

# AN ACCOUNTING OF PROFITS FOR TRADE-SYMBOL<sup>1</sup> INFRINGEMENT BASED UPON A THEORY OF RESTITUTION

## INTRODUCTION

In their most recent efforts to protect the trade-symbol owner from the activities of the trade pirate, equity courts have turned to awards based upon an accounting of the infringer's profits.<sup>2</sup> These recent cases represent a retreat from former limitations placed upon this

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1. For purposes of this note "Trade-symbol" includes technical and non-technical trade-marks registered on the "Principal Register," 60 Stat. 428 (1946), 15 U.S.C. § 1052 (1958); trade-names registered on the "Supplemental Register," 60 Stat. 435 (1946), 15 U.S.C. § 1091 (1958) and common law trade-marks and trade-names.

A technical trade-mark is one which, at common law, may be immediately appropriated to the use of an individual and is registrable under trade-mark statutes. 37 TRADEMARK REP. 5 (1948). To meet the requirements of immediate registration on the "Principal Register" a mark must be fanciful, unique, arbitrary, distinctive and non-descriptive. *De Walt, Inc. v. Magna Power Tool Corp.*, 289 F.2d 656 (C.C.P.A. 1961); *Judson Dunaway Corp. v. Hygiene Products Co.*, 178 F.2d 461 (1st Cir. 1949); *Liberty Mut. Ins. Co. v. Liberty Ins. Co.*, 185 F. Supp. 895 (E.D. Ark. 1960); 37 TRADEMARK REP. 5 (1948).

A non-technical mark is one failing some of the requirements of a technical mark but which "has become distinctive of the applicant's goods in commerce" and thus is registrable upon a showing of "exclusive and continuous use" for the five years preceding application. 60 Stat. 428 (1946), 15 U.S.C. § 1052 (1958).

Symbols registrable on the "Supplemental Register" include geographical and descriptive marks or surnames "capable of distinguishing applicant's goods or service and not registrable on the principal register." 60 Stat. 435 (1946), 15 U.S.C. § 1091 (1958). Supplemental registration, however, is not prima facie evidence of ownership nor constructive notice of claim. 60 Stat. 435 (1946), 15 U.S.C. § 1091 (1958); 37 TRADEMARK REP. 10 (1948).

Common law trade-marks and trade-names find protection from infringement under the unfair-competition doctrine of secondary meaning. *Sargent & Co. v. Welco Feed Mfg. Co.*, 195 F.2d 929 (8th Cir. 1952); *Blisscraft of Hollywood v. United Plastic Co.*, 189 F. Supp. 333 (S.D.N.Y. 1960); *Skinner Mfg. Co. v. General Food Sales, Inc.*, 52 F. Supp. 432 (D. Neb. 1943); 37 TRADEMARK REP. 5 (1948).

2. *Blisscraft of Hollywood v. United Plastic Co.*, 294 F.2d 694 (2d Cir. 1961); *Williamson-Dickie Mfg. Co. v. Davis Mfg. Co.*, 251 F.2d 924 (3d Cir. 1958); *Maternally Yours, Inc. v. Your Maternity Shop, Inc.*, 234 F.2d 538 (2d Cir. 1956); *Blue Bell Co. v. Frontier Refining Co.*, 213 F.2d 354 (10th Cir. 1954); *Century Distilling Co. v. Continental Distilling Corp.*, 205 F.2d 140 (3d Cir. 1953); *Dad's Root Beer Co. v. Doc's Beverage, Inc.*, 193 F.2d 77 (2d Cir. 1951); *Feathercombs, Inc. v. Solo Products Corp.*, 196 F. Supp. 299 (S.D.N.Y. 1961); *Admiral Corp. v. Price Stores, Inc.*, 141 F. Supp. 796 (E.D. Pa. 1956); *Ford Motor Co. v. Alltite Motor Prod. Corp.*, 117 F. Supp. 460 (N.D. Fla. 1954); *Lou Schneider, Inc. v. Carl Gutman & Co.*, 69 F. Supp. 392 (S.D.N.Y. 1946).

specie of recovery,<sup>3</sup> one of which, the requirement of direct competition<sup>4</sup> between the infringer and trade-symbol<sup>5</sup> owner, is the primary concern of this discussion.<sup>6</sup>

