed by Aladdin. The master and the Seventh Circuit viewed Aladdin’s effort to obtain a trademark registration as part of its plan to trade on Mantle’s goodwill. *Id.*

compensatory damages awarded by a master were excessive, the court noted that defendant was “guilty of ‘intentional imitation,’ ” and that this fact would have supported punitive damages, a clear suggestion defendant was in no position to complain about the award.²²⁶ And when plaintiffs in equity actions sought punitive damages, some courts responded by explaining that while punitive damages were available in an action at law, such relief could not be obtained in equity.²²⁷

Though there were few trademark cases in which punitive damages were awarded, the trend was toward general approval of this remedy. By the time the Lanham Act became law in 1946, one could say with some certainty that a deliberate trademark infringer faced a real prospect of having to pay punitive damages in a common law trademark infringement action.

5. *Large Monetary Awards in Trademark Cases.* The late period also saw the first large trademark infringement money judgments, including two high-profile cases. The first such case is *Hamilton-Brown Shoe Co. v. Wolf Brothers & Co.*,²²⁸ a case discussed above. Plaintiff used the mark American Girl on its shoes, and defendant used the mark American Lady. The primary issue presented at trial was whether the mark American Girl was a valid trademark or a merely geographically descriptive phrase. The district court found the mark descriptive and denied plaintiff’s claims.

The plaintiff appealed, and the Eighth Circuit reversed. The appellate court reviewed the evidence of plaintiff’s long use and promotion of its mark. Though the phrase American Girl was not a valid trademark when first adopted, “it had, nevertheless, by their long-continued use of it, come to have a secondary meaning, indicative of the origin and manufacturer of the shoes”²²⁹ The court also concluded that defendant had acted with an intent to deceive, primarily because the defendant ignored plaintiff’s objections and copied almost every aspect of plaintiff’s advertising of its goods.²³⁰ The case was remanded for an accounting.

²²⁶ *Wawak & Co. v. Kaiser*, 129 F.2d 66, 69 (7th Cir. 1942).

²²⁷ *Coca-Cola Co. v. Dixi-Cola Labs., Inc.*, 155 F.2d 59 (4th Cir. 1946); *Winthrop Chem. Co. v. Blackman*, 288 N.Y.S. 389 (N.Y. Sup. Ct. 1936).

²²⁸ 240 U.S. 251 (1916).

²²⁹ *Wolf Bros. & Co. v. Hamilton-Brown Shoe Co.*, 165 F. 413, 417 (8th Cir. 1908).

²³⁰ The plaintiff’s American Girl mark was accompanied by a picture of a lady. Plaintiff used the slogan, “A shoe as good as its name,” in its advertising. Defendant used the mark American Lady, also used a picture of a lady on its packaging, and adopted the slogan, “The shoe deserves its name.” *Id.* at 413–14. The Eighth Circuit found the extent of defendant’s copying, and the fact that it ignored repeated objections by plaintiff evidence of bad faith. *Id.* at 416.

Defendant also argued that plaintiff’s delay in bringing suit constituted laches. The Eighth Circuit disagreed, noting that plaintiff had objected a number of times before bringing suit. The court, however, did restrict the accounting of defendant’s profits to the period after plaintiff filed suit, thus giving defendant some relief due to plaintiff’s delay. *Id.* at 418.

Upon remand, the district court referred the accounting to a master. After evaluating the parties' evidence, the master fixed the profits to be awarded at just less than \$450,000. Defendant argued that its actions were not likely to confuse customers because their packaging also identified their company. The district court agreed,²³¹ and therefore overruled the master's recommendation. The plaintiff was awarded \$1 in nominal damages. Not surprisingly, plaintiff again appealed to the Eighth Circuit.

The Eighth Circuit reversed again, pointing out that its prior decision had resolved the infringement issue and the question of defendant's intent.²³² The district court's reason for overruling the master, therefore, was improper. The only issue properly before the district court, according to the Eighth Circuit, was the amount of profits to be awarded, not whether there was infringement.²³³ The Eighth Circuit reinstated the master's ruling, and directed the district court to enter judgment for that amount.²³⁴ The Supreme Court granted certiorari, and affirmed.²³⁵ It was a long fight, but plaintiff ultimately prevailed, and recovered about \$450,000 in defendant's profits, a substantial award in the early twentieth century.

²³¹ After considering the evidence, the district judge explained, the court is of opinion that the shoes were accompanied with 'matter clearly indicating that such shoes are of its (defendant's) own manufacture, and therefore, not of complainant's.' If the defendant had stationed at the door of each of its customers a man with strong lungs, proclaiming in stentorian voice that 'these shoes are the make of the Hamilton-Brown Shoe Company of St. Louis,' it is hard to perceive how the notice to buyers of shoes would have been more effective in that way than by the means adopted.

Wolf Bros. & Co. v. Hamilton-Brown Shoe Co., 192 F. 930, 935 (C.C.E.D. Mo. 1912).

²³² *Wolf Bros. & Co. v. Hamilton-Brown Shoe Co.*, 206 F. 611, 615 (8th Cir. 1913).

²³³ There is an inconsistency in the court's analysis on this point. The master divided defendant's sales into three groups. Each group differed in the extent to which the packaging of the shoes had additional information identifying the defendant. The master concluded that the first two groups did not have enough distinguishing indicia, and he therefore recommended awarding the profits from those two groups. The third group, however, more clearly identified the defendant, and the master thus concluded that sales from this group should not be included. *Wolf Bros.*, 192 F. at 932.

But this analysis is exactly the same as what the district court did. The master did not limit himself to computational issues. He concluded that the third group was not infringing, and thus excluded it from the award. Plaintiff asked the Eighth Circuit to modify the master's recommendation to include profits from the third group, a request entirely consistent with the court's reason for reversing. The Eighth Circuit, however, rejected plaintiff's request, and confirmed the master's recommendation in whole. *Wolf Bros.*, 206 F. at 619.

²³⁴ *Wolf Bros.*, 206 F. at 619.

²³⁵ *Hamilton-Brown Shoe Co. v. Wolf Bros. & Co.*, 240 U.S. 251 (1916).

The other key case involving a large monetary award was *L. P. Larson, Jr., Co. v. Wm. Wrigley, Jr., Co.*²³⁶ The plaintiff, Larson, was a small company that introduced a chewing gum named Wintermint.²³⁷ Defendant, Wrigley, was the giant in the field. Indeed, when the accounting was eventually done in this case, Wrigley reported that its sales of Doublemint gum during a four year period (1914–1918) totaled approximately \$57,000,000 in gross revenue.²³⁸

Though the initial suit was filed by Wrigley, it was Larson that hit the home run. The courts eventually came down strongly on the side of Larson, finding that Wrigley had made false statements to the courts and had tried to oppress and force Larson out of the chewing gum business.²³⁹ As to the key trademark infringement claim, the court found that Larson had priority, having introduced its product seven months before Wrigley introduced Doublemint.²⁴⁰ Given the evidence of bad faith by Wrigley, it is hardly surprising that an accounting of profits was ordered.

After much legal wrangling, Larson obtained a profits award of about \$1.35 million.²⁴¹ It was one of—if not the—largest monetary award granted in a trademark case during the early twentieth century. Larson had to fight a long fight to get the award, a story rather similar to that of the *Hamilton-Brown Shoe* case described above. The first suit in the *Wrigley* litigation was filed by Wrigley in 1911. The final ruling in the case, by the United States Supreme Court, did not come until 1928, seventeen years later.

III. THE LEGISLATIVE HISTORY OF THE LANHAM ACT

Having completed the long, but important, historical review of trademark remedies, we turn now to the legislative background of the Lanham Act. The legislative history provides little help in making sense of the Act's remedial scheme. It is a prolonged legislative history, stretching over more than twenty years, and it does provide some insights into the concerns of drafters and legislators. But in the end, the legislative record leaves several key questions unanswered.

The one-remedy-at-a-time approach used through prior sections is applied here, as well, but with one important variation. First, the general legislative record

²³⁶ 277 U.S. 97 (1928).