3. The plaintiff was barred by laches. *Keystone Macaroni Mfg. Co. v. V. Arena & Sons, Inc.*, 27 F. Supp. 290 (E.D. Pa. 1939); *Metz Labs., Inc. v. American Pharmaceutical Co.*, 18 F. Supp. 598 (S.D.N.Y. 1936). The defendant's gains were disproportionate or trivial compared to the cost or expense of taking an accounting. *O'Sullivan Rubber Co. v. Genuine Rubber Co.*, 287 Fed. 134 (1st Cir. 1923); *Kessler & Co. v. Goldstrom*, 177 Fed. 392 (8th Cir. 1910); *Kessler & Co., v. Klein*, 177 Fed. 394 (8th Cir. 1910); *Hennessy v. Wine Growers Ass'n*, 212 Fed. 308 (S.D. N.Y. (1914)); *Keystone Type v. Portland Pub. Co.*, 180 Fed. 301 (C.C. Me. 1910). The fault was traceable to both parties. *American Crayon Co. v. Prang Co.*, 38 F.2d 448 (3d Cir. 1930); *G. & C. Merriam Co. v. Ogilvie*, 170 Fed. 167 (1st Cir. 1909); *Lewis Mach. Co. v. Columbia Mach. Corp.*, 22 F. Supp. 705 (S.D.N.Y. 1937); *O'Sullivan Rubber Co. v. Genuine Rubber Co.*, 281 Fed. 851 (D. Mass. 1922). An injunction satisfied the equities of the case. *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125 (1947); *Triangle Pub., Inc. v. Hanson*, 163 F.2d 74 (8th Cir. 1947); *American Thread Co. v. North American Thread Co.*, 33 F. Supp. 616 (S.D.N.Y. 1935).

4. *Roth, Inc. v. Hanson*, 186 F.2d 11 (2d Cir.), *cert. denied*, 341 U.S. 921 (1951); *Triangle Pub., Inc. v. Rohrlisch*, 167 F.2d 969 (2d Cir. 1948); *Durable Toy Corp. v. J. Chein & Co.*, 133 F.2d 853 (2d Cir. 1943); *Horlick's Malted Milk Corp. v. Horluck's, Inc.*, 59 F.2d 13 (9th Cir. 1932); *Vogue Co. v. Thompson-Hudson Co.*, 300 Fed. 509 (6th Cir. 1924); *Aunt Jemima Mills Co. v. Rigney & Co.*, 247 Fed. 407 (2d Cir. 1917); *National Dryer Mfg. Corp. v. National Drying Mach. Co.*, 136 F. Supp. 886 (E.D. Pa. 1955); *Lorraine Mfg. Co. v. Lorraine Mfg. Co.*, 101 F. Supp. 967 (D.N.J. 1952); *Stardust, Inc., v. Weiss*, 79 F. Supp. 274 (S.D.N.Y. 1948); *Acme Chem. Co. v. Dobkin*, 68 F. Supp. 601 (W.D. Pa. 1946); *Esquire, Inc. v. Esquire Bar*, 37 F. Supp. 875 (S.D. Fla. 1941); *Famous Funnies, Inc. v. Famous Funn Family, Inc.*, 37 F. Supp. 903 (S.D.N.Y. 1941); *Plough, Inc. v. Inter-city Oil Co.*, 26 F. Supp. 978 (E.D. Pa. 1939); see *Gold Seal Co. v. Weeks*, 129 F. Supp. 928 (D.D.C. 1955). See also *Morgenstern Chem. Co. v. G. D. Searle & Co.*, 253 F.2d 390 (3d Cir. 1958); RESTATEMENT, TORTS § 747 (b) (i), comment *g* (1938). Actual or direct competition has been defined as litigants soliciting "the same trade from the same customers in the same territory at the same time." *Aunt Jemima Mills Co. v. Rigney & Co.*, 247 Fed. 407 (2d Cir. 1917); 52 AM. JUR. *Trade-marks* § 94, at 574 (1944); 148 A.L.R. 16 (1944).

5. Trade-mark law is only one aspect of the more extensive law of unfair competition. *American Steel Foundries v. Robertson*, 269 U.S. 372 (1926); *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1915); *Elgin Nat'l Watch Co., v. Illinois Watch Case Co.*, 179 U.S. 655 (1901); *Chester Barrie, Ltd. v. Chester Lourie, Ltd.*, 189 F. Supp. 98 (S.D.N.Y. 1960); HOPKINS, TRADEMARKS, TRADE-NAMES AND UNFAIR COMPETITION § 22 (4th ed. 1924). The broader doctrine affords protection from fraudulent competition in all its forms. The basis of the law of unfair competition is the preservation of the plane of competition. *Ibid.* This preservation is intended to insure the health of the competitive process the law deems essential to societal welfare.

Trade-mark law is that segment of the law of unfair competition dedicated to the protection of source identification value of one's commercial word, mark or device from infringement by another's use of a symbol in such a manner as to engender public confusion. *Hostetter v. Fries*, 17 Fed. 620 (S.D.N.Y. 1883). See

This note suggests a restitution rationale under which the results of recent cases with their extended trade-symbol protection might be fitted within the existing trade-symbol protection construct.<sup>7</sup>

Essentially there are two possibilities for rationalizing money recovery in trade-symbol infringement cases. In one instance the public policy of protection of source identification is served by indemnifying the trade-symbol owner against damage resulting from palming off.<sup>8</sup> This encompasses not only the more familiar fact situation in which the trade-symbol owner suffers direct loss of sales due to competitive activity aided by the pirated symbol,<sup>9</sup> but also the

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also *Humphrey's Specific Homeopathic Medicine Co. v. Wenz*, 14 Fed. 250 (D.N.J. 1882). Public insulation from fraud and customer confusion is a necessary incident of prohibiting the passing off or attempted passing off of goods and products of one person for those of another and a principal rationale of protection. See *Standard Oil Co. v. Michie*, 34 F.2d 802 (E.D. Mo. 1929); 1 NIMS, UNFAIR COMPETITION AND TRADE-MARKS § 4 (4th ed. 1947) [hereinafter cited as NIMS]. In this respect trade-mark law affords public as well as private protection. See 1 NIMS § 7.

6. The scope of this note is limited to consideration of federal trade-symbol law. It deals primarily with cases under the legislation of 1905, 1920 and 1946.

The first federal Trade-mark Act was passed in 1870, but was held unconstitutional as a regulation on intrastate commerce. *Trade-mark Cases*, 100 U.S. 82 (1879).

7. The Lanham Act secures federal jurisdiction and provides a trade-symbol registration system with concomitant procedural advantages for the vindication of common law rights. *Leadway Stores v. Hawkins*, 33 TRADEMARK REP. 362 (1943); *Philco Corp. v. Phillips Mfg. Co.*, 133 F.2d 663 (7th Cir. 1943); *National Fruit Prod. Co. v. Dwinell-Wright Co.*, 47 F. Supp. 499 (D. Mass. 1942); *May v. Goodyear Tire and Rubber Co.*, 10 F. Supp. 249 (D. Mass. 1935); 2 NIMS, § 223a. This does not mean that unregistered marks are not protected under federal law. Infringement by unfair competition can be redressed in federal courts. *Hurn v. Ousler*, 289 U.S. 238 (1933); *Beech-Nut Packing v. Lorillard Co.*, 273 U.S. 629 (1927); *Hanover Star Milling Co., v. Metcalf*, 240 U.S. 403 (1915); *Standard Paint Co. v. Trinidad Asphalt Mfg. Co.*, 220 U.S. 446 (1911); *Safeway Stores, Inc. v. Sklar*, 75 F. Supp. 98 (E.D.Pa. 1947). *Patents, Copyrights, Trade-marks and unfair Competition*, 28 U.S.C. § 1338 (1958) provides:

(a) The district court shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, copyrights and trade-marks. Such jurisdiction shall be exclusive of the courts of the states in patent and copyright cases.

(b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial claim under the copyright, patent or trade-mark laws. June 25, 1948, c. 646, 62 Stat. 931.

See *Musher Foundation, Inc. v. Alba Trading Co.*, 127 F.2d 9 (7th Cir. 1942) (majority and dissenting opinions).

8. *Hygienic Specialties Co. v. Salzman*, 302 F.2d 614 (2d Cir. 1962); *Mershon v. Pachmayr*, 220 F.2d 879 (9th Cir. 1955); *Jean Patou, Inc. v. Jacqueline Cochran, Inc.*, 201 F. Supp. 861 (S.D.N.Y. 1962).

9. Accounting of profits where direct competition is present: *Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co.*, 316 U.S. 203 (1942); *Hamilton-*

instance in which there is dilution of the source-identification value of the symbol as a result of its use in connection with non-competing products or services of inferior quality which the relevant public mistakenly ascribes to the rightful trade-symbol owner.<sup>10</sup> The other possibility for justification is a restitution rationale based not on indemnification but on the right of the owner of property to be the sole beneficiary of profits derived from its use.<sup>11</sup> Of course undergirding both theories of recovery is their value as deterrents to what the law regards as socially undesirable conduct.<sup>12</sup>

### I. BILL IN EQUITY FOR AN ACCOUNTING

Courts of equity may award an accounting of a trade-symbol infringer's profits in addition to an injunction.<sup>13</sup> A bill for an accounting is historically traceable to the common law action of "account" or "account render."<sup>14</sup> Persons under a legal duty to account for money or property in their custody were required to state such accounts

*Brown Shoe Co. v. Wolf Bros. Co.*, 240 U.S. 251 (1916); *Wolf v. National Lead Co.*, 272 F.2d 867 (9th Cir. 1959); *Coca-Cola Co. v. Dixie Cola Labs., Inc.*, 155 F.2d 59 (4th Cir. 1946); *G. & C. Merriam v. Saalfeld*, 198 F.2d 369 (6th Cir. 1912); *John J. Woodbury, Inc. v. William A. Woodbury Corp.*, 23 F. Supp. 162 (S.D.N.Y. 1938); *Wrigley Co. v. Larson Co.*, 5 F.2d 731 (N.D. Ill. 1925). See also *Ford Motor Co. v. Alltite Motor Prod. Corp.*, 117 F. Supp. 460 (N.D. Fla. 1954).