²³⁷ *L. P. Larson, Jr., Co. v. Wm. Wrigley, Jr., Co.*, 253 F. 914, 916–17 (7th Cir. 1918).

²³⁸ *L. P. Larson, Jr., Co. v. Wm. Wrigley, Jr., Co.*, 20 F.2d 830, 832 (7th Cir. 1927).

²³⁹ *Larson*, 253 F. at 916.

²⁴⁰ *Id.* at 916–17. Wrigley apparently did not realize that Larson had priority. Wrigley sued and alleged that Larson's Wintermint infringed Wrigley's rights in its Doublemint brand. Larson, realizing he had priority, admitted the two trademarks were likely to cause confusion. Wrigley's own allegations were turned against it. *Id.*

²⁴¹ *Larson*, 20 F.2d at 836.

is reviewed, including the various bills and hearings that led to the Lanham Act of 1946. We then turn to the now familiar sequence: damages, defendant's profits, injunctions, and, finally, punitive damages.

A. THE LEGISLATIVE RECORD THAT LED TO THE LANHAM ACT

In 1924, Senator Richard P. Ernst, a Kentucky Republican, introduced a new trademark and unfair competition bill in the Senate Committee on Patents.²⁴² The 1905 Trademark Act had been in force for less than twenty years, and already there was a call for major change to federal trademark law. To understand why this happened, we need to take a brief look at two of the most important trademark cases decided during the early twentieth century.²⁴³

In *Hanover Star Milling Co. v. Metcalf*²⁴⁴ and *United Drug Co. v. Theodore Rectanus Co.*,²⁴⁵ the United States Supreme Court explained the territorial nature of common law trademark rights. In both cases, the plaintiffs and defendants

²⁴² S. 2679, 68th Cong. (1924).

²⁴³ The legislative record discusses a number of purposes and goals of the trademark reform bills. For example, the Senate Report that followed final work on the bill that became the Lanham Act of 1946, explains that "any trade-mark statute" has the dual purposes of protecting the public from deception and protecting the investments of trademark owners. S. Rep. No. 79-1333, at 3 (1946). The more specific purposes of the final trademark bill were:

1. To put all existing trade-mark statutes in a single piece of legislation.
2. To carry out by statute our international commitments to the end that American traders in foreign countries may secure the protection to their marks to which they are entitled. . . .
3. To modernize the trade-mark statutes so that they will conform to legitimate present-day business practice.

Id. at 5. The report goes on to explain the concerns behind the third purpose as follows: The theory once prevailed that protection of trade-marks was entirely a State matter and that the right to a mark was a common-law right. This theory was the basis of previous national trade-mark statutes. Many years ago the Supreme Court held and has recently repeated that there is no Federal common law. It is obvious that the States can change the common law with respect to trade-marks and many of them have, with the possible result that there may be as many different varieties of common law as there are States. A man's rights in his trade-mark in one State may differ widely from the rights which he enjoys in another.

However, trade is no longer local, but is national. Marks used in interstate commerce are properly the subject of Federal regulation. It would seem as if national legislation along national lines securing to the owners of trade-marks in interstate commerce definite rights should be enacted and should be enacted now.

Id. (emphasis added). The final paragraph quoted above reflects the need for national protection that was highlighted by the two Supreme Court cases discussed above.

²⁴⁴ 240 U.S. 403 (1916).

²⁴⁵ 248 U.S. 90 (1918).

adopted and used similar trademarks, but in wholly distinct geographic regions. The parties, again in both cases, acted in good faith and without any knowledge of the other's use. Eventually, the parties came into contact, and trademark infringement suits followed.

The senior user in both cases claimed its right to use the mark was exclusive, an argument based on the view that trademark rights were enforceable throughout the United States. The Supreme Court rejected this argument, explaining in the *Rectanus* case:

The asserted doctrine is based upon the fundamental error of supposing that a trade-mark right is a right in gross or at large, like a statutory copyright or a patent for an invention, to either of which, in truth, it has little or no analogy. There is no such thing as property in a trade-mark except as a right appurtenant to an established business or trade in connection with which the mark is employed.²⁴⁶

In fact, "a trade-mark confers no monopoly whatever in a proper sense, but is merely a convenient means for facilitating the protection of one's goodwill"²⁴⁷

The Court then explained the basis for common law trademark protection. A trademark right follows the trade, or in the words of the Court:

It results that the adoption of a trade-mark does not, at least in the absence of some valid legislation enacted for the purpose, project the right of protection in advance of the extension of the trade, or operate as a claim of territorial rights over areas into which it thereafter may be deemed desirable to extend the trade. . . . [w]herever the trade goes, attended by the use of the mark, the right of the trader to be protected against the sale by others of their wares in the place of his wares will be sustained.²⁴⁸

Notice the critical caveat in the Court's explanation of the territorially limited nature of common law trademark protection: "at least in the absence of some valid legislation enacted for the purpose."²⁴⁹ This statement surely contributed to the movement for a new federal trademark statute.

²⁴⁶ *Id.* at 97.

²⁴⁷ *Id.* at 98.

²⁴⁸ *Id.*

²⁴⁹ *Id.*

The trademark bill introduced by Senator Ernst in 1924 sought to establish a federal trademark registration system that would create the sort of nationwide trademark rights the parties desired in the *Metcalf* and *Rectanus* cases.²⁵⁰ On this point, the proposed law would have changed the common law, by providing an attractive federal, statutory alternative to common law trademark protection. The proposition that the Lanham Act was intended to codify the common law²⁵¹ is only half right, as this proposition applies only to those parts of the Lanham Act that were separate from the new registration scheme.²⁵²

The legislative process that preceded the passage of the Lanham Act in 1946 extended over twenty years.²⁵³ A House bill identical to the Ernst bill was introduced by Representative Florian Lampert in 1925.²⁵⁴ Senator Ernst lost his bid for reelection in 1926,²⁵⁵ and other senators took over the role of sponsoring the trademark legislation in the Senate. Representative Albert Vestal of Indiana

²⁵⁰ The trademark registration system of the 1905 Trademark Act did not provide adequate protection for trademark owners. See, e.g., 1 J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 5:3 (4th ed. 2005) (noting that “even with the 1920 amendments, the basic 1905 Trademark Act remained inadequate to cope with the realities of twentieth century commerce and brand names”).

The Ernst Bill, on the other hand, relied on the notice provided by federal registration as a justification for creating nation-wide trademark rights upon registration. S. 2679, 68th Cong. (1924). The scheme added publication of trademarks seeking registration, and allowed interested parties to oppose the registration. *Id.* §§ 7, 13(a) (publication and opposition, respectively). Registration under the Ernst Bill would have constituted constructive notice of the registrant’s trademark rights and injunctions would have been national in scope, absent proof of prior use by a defendant. *Id.* §§ 1, 2(g), 4, 18(h) (registration, national rights, constructive notice, and national injunctions, respectively).

²⁵¹ See *supra* note 19 and accompanying text. Edward Rogers, one of the primary drafters of the early trademark reform bills and an active participant in the entire reform process explained that one “primary purpose” of trademark reform bills was “generally to apply the common law of trademarks to commerce over which Congress has jurisdiction.” S. Rep. No. 71-1496, at 5–6 (1929); see also 74 Cong. Rec. 6106 (1931) (remarks of Sen. Hebert to similar effect); 72 Cong. Rec. 7350 (1930) (remarks of Rep. Vestal to similar effect).

²⁵² “Putting aside statutory innovations directly linked to the public notice provided by the Act’s registration system, the Lanham Act codifies the basic common law principles governing both the subject matter and scope of protection.” Robert C. Denicola, *Some Thoughts on the Dynamics of Federal Trademark Legislation and the Trademark Dilution Act of 1995*, 59 LAW & CONTEMP. PROBS., Spring 1996, at 75, 79–80.

²⁵³ The duration of the trademark reform process is not so surprising when one considers what else was happening during the period. The 1929 crash of the stock market, the Great Depression, and World War II all occurred during the federal trademark law reform process. If there is a surprising aspect of this story, it is that the reform effort continued through such tumultuous times.

²⁵⁴ H.R. 8637, 68th Cong. (1925).