Accounting of profits in absence of direct competition: *Maternally Yours, Inc. v. Your Maternity Shop, Inc.*, 234 F.2d 538 (2d Cir. 1955); *Blue Bell Co. v. Frontier Refining Co.*, 213 F.2d 354 (10th Cir. 1954); *Century Distilling Co. v. Continental Distilling Corp.*, 205 F.2d 140 (3d Cir. 1953); *Dad's Root Beer Co. v. Doc's Beverage, Inc.*, 193 (F.2d 77 (2d Cir. 1951); *Admiral Corp. v. Price Vacuum Stores, Inc.*, 141 F. Supp. 796 (E.D. Pa. 1956); *Lou Schnieder, Inc. v. Carl Gutman & Co.*, 69 F. Supp. 392 (S.D.N.Y. 1946).

10. *Esquire, Inc. v. Esquire Slipper Mfg. Co.*, 243 F.2d 540 (1st Cir. 1957); *Pro-Phy-Lac-Tic Brush Co. v. Jordan Marsh Co.* 165 F.2d 549 (1st Cir. 1948); *Bristol-Meyers Co. v. R. H. Macy Co.*, 151 F. Supp. 513 (S.D.N.Y. 1957); *Fancee Free Mfg. Co. v. Fancy Free Fashions, Inc.*, 148 F. Supp. 825 (S.D.N.Y. 1957); *Q-tips, Inc. v. Johnson and Johnson*, 108 F. Supp. 845 (D.N.J. 1952); *Bulova Watch v. Stolzberg*, 69 F. Supp. 543 (D. Mass. 1947).

11. See notes 38-41 *infra* and accompanying text.

12. *Walter Baker Co. v. Slack*, 130 Fed. 514 (7th Cir. 1904) (damages); *HOPKINS, TRADEMARKS* § 157 (1905). See also *Hamilton-Brown Shoe Co. v. Wolf Bros. Co.*, 240 U.S. 251, 259 (1916); *Tilghman v. Proctor*, 125 U.S. 136 (1888); *Aladdin Mfg. Co. v. Mantle Lamp Co. of America*, 116 F.2d 708 (1941); *Press Pub. Co. v. Monroe*, 73 Fed. 196 (2d Cir. 1896).

*Wrigley Co. v. Larson Co.*, 5 F.2d 731 (N.D. Ill. 1925) (accounting). See also *HOPKINS, TRADEMARKS* § 153 (1905).

13. *Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co.*, 316 U.S. 203 (1942); *Hamilton-Brown Shoe Co. v. Wolf Bros. Co.*, 240 U.S. 251 (1916). An accounting may be denied because an injunction adequately protects the plaintiff's rights. 2 NIMS § 424.

14. 2 NIMS § 424; *RESTATEMENT, RESTITUTION* § 136 (1937).

and to pay any balance due.<sup>15</sup> The complicated nature of the issue, and the fiduciary character assigned to the relation between the trade-symbol owner and the trade-symbol infringer as a result of the property right held to inure in a properly employed trade-symbol, enabled equity to acquire jurisdiction at an early date.<sup>16</sup> The contemporary action holds one who palms off his product as that of another through infringing use of a trade-symbol liable for profits realized from or attributable to the unlawful use of the symbol.<sup>17</sup> The benefit enjoyed by a trade-symbol infringer is increased profits which are the result of a free ride on the trade-symbol owner's reputation and good will. The decree places the infringer under a duty to account for the value of the benefit derived from the infringement.<sup>18</sup>

## II. THE DAMAGE-PROFIT DISTINCTION<sup>19</sup>

Since the theories underlying awards of damages and accountings of profits are different, it follows that both might be available in a given case.<sup>20</sup> Importation of criteria relevant to one measure of recovery into the other will result in confusion.<sup>21</sup> Just such confusion

15. *Ibid.*

16. POMEROY, EQUITY JURISPRUDENCE § 1421 (5th ed. 1941). Section 1117 of the Lanham Act envisions such an equitable accounting.

17. *Lynn Shoe Co. v. Auburn-Lynn Shoe Co.*, 100 Me. 461, 62 Atl. 499 (1905). See also 52 A.M. JUR. TRADE MARKS § 147 (1944).

18. RESTATEMENT, RESTITUTION § 136 (1937).

19. Introducing the topic of profits and damages, Professor Nims, in his work, *Unfair Competition and Trade-Marks*, quotes from Browne on *The Law of Trade-Marks* § 517 (2d ed. 1888):

One who reads the decisions on the subject to which this chapter is devoted is tempted, as was Mr. Browne, when he wrote on the same problem . . . to "relapse into uncertainty and despair of finding any nicely adjusted scheme to solve the problem." 2 NIMS § 419.

20. English courts seem to deny recovery of both damages and profits requiring the plaintiff to elect between the two. *Hamilton-Brown Shoe Co. v. Wolf Bros. Co.*, 240 U.S. 251, 259 (1915); *Aladdin Mfg. Co. v. Mantle Lamp Co. of America*, 116 F.2d 708, 716 (7th Cir. 1941). While American law courts cannot issue injunctions, American courts of equity assess and collect damages along with the issuance of injunctive relief. Nims, *Damages and Accounting Procedure in Unfair Competition Cases*, 31 CORNELL L.Q. 431, 433 (1946). "In this country, it is generally held that in a proper case both damages and profits may be awarded." *Hamilton-Brown Shoe Co. v. Wolf Bros. Co.*, 240 U.S. 251, 259 (1915).

21. A trade-symbol infringer's profits and a trade-symbol owner's damages are two entirely separate and distinct items of recovery. Either or both might be available in a given case. See authorities cited note 20 *supra*; *Aladdin Mfg. Co. v. Mantle Lamp Co. of America*, 116 F.2d 708 (7th Cir. 1941); *Lawrence-Williams Co. v. Gombault*, 52 F.2d 774 (6th Cir. 1931); *M. B. Fahey Tobacco Co. v. Senior*, 252 Fed. 579 (3d Cir. 1918); *Supreme Wine Co. v. American Distilling Co.*, 203 F. Supp. 736 (S.D.N.Y. 1962). An examination of the language of

has resulted as most courts have based accounting recoveries upon a mixture of tort and restitution theory.<sup>22</sup> A direct competition requirement, obviously relevant to the recovery of one type of damages<sup>23</sup>

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the Lanham Act makes this proposition clear. Section 35 of that statute expressly distinguishes the defendant's profits from any damages incurred by the trade-symbol owner:

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 chapter, the plaintiff shall be entitled . . . subject to the principles of equity, to recover (1) *defendant's profits*, (2) *any damages sustained by the plaintiff*, . . . . 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. 60 Stat. 439 (1946), 15 U.S.C. § 1117 (1946). (Emphasis added.)

See RESTATEMENT, TORTS § 747 (1938); *Pastificio Spica Societa v. De Martini Macaroni Co.*, 200 F.2d 325 (1952).

A similar distinction is apparent in the Trade-Mark Act of 1905. "Upon a decree being rendered in any case for wrongful use of a trade-mark the complainant shall be entitled to recover, *in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby . . .*" § 19, 33 Stat. 729 (1905). (Emphasis added.) Apparently two different types of liability may be incurred by the trade-symbol infringer, each emanating from different obligations; first, an obligation to indemnify the trade-symbol owner for injury actually inflicted, and, second, a duty to restore that which has been wrongfully gained. See *Aladdin Mfg. Co. v. Mantle Lamp Co. of America*, 116 F.2d 708 (7th Cir. 1941). Profits are gains derived by a trade-symbol infringer from the unfair use of another's trade-symbol as a consequence of a misrepresentation of his goods as those of the other. Nims, *Damages and Accounting Procedure in Unfair Competition Cases*, 31 CORNELL L.Q. 431, 434 (1946). Damages are gains the trade-symbol owner might have derived but for the wrongful acts of the trade-symbol infringer. *Winifred Warren, Inc. v. Turner's Gowns Ltd.*, 285 N.Y. 62, 32 N.E.2d 793 (1941). An award based on damages may produce one amount while recovery based on profits quite another, especially where the trade-symbol infringer's profits exceed any damages the plaintiff is able to prove. The difference in the theories lies in the bases upon which each is founded. Damages lost upon a tort theory embracing notions of both indemnification and punishment: *Baker v. Slack*, 130 Fed. 514, 520 (7th Cir. 1904); HOPKINS, TRADEMARKS, TRADE-NAMES & UNFAIR COMPETITION § 184 (4th ed. 1924); see *Tilghman v. Proctor*, 125 U.S. 136 (1888); *Press Pub. Co. v. Monroe*, 73 Fed. 196 (2d Cir. 1896); *Aladdin Mfg. Co. v. Mantle Lamp Co. of America*, 116 F.2d 708 (7th Cir. 1941). An accounting of profits, however, having emerged early as an equitable remedy, resembles restitutionary recovery emphasizing the unjust enrichment of the wrongdoer. *Tilghman v. Proctor*, 125 U.S. 136 (1888); *Wrigley Co. v. Larson Co.*, 5 F.2d 731, 739 (1925); HOPKINS, TRADEMARKS, TRADENAMES & UNFAIR COMPETITION § 192 (4th ed. 1924).