²⁵⁵ See THE KENTUCKY ENCYCLOPEDIA 53 (John E. Kleber ed., 3d ed. 1992). Senator Ernst did introduce a trademark bill in the 69th Congress. S. 2547, 69th Cong. (1926). This bill was substantially similar to S. 2679, his earlier bill.

took responsibility in the House, introducing his first bill in late 1925.²⁵⁶ There were at least twenty-one trademark bills introduced in Congress between 1924 and 1946, and numerous hearings were held during this period on the reform effort.

Representative Fritz Lanham of Texas took over responsibility for the trademark law reform effort in the House of Representatives in 1938, when he introduced his first bill. Representative Lanham introduced a new trademark reform bill in every Congress until 1946 (a total of seven bills). The resulting federal trademark law was named in his honor. The Lanham Trademark Act of 1946 forever changed trademark law in the United States.

The remedies provisions of the various bills had several similarities. Every bill authorized courts to issue injunctions and to award damages and defendant's profits. Almost all of the bills allowed courts to increase and decrease profits awards, and all of the bills authorized increased damages up to three times the actual damages proven. There were, however, a number of differences in the bills, and some of those differences raise interesting questions, as will become clear when the bills are considered below.

The remedies section of the 1924 Ernst bill is provided below.²⁵⁷ Every trademark reform bill introduced between 1924 and 1932 contained substantially the same remedies language.²⁵⁸ Under these bills, "the remedy of injunction shall

²⁵⁶ H.R. 6248, 69th Cong. (1925).

²⁵⁷ S. 2679, 68th Cong. § 18 (1924), provided:

Any person who shall, in commerce, infringe any registered trade-mark, shall be liable-

(a) To an injunction restraining infringement of such registered trade-mark.

(b) To pay to the owner all profits which the infringer suffered from the infringement.

(c) To pay to the owner all profits which the infringer shall have made from such infringement, and in proving profits the plaintiff shall be required to prove sales only, and the defendant shall be required to prove every element of cost or deduction claimed; but there shall be no recovery of profits from any defendant whose adoption and use of an infringing trade-mark was in good faith and without knowledge of the plaintiff's right thereto, except such profits as accrued therefrom after such defendant had actual notice or knowledge thereof.

(d) If the court shall find that the damages or profits, or both, are either inadequate or excessive, the court may, in its discretion, decree the payment of such sum as the court shall find to be just according to the circumstances of the case, such sum to constitute compensation and not a penalty.

* * *

(h) Except as provided in section 12, the right of the owner of a registered trade-mark to the remedy of injunction shall extend throughout the United States and shall not be limited to be merely coextensive with the territory within which such owner has used such registered trade-mark; and the court may give the plaintiff the benefit of all other remedies named in this section.

²⁵⁸ H.R. 8637, 68th Cong. § 18 (1925) (companion bill to the Ernst bill); H.R. 6284, 69th Cong.

extend throughout the United States and shall not be limited to be merely coextensive with the territory within which such owner has used such registered trade-mark.”²⁵⁹ The bills left no doubt that the proposed reform would fundamentally alter the territorial nature of trademark rights for all federally registered marks.

The damages provision of these early bills contained language that is odd by modern standards. A plaintiff’s actual damages were described as “profits which the infringer suffered from the infringement.”²⁶⁰ Courts were authorized to increase or decrease “damages or profits, or both . . . as the court shall find to be just according to the circumstances of the case . . .”²⁶¹ No limit was imposed on a court’s discretion to increase or decrease monetary awards.

The early bills contained an interesting provision regarding the defendant’s profits remedy. After authorizing the remedy, the bills stated, “but there shall be no recovery of profits from any defendant whose adoption and use of an infringing trade-mark was in good faith and without knowledge of the plaintiff’s right thereto, except such profits as accrued therefrom after such defendant had actual notice or knowledge thereof.”²⁶² No explanation was found in the legislative record for this limitation on the defendant’s profits remedy. Given the expressed intention of codifying the common law, it is fair to assume the drafters included this limitation to reflect the majority view that an accounting of defendant’s profits would not be awarded where the infringement was innocent.

Having noted the early bills’ inclusion of this limitation on the defendant’s profits remedy, it is worth noting that no such limitation was included with respect to the actual damages remedy. In other words, under these early bills, an innocent infringer would not be required to account for its own profits, but would be liable for any actual damages proven by plaintiff. The different treatment of damages and profits in the early bills was consistent with the common law practice at the time, and tends to confirm the proposition that these bills sought to codify the common law rules.

Finally, the early bills included the limitation that any modified monetary award “constitute compensation and not a penalty.”²⁶³ This limitation remained in all subsequent bills. It is somewhat interesting that the limitation was included only in the section that authorized courts to increase or decrease monetary awards,

§ 18 (1925); S. 2547, 69th Cong. § 18 (1926); H.R. 13486, 69th Cong. § 18 (1926); S. 4811, 69th Cong. § 18 (1926); H.R. 6683, 70th Cong. § 18 (1927); H.R. 11988, 70th Cong. § 18 (1928); H.R. 13109, 70th Cong. § 18 (1928); H.R. 2828, 71st Cong. § 18 (1929).

²⁵⁹ S. 2679, 68th Cong. § 18(h) (1924) (identical language in bills, *supra* note 258).

²⁶⁰ *Id.* § 18(b).

²⁶¹ *Id.* § 18(d).

²⁶² *Id.* § 18(c).

²⁶³ *Id.* § 18(d).

which one could argue meant that accountings of defendant's profits could be punitive so long as the award was not modified from the amount of profits established by the evidence. If that was the intent, it would have represented a change in the common law practice. The legislative record sheds no light on this issue.

In 1938, Representative Lanham introduced his first bill, and the remedies provision was different from that of all previous bills. The relevant parts of that provision are set out below.²⁶⁴ There were a few important changes from the earlier reform bills. The unusual damages language was replaced with simple, direct terminology.²⁶⁵ The provision that injunctions would be nationwide was removed, as was the constructive notice provisions of prior bills.²⁶⁶ The "compensation and not a penalty language" remained in the subsection addressing modified awards, and that subsection again contained no other limit on courts' authority to increase or decrease such awards. The first Lanham bill also added an attorney fees provision, that would have given courts authority to award fees to a prevailing party.

Interestingly, the 1938 Lanham bill omitted language that prohibited awards of defendant's profits where the infringement was innocent. No explanation was found in the record for this significant change. Indeed, the first Lanham bill appears to create an absolute right to an award of defendant's profits. It is, however, difficult to determine the significance of this change given the absence

²⁶⁴ H.R. 9041, 75th Cong. § 34 (1938), provided:

(a) Any act declared unlawful under section 1 hereof is an act of infringement. Any person who shall infringe in commerce any trade-mark registered under this Act shall be liable-

- (1) To an injunction restraining infringement of such registered trade-mark;
- (2) To pay the damages occasioned by the infringement;
- (3) To pay all profits which the infringer shall have made from such infringement, and in proving profits the plaintiff shall be required to prove sales only and the defendant shall be required to prove every element of cost or deduction claimed;
- (4) If the court shall find that the damages or profits or both are either inadequate or excessive, the court, in its discretion, may decree the payment of such sum as the court shall find to be just, according to the circumstances of the case, such sum to constitute compensation and not a penalty;

* * *

- (8) In all actions and suits under this Act, full costs shall be allowed and the court may award to the prevailing party a reasonable attorney's fee as part of the costs

²⁶⁵ *Id.* § 34(a)(2).

²⁶⁶ *Id.* § 24 (providing that registration would have been "notice of the registrant's claim of ownership thereof"). This change is somewhat surprising. It remained in Lanham's 1939 bill, H.R. 4744, 76th Cong. § 22 (1939), but the constructive notice approach returned in later bills and became part of the Lanham Act of 1946. 15 U.S.C. § 1072 (1946).

of an explanation in the record, and the clear expression of congressional intent to codify the common law rules on such issues.