because of the necessity to show actual sales loss,<sup>24</sup> has been imposed upon recovery by accounting despite its restitution basis.<sup>25</sup>

### III. EVILS OF THE DIRECT COMPETITION REQUIREMENT

Source identification and thus conveyance of good will is that which imparts property value to a trade-symbol.<sup>26</sup> This value is at times an elusive concept and has been variously defined. Some have viewed

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Professor Nims, in his work, *Unfair Competition and Trademarks*, recognizes this distinction:

An accounting of defendant's profits may be ordered regardless of whether plaintiff proves that he has suffered any loss because such an accounting is based, not on plaintiff's loss, but on defendant's wrongdoing in that he has used defendant's [sic] property for his own benefit, wrongfully. "In contemplation of law such profits are diverted from the plaintiff, being obtained through the improper invasion of plaintiff's trade rights. Entirely apart from the question of actual damage the owner of a trade-mark is entitled to recover from the infringer the profits realized by the latter from the sales under the simulated trade-mark." 2 NIMS § 424.

22. *Ibid.*

23. (damages by actual sales loss) Fuller Products Co. v. Fuller Brush Co., 299 F.2d 772 (7th Cir. 1962); Midland-Ross Corp. v. Yokana, 293 F.2d 411 (3d Cir. 1961); Admiral Corp. v. Admiral Employment Bureau, 151 F. Supp. 629 (E.D. Ill. 1957); see note 21 *supra*.

24. See cases cited note 23 *supra*; Aladdin Mfg. Co. v. Mantle Lamp Co. of America, 116 F.2d 708 (7th Cir. 1941).

25. Hygienic Prod. Co. v. Judson Dunaway Corp., 81 F. Supp. 935 (D.N.H. 1948); Acme Chem. Co. v. Dobkin, 68 F. Supp. 601 (W.D. Pa. 1946). See RESTATEMENT, TORTS § 747(b)(i) (1938) which requires the goods to be "of a kind which compete with those marketed by the other" and a tortious state of mind before awarding profits. But see RESTATEMENT, RESTITUTION § 136 (1937) which distinguishes a tort action and a cause for restitution. Comment *a* states:

*Comment:*

*a.* Persons who tortiously use trade names, trade secrets, water rights, and other similar interests of others, are ordinarily liable in an action of tort for the harm which they have done. In some cases, however, no harm is done and in these cases if the sole remedy were by an action of tort the wrongdoer would be allowed to profit at little or no expense. In cases where the damage is more extensive, proof as to its extent may be so difficult that justice can be accomplished only by requiring payment of the amount of profits. Where definite damage is caused and is susceptible of proof, the injured person, as in other tort cases, can elect between an action for damages and an action for the value of that which was improperly received. The usual method of seeking restitution is by a bill in equity, with a request for an accounting for any profits which have been received, but the existence of a right to bring such a bill does not necessarily prevent an action at law for the value of the use.

There is no requirement that the goods be competing though a tortious state of mind seems to be necessary. Section 136 states: "A person who has tortiously used a trade name, trade secret, franchise, profit a prendre, or other similar interest of another is under a duty of restitution for the value of the benefit thereby received."

26. Old Dearborn Distrib. Co. v. Seagram-Distillers Corp., 299 U.S. 183 (1936); McLean v. Fleming, 96 U.S. 245 (1877); Bond Stores, Inc. v. Bond Stores, Inc., 104 F.2d 124 (3d Cir. 1939); Sawilowsky v. Brown, 288 Fed. 533 (5th Cir. 1923); Scandinavia Belting Co. v. Asbestos & Rubber Works of Amer-

it as "that which makes tomorrow's business more than an accident . . . the reasonable expectation of future patronage based on past satisfactory dealings."<sup>27</sup> Others have referred to it as merely another name for reputation, credit, honesty, fair name and reliability.<sup>28</sup> A trade-symbol is one of the visible manifestations by which source is made known to the public.<sup>29</sup> Judge Learned Hand has said that the good will which source identification conveys is "like a face, . . . the symbol of its possessor."<sup>30</sup> It has long been recognized that the legal basis for trade-symbol protection is to prevent the wrongful appropriation of this valuable asset. However, the direct competition requirement serves to frustrate and inhibit the full accomplishment of that policy.<sup>31</sup> Injunctive relief,<sup>32</sup> while available,<sup>33</sup> does not meet the exigency created by an accomplished infringement. For while it affords a satisfactory safeguard *in futuro*, it is impotent with respect to profits wrongfully derived prior to its issuance. Therefore the trade-symbol owner is left with legal tools insufficient to protect his interest and sustain the concomitant public policy interest.