In 1939, Representative Lanham introduced a revised bill. The remedies section changed significantly, though again, no explanation of the changes could be found in the legislative record.²⁶⁷ This bill contained a few important changes. Most importantly, the monetary remedies provision was no longer limited to infringements of registered marks, but extended coverage to the violation of any “right to relief . . . under the Act”²⁶⁸ This bill also introduced the “civil action” to the trademark reform process, a change almost surely attributable to the 1938 adoption of the Federal Rules of Civil Procedure, which merged the law and equity systems in the federal courts.

This bill also used the simple reference to “defendant’s profits,” and “any damages sustained by the plaintiff,” language that would be used in the Lanham Act. There was no discussion of whether a defendant’s profits may be awarded if the infringement is innocent, another change that remained in all subsequent trademark reform bills and in the Lanham Act.

The 1939 Lanham bill also changed the provision allowing courts to modify monetary awards. In this bill, courts were authorized to increase damages by up to three times. The treble damages limitation was new, but it was hardly the only change. Gone was the authority to increase or decrease a defendant’s profits award, and the authority to decrease a damages award also was removed. The record does not explain why these changes were made.

²⁶⁷ H.R. 4744, 76th Cong. §§ 33–34 (1939), provided:

The several courts vested with jurisdiction of civil actions arising under this Act shall have power to grant injunctions, according to the principles of equity and upon such terms as the court may deem reasonable, to prevent the violation of any right of the registrant of a trade-mark registered under this Act . . .

Whenever the plaintiff shall have established his right to relief in any civil action arising under this Act, he shall be entitled to recover (1) defendant’s profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant’s sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may, according to the circumstances of the case, include in the judgment any sum above the amount found as actual damages, not exceeding three times such amount, such sum to constitute compensation and not a penalty.

Prior bills, including Lanham’s 1938 bill, had included all remedy provisions in a single section. Lanham’s 1939 bill changed that by creating a number of different sections, with each addressing a relatively specific remedy issue.

²⁶⁸ *Id.* § 34.

A companion bill to Lanham's 1939 bill was introduced in the Senate in 1941.²⁶⁹ This bill passed the Senate, was then revised by the House Committee on Patents, and subsequently passed in the House, as amended.²⁷⁰ The resulting bill, which was sent to the Senate, contained substantially the same language concerning injunctions, but the monetary relief section was revised, as shown below.²⁷¹ The only substantive change to the remedies section was the inclusion of language giving courts authority to increase or decrease profits awards.²⁷² Authority to modify damages awards remained limited to increasing such awards up to three times, just as in the 1939 Lanham bill. The "compensation and not a penalty" limitation now referred to "either of the above circumstances," a reference apparently to increases of either damages or profits, though there is some ambiguity in this text.²⁷³

²⁶⁹ S. 895, 77th Cong. (1941).

²⁷⁰ H.R. Rep. No. 77-2283 (1941).

²⁷¹ H.R. 5461, 77th Cong. § 35 (1941), provided:

Whenever the plaintiff shall have established his right to relief in any civil action arising under this Act, he shall be entitled (subject to the provisions of section 29) to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales, only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty.

²⁷² *Id.*

²⁷³ It is reasonable to assume the reference to "either" circumstance is to either an increase of a damages award or an increase of a profits award. But the phrase follows the provisions allowing courts to increase or decrease profits awards. It is plausible, though less likely, that the "either" circumstances are an increase of profits or a decrease of profits. The latter construction makes less sense because the restriction prohibits punitive awards, and increased monetary awards obviously are more likely to be punitive than decreased awards.

Nevertheless, the procedure for fixing the amount of a profits award creates a real possibility that such awards will exceed the actual net profits. If a defendant cannot present sufficient evidence to support deductions from its gross revenue, the entire gross revenue could be awarded as "profits." Such an award might well be punitive in nature. It is also possible that a decreased award in such instances could remain punitive.

It also should be remembered that common law courts were beginning to award punitive damages in trademark cases during this period. If Congress intended to codify the common law, one could argue that the latter interpretation of the "either circumstances" reference is the only interpretation consistent with the common law.

The 1939 Lanham bill, before being amended, would *not* support the latter interpretation.

No further votes were taken on the trademark reform bills until 1945,²⁷⁴ when Representative Lanham introduced yet another bill.²⁷⁵ The monetary relief section follows:

When a violation of any right of the registrant of a mark registered in the Patent Office shall have been established in any civil action arising under this Act, the plaintiff shall be entitled, subject to the provisions of sections 29 and 31 (1) (b), and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty.²⁷⁶

This bill was changed from the prior, amended Lanham bill in two respects. First, it limited relief to infringement of registered marks, a change that returned the legislation to the scope of earlier bills. Second, the phrase "subject to the principles of equity" was added just prior to the list of specific remedies. This provision was approved by Congress and became Section 35 of the Lanham Act.

In the sixty-plus years since the Lanham Act was adopted, only two significant changes have been made to Section 35. First, coverage was extended beyond registered trademarks,²⁷⁷ a change that ironically reverted back to the scope of Lanham's 1939 bill. The second change was the addition in 1975 of the right to

That bill *only* authorized increased damages, but still included the "compensation and not a penalty" limitation. Indeed, the only thing we can say with certainty regarding the use of this phrase in all the various trademark reform bills is that 1939 Lanham bill unambiguously prohibited punitive increases in actual damages.

²⁷⁴ The record does not explain the lack of action during the remainder of 1941 or during 1942. It is fair to assume, however, that the United States' involvement in World War II forced Congress to deal with other, more pressing matters.

²⁷⁵ H.R. 1654, 79th Cong. § 35 (1945).

²⁷⁶ *Id.*

²⁷⁷ See *supra* note 26.

attorney fees in exceptional cases.²⁷⁸ Neither of these changes altered the provisions relating to the remedies discussed in this Article.

The legislative history of the Lanham Act is rather long. The remedies provisions changed only a few times, but some of the changes were significant. We now turn to a discussion of what, if anything, the legislative record teaches about specific remedies.

B. ACTUAL DAMAGES

The legislative record reveals only one material change to the damages provisions of the various trademark reform bills. Early bills gave courts authority to increase or decrease damages, profits, or both.²⁷⁹ The same language was included in the first of the Lanham bills.²⁸⁰ This changed in the later Lanham bills,²⁸¹ and the resulting Lanham Act, as courts were authorized to increase a damages award by up to three times, but the authorization to decrease a damages award was removed.

Discussions found in the legislative record concerning the damages provisions of the trademark reform bills do not provide additional insights into Congressional intent.²⁸²

²⁷⁸ See *supra* note 26. Representative Lanham also had proposed allowing prevailing parties to receive attorney fees in his original 1938 bill, but that provision was later removed and was not part of the original Lanham Act of 1946. H.R. 9041, 75th Cong. § 34(a)(8) (1938).

²⁷⁹ See *supra* note 261 and accompanying text.

²⁸⁰ H.R. 9041, 75th Cong. § 34 (1938).

²⁸¹ See *supra* notes 268, 271–72, 275 and accompanying text.

²⁸² For example, at the first hearing on the 1924 Ernst bill, Edward Rogers, a principal drafter of the bill, made the following statements concerning damages:

There have been some very large recoveries recently in trade-mark cases, and there have been some cases where there should be a recovery and there has not been any, because the courts have been so hampered in the application of the general equities

I do not know of a single case under the operation of the present Act where there has been any attempt to get treble damages It seems to me to be useless, and anything more than proper compensation, an artificial increase, is in the nature of a penalty. So it seemed to us better to give the court discretion to award damages which under all the circumstances of the case seemed to be just, rather than arbitrarily to fix treble damages, particularly since the other provision has been in the act for 20 years and has never, so far as I know, been enforced.

Registration of Trade-marks: Joint Hearings on S. 2679 Before the House and Senate Comms. on Patents, 68th Cong. 47–48 (1925) (statement of Edward S. Rogers, Chairman Section of Patent, Trade-mark, and Copyright Law, American Bar Association). The final statements suggest the 1905 Trademark Act limited courts to either the amount of damages proven or treble that amount, which was not the case. In fact, the 1905 Trademark Act and the 1924 Ernst bill Rogers was describing both

C. DEFENDANT'S PROFITS

The defendant's profits remedy received more attention than any other remedy during the legislative process. Every trademark reform bill introduced between 1924 and 1932 contained the following limitation on this remedy: "but there shall be no recovery of profits from any defendant whose adoption and use of an infringing trade-mark was in good faith and without knowledge of the plaintiff's right thereto, except such profits as accrued therefrom after such defendant had actual notice or knowledge thereof."²⁸³ No discussion of this provision was found in the records of hearings on the many trademark reform bills that led to the Lanham Act.

The early bills required, at a minimum, proof that a defendant had notice of plaintiff's trademark before any profits could be awarded. Beyond that, however, the text is not so clear. It refers to "knowledge of the plaintiff's [trademark] right," which could be read as requiring proof that the defendant knew the plaintiff had valid, enforceable trademark rights. The early bills contained only this negative requirement. Indeed, no bill contained any description of the substantive standard required to obtain a profits award.

Representative Lanham removed this text from the first bill he introduced, and all remaining bills omitted this text, as well.²⁸⁴ No explanation for this change was found in the record. Given this silence, it is not possible to determine why the change was made or whether the change represents any particular intention of Congress, other than to omit this negative requirement.²⁸⁵

Congressional intent is clear on another part of the provisions on profits. Every bill, except Lanham's 1939 bill, gave courts the authority to increase or decrease profits awards. When the power to decrease damages awards was

authorized increases up to three times. The difference was that courts would have been authorized by the Ernst bill to increase *or decrease* damages awards. But, as noted above, that grant of authority was removed from later bills and was not included in the Lanham Act.

²⁸³ See *supra* note 262 and accompanying text.

²⁸⁴ See *supra* notes 264–76.

²⁸⁵ It could be argued that this change indicates an intention by Congress to allow courts to award defendant's profits even where the defendant "was in good faith and without knowledge of the plaintiff's right." At least one commentator has made this argument. See Stolte, *supra* note 12, at 295 n.127 ("It is fair to assume, therefore, that Congress tacitly rejected the necessity of proving bad faith in order to obtain an accounting of profits.").

On the other hand, it is possible that Congress felt the statement simply did not belong, given the absence of any reference to the affirmative requirements for obtaining a profits award. Or maybe Congress felt this point already was well-established in the common law, making the text unnecessary, particularly in light of the express intention to codify common law rules. Or maybe Representative Lanham had some unstated reason for the change, but others in Congress either didn't notice or didn't care. Many speculative arguments are possible given this change, but the lack of any clear evidence in the record leaves one without any way to evaluate such arguments.

removed from the latter Lanham bills, as noted above, no corresponding change was made to the courts' power to adjust awards of defendant's profits. It is clear, therefore, that Congress intended to provide courts with flexibility concerning the size of profits awards.

The record of the hearings on the trademark reform bills provides additional support for this conclusion. In the first hearing held, in early 1925, Edward Rogers, the principal drafter of the 1924 Ernst bill, referred to "some very large recoveries recently in trade-mark cases,"²⁸⁶ as justification for the new provision allowing courts to increase or decrease profits awards. In a later hearing, there is a discussion between Mr. Rogers and a committee member about an award of about \$5,000,000 in a trademark case.²⁸⁷ The large awards that concerned Rogers and some members of Congress were awards of defendant's profits.²⁸⁸

Given these large profits awards, and the concerns expressed at the hearings, it is clear why Congress granted courts the power to increase or decrease profits awards. The primary purpose of this part of the remedies provision was to allow courts to *decrease* awards of defendant's profits to avoid excessive windfalls for plaintiffs.

Finally, late in the legislative process, the phrase "subject to the principles of equity" was inserted in the remedy provision. Though it appears this limitation on courts' authority applies to damages, profits, and costs, it is more likely that the change was directed to the profits remedy. After all, this remedy originated in equity and thus had been "subject to the principles of equity" throughout the history of trademark law. But regardless of whether the limitation was meant to apply to all monetary remedies or only to the profits remedy, the reference is to equity practice. For that reason, one must look to the equity cases to understand the meaning of the phrase.

²⁸⁶ *Registration of Trade-marks: Joint Hearings on S. 2679 Before the House and Senate Comms. on Patents*, 68th Cong. 47 (1925) (statement of Edward S. Rogers, Chairman Section of Patent, Trade-mark, and Copyright Law, American Bar Association).

²⁸⁷ *Proposed Bills to Provide for the Registration and Protection of Trade-Marks: Hearings on H.R. 102, H.R. 5461 and S. 895*, 77th Cong. 204–06 (1941) (statement of Edward S. Rogers, Chairman Section of Patent, Trade-mark, and Copyright Law, American Bar Association).

²⁸⁸ The two cases mentioned in the legislative history as examples of large monetary awards are *L. P. Larson, Jr., Co. v. Wm. Wrigley, Jr., Co.*, 20 F.2d 830 (7th Cir. 1927), *modified*, 277 U.S. 97 (1928), and *Hamilton-Brown Shoe Co. v. Wolf Brothers & Co.*, 240 U.S. 251 (1916). In fact, the case that supposedly awarded \$5,000,000 was the *Larson* case, discussed in part II.C.5, *supra*. The gross profits in that case were over \$5,000,000, but the ultimate award was about \$1.35 million. *Larson*, 20 F.2d at 831, 836. That was a very large monetary award, particularly for the 1920s. No damages were awarded. *Id.* at 836–37.

The *Hamilton-Brown Shoe* case is also discussed in part II.C.5, *supra*. The profits award in that case was about \$450,000. Nominal damages of \$1 were awarded. *Wolf Bros. & Co. v. Hamilton-Brown Shoe Co.*, 192 F. 930, 935 (C.C.E.D. Mo. 1912).

The preceding part of this Article provides an overview of the historical development of the accounting of defendant's profits remedy.²⁸⁹ From that discussion, it is clear the accounting remedy was awarded only when the equities of the case—that is, as between plaintiff and defendant—clearly favored the plaintiff. Not only did the equity courts require proof that defendant acted with deceptive intent, but equity also denied accountings when defendants could establish an equitable defense. The final point is important. Equity courts denied accountings even where defendant intentionally infringed if the plaintiff was also guilty of some sort of equitable misconduct.

It is, however, hard to be sure what Congress meant by this phrase. It was added late in the legislative process, and no discussion of the change was found in the legislative record. In fact, it appears this reference to equity was added at the request of a leading trademark attorney of the period.²⁹⁰ Given the circumstances, it is quite possible that most members of Congress paid little, if any, attention to this seemingly minor change.

That is the extent of the guidance found in the legislative record. It is not particularly helpful. The issue that has caused the most controversy—whether a plaintiff must prove deceptive intent to recover a defendant's profits—was never discussed by Congress. And the issue Congress did discuss—decreasing a profits award—has rarely happened.

D. INJUNCTIONS

The Lanham Act's injunction provision has never been a source of difficulty. In fact, the primary reason for including injunctions in the discussion is the key role this remedy played in the development of the larger remedial scheme, a point explained in the prior part of this Article.

There is, however, one interesting fact concerning injunctions in the legislative record. The early bills expressly stated that injunctions would be nationwide, and not limited to the plaintiff's common law trade area. This language is a direct response to the *Metcalf\Rectanus* doctrine described above. Representative Lanham dropped this language from his bills, but its presence in the early bills shows the impact the Supreme Court's territoriality decisions had in starting the trademark law reform process.

²⁸⁹ See *supra* Parts II.A.3, II.B.2, II.C.2, II.C.5.

²⁹⁰ Koelemay, *supra* note 93, at 485.

E. PUNITIVE DAMAGES

The issue of punitive monetary relief is perhaps the most puzzling aspect of the legislative process. The 1905 Trademark Act authorized law and equity courts to award enhanced damages up to three times the amount of damages shown. Courts seemed to interpret this as a punitive damages provision, though no cases were found that used the authority. In addition, common law courts clearly were moving toward the acceptance of punitive damages during the pre-Lanham Act period.