The likelihood of an owner proving substantial damages is remote,

ica, Inc., 257 Fed. 937 (2d Cir. 1919); Joseph Schlitz Brewing Co. v. Houston Ice & Brewing Co., 241 Fed. 817 (5th Cir. 1917), *aff'd*, 250 U.S. 28 (1919); Land O'Lakes Creameries, Inc. v. Oconomowac Canning Co., 199 F. Supp. 124 (E.D. Wis. 1961); Metropolitan Nat'l Bank v. St. Louis Post Dispatch Co., 36 Fed. 722 (E.D. Mo. 1888), *aff'd*, 149 U.S. 436 (1893); Howard v. Taylor, 90 Ala. 241, 8 So. 36 (1890); Bank of Tomah v. Warren, 94 Wis. 151, 68 N.W. 549 (1896).

27. Nealon, *What is Good Will*, 39 J. PAT. OFF. SOC'Y 730 (1957).

28. 1 NIMS § 73. Mr. Justice Story defined good will as:

[T]he advantage or benefit, which is acquired by an establishment, beyond the mere value of the capital stock, funds, or property employed therein, in consequence of the general public patronage and encouragement which it receives from constant or habitual customers on account of its local position, or common celebrity, or reputation for skill or affluence, or punctuality, or from other accidental circumstances, or necessities, or even from ancient partialities, or prejudices. STORY, PARTNERSHIP 170 (6th ed. 1868).

29. HOPKINS, TRADEMARKS, TRADENAMES & UNFAIR COMPETITION § 3 (4th ed. 1924).

30. Yale Elec. Corp. v. Robertson, 26 F.2d 972, 974 (1928).

31. See note 4 *supra*.

32. See McLean v. Fleming, 96 U.S. 245 (1877) and Simmons Co. v. Baker, 200 F. Supp. 149 (D. Mass. 1961) on scope of injunctions. See also 2 NIMS § 367 for general considerations of final injunctions. "In formulating a final injunction in trade-mark and unfair competition cases, the object of the court is to stop confusion and to eliminate unfair dealing." *Ibid*.

33. North Am. Aircoach Sys., Inc. v. North Am. Aviation, Inc., 231 F.2d 205 (9th Cir. 1955); Sunbeam Furniture Corp. v. Sunbeam Corp., 191 F.2d 141 (9th Cir. 1951); Bond Stores, Inc. v. Bond Stores, Inc., 104 F.2d 124 (3d Cir. 1939); Anheuser-Busch, Inc. v. Budweiser Malt Prod. Corp., 295 Fed. 306 (2d Cir. 1923); Sears, Roebuck & Co. v. Allstates Trailer Rental, Inc., 188 F. Supp. 170 (D. Md. 1960); Lorraine Mfg. Co. v. Lorraine Knitwear Co., 88 F. Supp. 634 (N.D. Ga. 1949).

as it is often impossible to show the extent to which an infringing mark injures good will. Today's products are commonly distributed and sold over vast areas and the effect of infringement on the public is often unascertainable.<sup>34</sup> "The trade pirate oftent understands, to some degree at least, the difficulties of showing damages and knows he can use unfair methods with comparative safety. . . ."<sup>35</sup> When no harm is shown and "if the sole remedy were by an action in tort the wrongdoer would be allowed to profit at little or no expense."<sup>36</sup> In the face of such distress, the public policy which demands that the trade-symbol infringer not be permitted to profit by his own wrong<sup>37</sup> goes unvindicated and this trade practice is undeterred.<sup>38</sup>

#### IV. SUGGESTED SOLUTION—A TRUE RESTITUTION RATIONALE

Rehabilitation of the restitution rationale is a solution to the present confused state of the law and provides a legal theory upon which an award of profits logically could be founded in the absence of direct competition. Basing an accounting upon principles analogous to those charging a trustee with profits acquired by the wrongful use of the property of a cestui que trust, the restitution rationale holds a trade-symbol infringer accountable to its owner for those profits derived from the infringement by which he has been unjustly enriched.

Early cases were reluctant to allow restitutionary recovery for the taking of intangibles.<sup>39</sup> Courts seemed to have been misled by the intangible character of the thing taken; and where the taking consisted of a wrongful use of another's property and the use had not been exclusive of the owner's use, or the property would not have been used by its owner in any event, liability was generally denied.<sup>40</sup> The modern view, however, recognizes an "exclusive use" belonging to the owner of an intangible<sup>41</sup> and generally supports recovery.