Given this context, why did every trademark reform bill include the limitation “such sum to constitute compensation and not a penalty,” or words to the same effect? The legislative record provides some insight into why this language was used, but in the end, the record is somewhat confusing on this point.

The issue was discussed during the first hearing of the reform process. In early 1925, a joint hearing of the Senate and House of Representatives Committees on Patents was held.²⁹¹ Edward Rogers testified extensively at the hearing. In explaining the remedies provision of the proposed bill (i.e., the 1924 Ernst bill), Rogers began by pointing out that there had been some large monetary awards in recent trademark cases.²⁹² As noted above, these large judgments were awards of defendants’ profits, not actual or enhanced damages. There seems to have been some agreement by committee members that such awards were too large.²⁹³

After identifying this problem—excessive profits awards—Rogers goes on to note that the treble damages provision of the 1905 Act was never used and seemed to him “to be useless, and anything more than proper compensation, an artificial increase, is in the nature of a penalty.” This is the most direct reference found in the record to the “compensation and not a penalty” language.

But this doesn’t really make sense. Rogers’ testimony refers to “an artificial increase” in damages as being in the nature of a penalty. That is true, but it is also true that common law courts granted punitive damages in trademark cases. Why the concern with such an award being in the “nature of a penalty?” And why use the word “penalty,” rather than punitive, exemplary, or vindictive? The latter terms were frequently used in early common law cases to identify punitive damages awards. The term penalty is hard to find in such cases.

References to a “penalty” are found in equity cases, not actions at law. There was a well-established rule by this time that equity would not enforce a penalty. Moreover, equity courts would evaluate the monetary remedy sought to determine if it was “in the nature of a penalty,” and if it was, equity would refuse to grant the

²⁹¹ See *supra* note 282.

²⁹² See *supra* note 282.

²⁹³ See *supra* note 282.

remedy. The very wording Rogers used can be found in numerous equity cases, but was rarely, if ever, used in cases brought in the law courts.

Indeed, the Supreme Court in *Hamilton-Brown Shoe*, made clear that the accounting remedy was equitable, and for that reason, had to be compensatory, and not in the nature of a penalty. This was one of the most important trademark cases of the period, and one Rogers would have known well.

It is likely the prohibition of penalties included in the various trademark reform bills was actually intended to apply only to awards of defendant's profits. There are two strong arguments supporting this conclusion. First, the specific concern identified by Rogers and committee members was that some awards of defendant's profits were too large. There was a clear intent to rein in such awards. Making it clear that an award of profits could not be punitive effectuated that intent.

Second, Rogers and others made clear that the Lanham Act was intended to codify the common law rules, except with respect to the new registration scheme being created. In other words, the remedies provision was supposed to be codifying the common law. The common law rule at the time was that an award of defendant's profits had to be compensation, not a penalty. But the common law did not include any such limitation on damages. Including a blanket prohibition against any form of punitive monetary award was a break with the common law.

If Congress intended to change the common law on this point, surely there would have been some discussion of why the change was needed. But all we find are the statements of Rogers provided above. Courts and commentators have largely agreed that the Lanham Act prohibits punitive damages,²⁹⁴ and that is a fair reading of the text of the Act. One also could argue that Rogers' statements during the 1925 hearing support the same conclusion. On the other hand, it is impossible to square this reading of the statute with the Congressional intent to codify the common law.

One additional aspect of the legislative history is worth noting. In Representative Lanham's second bill, the language granting courts the authority to increase or decrease profits awards is missing. The no penalty text, however, remains. In that bill, therefore, the no penalty limitation had to apply to increased damages awards. No other interpretation is possible based on the actual text of that bill.

This language, however, may have been unintentional. A subsequent committee report amended this bill by authorizing courts to increase or decrease profits awards. With this amendment, the no penalty clause followed two separate sentences. The first sentence refers to increasing damages, and the second to

²⁹⁴ See *supra* note 10.

increasing or decreasing profits. There is no explanation in the record for this change. Given the concern with large profits awards noted above, it is quite possible the omission of the power to increase or decrease profits from Lanham's second bill was unintentional.²⁹⁵

In the end, one is left without any clear answers on the punitive damages issue. The legislative record does contain some evidence that Congress intended to prohibit punitive damages. But the record also makes clear that Congress intended to codify the common law,²⁹⁶ and the historical review provided above indicates that punitive damages were available at common law.²⁹⁷ These two intentions seem to point in opposite directions, and yet the legislative history is silent as to such a conflict. Why Congress included the "not a penalty" language in the Lanham Act remains a mystery.

IV. CONCLUSIONS

A number of conclusions may be drawn from the historical analysis presented above. Two will be discussed here, one specific and one general. The specific conclusion relates to the long-running controversy over whether proof of willful infringement should be required to obtain an accounting of defendant's profits. The general, and more significant, conclusion relates to the need for sweeping reform of the Lanham Act's remedial scheme.

A. WILLFUL INFRINGEMENT AND THE DEFENDANT'S PROFITS REMEDY

What must a plaintiff prove in order to recover a defendant's profits in a trademark case? This question has divided courts and commentators for many years.²⁹⁸ The historical evidence reviewed above *may* help resolve this controversy. In order to reach an agreement on this issue, the debating parties must first agree upon what the relevant questions are.

If one takes the position that the Lanham Act text is clear and unambiguous on its face, then the historical analysis presented in this Article adds nothing to the debate. It is, however, difficult to seriously contend that the monetary remedies provision resolves this issue without any need to look beyond the statutory text.

²⁹⁵ This bill was a major rewrite of Lanham's first bill. With all the changes made, it may be that the language granting courts the power to increase or decrease profits awards was inadvertently omitted. It is difficult to understand why this portion of the remedies provision would have been removed, given that the concerns over excessive money judgments were based on large profits awards. Why eliminate the one part of the remedies provision that would give courts the power to reduce profits awards that are too large?

²⁹⁶ See *supra* note 19 and accompanying text.

²⁹⁷ See *supra* Part II.B.4, II.C.4.

²⁹⁸ See *supra* note 12.

It is true that the statute says a prevailing party “shall be entitled” to a “defendant’s profits,” but it is also true that this entitlement is “subject to the principles of equity.” The text gives no indication whatsoever of what the latter limitation means. To give that limitation any meaning, one must go beyond the statutory text.

If it is agreed that the statute does not resolve this issue, it follows that Congressional intent should guide the search for meaning outside the text. What did Congress intend? Congress intended to codify the common law on many issues, apparently including remedies issues.²⁹⁹ There is no clear indication in the Congressional record of an intention to depart from the common law rules governing the defendant’s profits remedy.³⁰⁰

The question, therefore, becomes: what was the common law rule? The historical analysis presented above *does* help answer this question. A trademark owner had to prove willful infringement to obtain an accounting of defendant’s profits in a common law action during the early twentieth century.³⁰¹ If Congress intended to codify the common law on this point, then the Lanham Act also requires proof of willful infringement to obtain a profits award.

A counterargument may be made based on the differences between substantive trademark law rules today and those of the early twentieth century. Courts during the early twentieth century presumed deceptive intent any time a technical trademark was copied.³⁰² At least one leading case found willful infringement largely because defendant’s use was intentional, that is because the defendant intended to use the trademark it used.³⁰³ That’s not much of a willfulness showing, and it clearly would not suffice today.

One could make a compelling argument that the willful infringement requirement of the early twentieth century common law trademark cases has no place in modern trademark law. This argument is compelling because so much has changed. Courts no longer presume willful infringement just because the plaintiff’s trademark is found to be inherently distinctive. The very concept of intent has been refined by modern courts, so that the inquiry today is whether a defendant intended to trade on the plaintiff’s goodwill.³⁰⁴ That is the proper inquiry, but it is quite different from the willfulness analysis found in some common law trademark cases from the early twentieth century.

This argument is a strong one if the objective is persuading Congress to change the Lanham Act. But the argument is much less persuasive if the question is how

²⁹⁹ See *supra* note 19.

³⁰⁰ See *supra* notes 282–85 and accompanying text.

³⁰¹ See *supra* Part II.C.2.

³⁰² See *supra* notes 181–82 and accompanying text.

³⁰³ See *supra* note 180.

³⁰⁴ See *supra* note 180.

to properly interpret the statute. If Congress intended to adopt the common law standards, willful infringement is required to obtain an accounting.

B. IT'S TIME TO START OVER

We need remedial rules in trademark cases that serve the needs of the twenty-first century, not rules based on early twentieth century common law rules. The current rules seldom provide an appropriate monetary remedy and instead tend to undercompensate or overcompensate prevailing trademark owners. Undercompensation is more common, as most prevailing plaintiffs are unable to accurately quantify their injury or prove willful infringement. But overcompensation is also a problem, because awards of defendant's profits sometimes go well beyond any likely injury to the plaintiff and thus constitute windfalls. Little can be said in support of a monetary remedy scheme that rarely provides appropriate relief.

Three points are made in the following sections. First, the modern treatment of the defendant's profits remedy is examined. This remedy has become the be-all monetary award in modern Lanham Act cases. The results are troubling. In the second section, a recent case is used to illustrate the problems with the modern use of the defendant's profits remedy. Finally, in the third section, a few proposals for reform are presented.

1. *Modern Courts Have Distorted the Traditional, and Appropriate, Purpose of the Defendant's Profits Remedy.* The defendant's profits remedy has become the primary monetary remedy in Lanham Act cases. Actual damages are hard to quantify in most modern trademark cases, and courts have held that punitive damages are not available under the Lanham Act's primary monetary relief provision. That leaves the profits remedy to serve *all* the purposes traditionally served by monetary remedies. An accounting of defendant's profits is, as a practical matter, the sole remedy available to compensate injured plaintiffs, to undo unjust enrichment of infringing defendants, and to punish particularly malicious or wanton behavior.

The defendant's profits remedy is, at least in theory, an appropriate means to undo unjust enrichment. After all, what better way to address unjust enrichment than to force an infringer to disgorge the enrichment (i.e., the ill gotten gains of the infringement)? But under the Lanham Act, this remedy fails to effectively perform even this traditional function. Unjust enrichment, by definition, involves two elements: injustice and a gain due to the injustice. Any remedy used to deal with unjust enrichment should take into account both the extent of the injustice and the size of the resulting enrichment. Under the Lanham Act, the profits remedy fails in both respects.

Any gain obtained through trademark infringement is unjustified, even if the infringement is unintentional. If the profits remedy is to undo unjust enrichment, this remedy should not be limited to cases involving willful infringement. By

codifying this common law requirement, Congress adopted a remedy that leaves many unjust gains in the pockets of infringers. On the other hand, Congress did give federal courts the authority to increase or decrease profits awards according to the circumstances of the case. This power should be used—but rarely is used—to match the size of a profits award to the extent of the infringer’s culpability. Congress’ decision to codify the common law, combined with the federal courts’ failure to exercise their power to tailor the size of profits awards to match the offense, has rendered the profits remedy ineffective as a means of undoing unjust enrichment.

The profits remedy does an even poorer job of serving the other two purposes of monetary relief. Historically, accountings were provided in equity to compensate injured trademark owners. In early trademark disputes, there probably was a reasonably close correlation between the defendant’s profits as a result of the infringement and the plaintiff’s lost profits. But such a correlation will seldom exist today, given the many complexities of modern markets. And because the amount of any profits award in a modern trademark case depends primarily on the size of the deductions allowed by a court, the profits remedy can no longer be viewed as a compensatory award.

Perhaps the most troubling aspect of the Lanham Act’s remedial scheme is the use of the profits remedy as a *de facto* punitive award. By conditioning this remedy on proof of willful infringement, and explicitly recognizing deterrence as a distinct rationale for granting accountings, courts have turned the old common law rules on their head. The one traditionally equitable monetary remedy—the accounting of defendant’s profits—is now being used as a penalty, a result that never would have occurred at common law.³⁰⁵

The profits remedy is, at best, a very crude tool for punishing bad actors. To be an effective and appropriate punitive remedy, a monetary award should do two things: (1) the award should cause some financial harm or hardship to the infringer; and, (2) the award should be tailored to the infringer’s culpability. The computational process mandated by the Lanham Act will not consistently produce profits awards that impose real hardship on infringers. If the infringing business was not profitable or was merely a small part of a much larger operation, the magnitude of a resulting profits award will do little, if anything, to punish or deter.

Nor does the Lanham Act process result in profits awards tailored to the actual offense. Not all bad actors are equal. It is simply a matter of common sense that a defendant who is more culpable should receive harsher punishment than one who is less culpable. The profits remedy, as defined by the Lanham Act, does not achieve this result. The magnitude of a profits award in a modern trademark case is *not* linked to the level of culpability of the defendant.

³⁰⁵ See *supra* note 14 and accompanying text.

2. *An Illustrative Recent Case.* A recent decision by the Fifth Circuit Court of Appeals provides a good example of the flaws in the current use of the defendant's profits remedy.³⁰⁶ The case involved a dispute over trademarks used on parboiled rice produced in the United States and sold in Saudi Arabia.³⁰⁷ The plaintiff, American Rice, Inc. (ARI), used a trademark featuring an image of a girl.³⁰⁸ Defendant, Producers Rice Mill, Inc. (PRMI), had used a somewhat similar girl design on its product since 1985.³⁰⁹ In 2005, PRMI contracted to sell private label rice in Saudi Arabia using a girl design different from the one it had used on its own product since 1985.³¹⁰ ARI objected to PRMI's proposed private label design, and PRMI agreed to change that design.³¹¹

A few months after that agreement was reached, ARI sued PRMI, alleging that the girl design PRMI had been using since 1985 infringed ARI's girl design trademark.³¹² ARI contended that it had been unaware of the PRMI girl design until after the parties settled the private label dispute.³¹³ PRMI argued that the two marks were different enough to avoid infringement and that ARI's claims should be barred by laches.³¹⁴ The district court found infringement, and further found that PRMI adopted its girl design to trade on ARI's good will.³¹⁵ The evidence of willfulness was not strong,³¹⁶ and it is somewhat surprising that ARI's long delay did not bar monetary relief. The district ordered an accounting of PRMI's profits based on the willful infringement finding.³¹⁷

The district court based the accounting on PRMI's sales from 2005, and found the gross sales revenue to be \$1,256,635.³¹⁸ The court later awarded profits of \$227.10, and explained that any larger award "would be excessive and would

³⁰⁶ Am. Rice, Inc. v. Producers Rice Mill, Inc., 518 F.3d 321 (5th Cir. 2008).

³⁰⁷ *Id.* at 326.

³⁰⁸ *Id.*

³⁰⁹ *Id.*

³¹⁰ *Id.*

³¹¹ *Id.*

³¹² *Id.*

³¹³ *Id.* at 334.

³¹⁴ *Id.* at 328–29, 334.

³¹⁵ Am. Rice, Inc. v. Producers Rice Mill, Inc., No. H-05-3227, 2006 U.S. Dist. LEXIS 47932, at *6 (S.D. Tex. 2006).

³¹⁶ The district court's finding on intent was based on the fact that "PRMI knew of the Abu Bint brand, the related ARI Girl Design, and ARI's registration rights." *Id.* at *10. "PRMI's intent was to sell rice to distributors who would otherwise likely purchase rice from ARI." *Id.* The facts showed that ARI controlled 65% of the market and charged a premium price. Some purchasers wanted alternatives to ARI's more expensive product, and PRMI tried to tap into that part of the market. That sounds more like an intent to compete than to infringe.

³¹⁷ *Id.* at *10–11.

³¹⁸ *Id.* at *10.

constitute a penalty.”³¹⁹ The district court also found that “there is no evidence that sales by ARI were actually diverted”³²⁰

On appeal, the Fifth Circuit affirmed the finding of willful infringement, but vacated the \$227.10 profits award. “Because § 1117(a) provides that a plaintiff can recover as lost profits the sales of the infringer unless the infringer can prove legitimate costs to reduce that sum (which PRMI did not do),” the Fifth Circuit held that ARI was entitled to recover \$1,256,635.³²¹ The Fifth Circuit rejected the district court’s finding that any award greater than \$227.10 would be a penalty, because “it provided no explanation for this conclusion.”³²² The “profits” award required by the Fifth Circuit was over 5,500 times larger than what the district court awarded.

Consider the result in the *American Rice* case. Did the award of over \$1.2 million serve any of the three possible justifications for monetary awards? Was it compensation? The plaintiff, ARI, did not prove any lost sales or actual confusion.³²³ And the district court expressly held that any award greater than \$227.10 would be excessive and punitive.³²⁴ No, the profits award in this case was not compensation. It was clearly a windfall for the plaintiff, who, ironically, already controlled 65% of the market for the products at issue.³²⁵

Did the profits award in *American Rice* undo unjust enrichment? Yes, but the award went well beyond disgorging ill-gotten gains. PRMI is a farmer-owned cooperative, a fact that may have hindered its ability to establish costs and deductions.³²⁶ That may have been why PRMI relied upon tax records, and may help explain why the district court accepted that proof. What were the actual

³¹⁹ *Id.* The profits figure was based on PRMI’s taxable income. PRMI did not present evidence of costs and deductions, but presented evidence from its tax records. The district court accepted that evidence.

³²⁰ *Id.*

³²¹ 518 F.3d at 338. This statement illustrates yet another problem: confusion over the distinction between damages and defendant’s profits. Notice that the Fifth Circuit says “a plaintiff can recover as lost profits the sales of the infringer” That is incorrect. Lost profits are damages, the gains a plaintiff lost as a result of not making sales it would have made but for the infringement. What the Fifth Circuit likely meant, giving them the benefit of the doubt, was that a plaintiff may recover as “defendant’s profits” the gross revenue from the infringing sales where no costs or deductions are proven.

³²² *Id.* at 340.

³²³ 2006 U.S. Dist. LEXIS 47932, at *6, *10.

³²⁴ *Id.* at *10.

³²⁵ 518 F.3d at 326.

³²⁶ *Id.* PRMI is a cooperative of rice farmers. The farmers supply rice to PRMI, which processes and sells the rice. Profits flow through PRMI to the farmer members. *Id.* The costs and deductions relevant to the sales in the *American Rice* case would have included some of the costs of the various farmer members. Determining the proper costs and deductions under those circumstances would be difficult.

profits from PRMI's 2005 sales? We don't know. But we do know that the gross sales revenue of about \$1.25 million was *not* pure profit. The award in this case disgorged far more than defendant's profits.

Was the award punitive? Yes, it was. There is no escaping this conclusion. The district court found that only a small monetary award was justified.³²⁷ The Fifth Circuit ignored that finding, and then skirted the entire issue of whether the award was punitive. The Fifth Circuit referred to the Lanham Act's text, Congress's desire to make trademark infringement unprofitable, and the different rationales used to support profits awards.³²⁸ But at no point did the Fifth Circuit directly address the question of whether the award was punitive.

Why did the Fifth Circuit ignore the district court's decision that only a small monetary award was justified? Even if the Fifth Circuit concluded that the district court's analysis was incorrect, why didn't the appeals court defer to the trial judge's discretion in fixing the appropriate remedy? That is, why didn't the Fifth Circuit remand and allow the district court another chance to match the remedy to the offense. Surely that is a task better suited to the trial court. The Fifth Circuit relied heavily on the Lanham Act's computation process, but ignored the flexibility and discretion given to trial courts by the very same section of the Act.³²⁹ It is a bitter irony, because Congress clearly intended to give trial courts broad flexibility to match the remedy to the offense.³³⁰ The trial judge tried to do that in the *American Rice* case, but the Fifth Circuit upset that result.

It is hard to imagine a more inappropriate outcome than what occurred in the *American Rice* case. The award was not compensatory. It went well beyond what was needed to remedy unjust enrichment. It was an arbitrary punitive award one that was not tailored to meet the nature of the offense.³³¹ This result shows how the Lanham Act's remedial scheme can lead to the worst possible outcome, rather than a sensible monetary award.

3. *A Few Proposals for Reform.* It is time for Congress to repair the mess described above. First, Congress should allow punitive damages. The current scheme has not prevented punitive awards in Lanham Act cases, as the *American Rice* case illustrates. Under the current scheme, federal courts endorse legal fictions and engage in legal contortions. And if that were not bad enough, the punitive awards granted by the federal courts in Lanham Act cases are arbitrary

³²⁷ 2006 U.S. Dist. LEXIS 47932, at *10.

³²⁸ 518 F.3d at 340.

³²⁹ 15 U.S.C. § 1117(a).

³³⁰ See *supra* notes 286–88.

³³¹ It is worth noting that the Fifth Circuit panel divided in the *American Rice* case. Judge Jerry Smith dissented because the two trademarks “do not look even remotely the same.” 518 F.3d at 341. Given this split, and the thin evidence of willfulness, one is left with a strong sense that justice was not done in this case.

and do not appropriately advance the legitimate goal of punishing particularly egregious conduct.

Second, Congress should make clear that the accounting and damages remedies serve distinct purposes. It is not helpful to characterize both remedies as compensatory. Perhaps that characterization is true if one takes a very broad view of compensation, but even then the usage is misleading. When the term compensatory is used to describe a type of damages, the term takes on a specific, and somewhat narrow, meaning. Compensatory damages are those actual losses a plaintiff is able to quantify with reasonable specificity. The accounting of defendant's profits remedy is not used in that manner in modern trademark cases. It is best to save the concept of compensation for the damages remedy.

Accountings should be awarded to remedy unjust enrichment. The goal should be to render trademark infringement unprofitable, while adhering to equitable principles. At least a part of the infringer's profits should be awarded in many cases, including some cases where the infringement is innocent. Courts, however, should have broad discretion to disallow, decrease, or increase the amount of profits calculated through the accounting process. When the infringement issue is close, the infringement innocent, and the plaintiff is unable to show any actual economic injury, a court should be reluctant to award profits. This is the kind of flexible analysis needed to advance the purposes of trademark law.

Actual damages should be used to compensate injured trademark owners. The current scheme is unacceptable because prevailing plaintiffs routinely go uncompensated, despite the general agreement that trademark infringement causes real economic injury. Perhaps a statutory damages approach similar to that of copyright law should be adopted. Or perhaps Congress should approve a reasonable royalty approach. This issue warrants more study.

Third, and finally, Congress should consider relaxing the standard for recovering attorney fees. Under the current "exceptional case" standard, attorney fees are rarely awarded.³³² When willful infringement is found, however, a plaintiff may receive both an unduly large profits award and an attorney fees award. The current approach only exacerbates the extreme divergence of outcomes in trademark cases. Most prevailing parties get nothing, but a few get far more than is warranted. Some consideration should be given to allowing attorney fees to be awarded in lieu of actual damages, an approach that would ensure prevailing parties are not left uncompensated for their injury *and* facing enormous legal bills. That is the typical outcome for the prevailing trademark owner in modern trademark cases. It is hard to call that a just result.

³³² 15 U.S.C. § 1117(a).

During a hearing on one of the bills that led to the Lanham Act, Edward Rogers, a key player in the reform effort, and Representative Lanham had the following exchange:

Rogers: the whole purpose of this section [1117], Mr. Chairman, was to give a thing that is now inflexible, a certain flexibility and rely on the good judgment of the court to see that the recovery was not excessive but was at least adequate. . . .

Representative Lanham: We have to rely upon the courts in their discretion to administer these things fairly. I do not know what other assumption that we can make.³³³

They were right. We need a flexible remedial scheme that allows and encourages courts to craft remedies that match the circumstances of each case. The current Lanham Act monetary relief scheme has developed into an overly rigid, arbitrary system that rarely produces the correct outcome. Little can be said in support of such a system.

³³³ *Proposed Bills to Provide for the Registration and Protection of Trade-Marks: Hearings on H.R. 102, H.R. 5461 and S. 895 Before the Subcomm. on Trade-marks of the House Comm. on Patents, 77th Cong. 206 (1941) (statement of Edward S. Rogers, Chairman Section of Patent, Trade-mark, and Copyright Law, American Bar Association).*