34. *Nesne v. Sundet*, 93 Minn. 299, 101 N.W. 490 (1946).

It may have been practical in the past for a plaintiff to prove the sales he has lost by reason of defendant's acts. Today it is often impossible to find out the actual effect on the public of unfair acts in the sale of goods, especially where the article is sold for a small price, or bought casually, or the sales are distributed over a wide area. Nims, *Damages and Accounting Procedure in Unfair Competition Cases*, 31 CORNELL L.Q. 431, 432 (1946).

35. Nims, *supra* note 34.

36. RESTATEMENT, RESTITUTION § 136, comment *a* (1937).

37. Nims, *supra* note 34.

38. See note 21 *supra* and accompanying text on damage-profit distinction. Nims, *supra* note 34.

39. *Schillinger v. United States*, 155 U.S. 163 (1894); *Phillips v. Homfray*, [1883] 24 Ch. D. 439; *WOODWARD*, QUASI CONTRACTS § 275 (1913).

40. *Ibid.*

41. See notes 2 & 9 *supra*.

### V. BASIS FOR THE RESTITUTION RATIONALE IN PRE-LANHAM ACT CASE LAW

Pre-Lanham Act decisions characteristically based an accounting for profits on a mixture of the tort and restitution theories.<sup>42</sup> The damage-profit distinction apparently was unrecognized in many courts.<sup>43</sup> The requirement of direct competition between the parties became an established requisite for the recovery of an infringer's profit.<sup>44</sup> Despite this prevailing doctrine, however, judicial concepts found expression from which a purely restitutionary theory of accounting could be derived.

Language of the United States Supreme Court in the case of *Hamilton-Brown Shoe Co. v. Wolf Bros.*<sup>45</sup> is illustrative. The plaintiff engaged in the manufacture of women's shoes, prayed for an injunction to restrain infringement of his trade-mark, The American Girl, by defendant's use of the term American Lady, and for an accounting of the defendant's profits. Speaking through Mr. Justice Pitney, the Court affirmed a verdict for plaintiff and thoroughly considered the nature of an accounting:

The right to use a trade-mark 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 trust*. Not the equity assumes jurisdiction upon the ground that a trust exists . . . the jurisdiction must be rested upon some other equitable ground—in ordinary cases, as in the present, the right to an injunction—but the court of equity, having acquired jurisdiction upon such a ground, retains it for the purpose of administering complete relief, rather than send the injured party to a court of law for his damages. And profits are then allowed as an equitable measure of compensation, on the theory of a trust *ex maleficio*.<sup>46</sup>

42. See note 4 *supra*. See *Hemmeter Cigar Co. v. Congress Cigar Co.*, 118 F.2d 64 (6th Cir. 1941); *Golden West Brewing Co. v. Milonas & Sons, Inc.*, 104 F.2d 880 (9th Cir. 1939); *Bond Stores, Inc. v. Bond Stores, Inc.*, 104 F.2d 124 (3d Cir. 1939); *Wisconsin Elec. Co. v. Dunmore Co.*, 35 F.2d 555 (6th Cir. 1929), *petition for cert. dismissed*, 282 U.S. 813 (1931); *Yale Elec. Corp. v. Robertson*, 26 F.2d 972 (2d Cir. 1928); *Rosenberg Bros. v. Elliott*, 7 F.2d 962 (3d Cir. 1925); *Vogue Co. v. Thompson-Hudson Co.*, 300 Fed. 509 (6th Cir. 1924), *cert. denied*, 273 U.S. 706 (1926); *Aunt Jemima Mills Co. v. Rigney & Co.*, 247 Fed. 407 (2d Cir.), *cert. denied*, 245 U.S. 672 (1918); *Acme Chem. Co. v. Dobkin*, 68 F. Supp. 601 (W.D. Pa. 1946); *Esquire, Inc. v. Esquire Bar*, 37 F. Supp. 875 (S.D. Fla. 1941).

43. See *Lawrence-Williams Co. v. Societe Enfants Gombault*, 52 F.2d 774 (6th Cir. 1931), *cert. denied*, 285 U.S. 549 (1932).

44. See cases cited note 4 *supra*.

45. 240 U.S. 251 (1916).

46. *Id.* at 259; the Court at 261-62 quoted from the case of *Graham v. Plate*,

Under the *Hamilton-Brown* doctrine, the infringer's profits may be recovered even though the trade-symbol owner is incapable of proving actual damages.<sup>47</sup>

The burden of proof problem was considered by the Supreme Court in *Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co.*<sup>48</sup> The plaintiff manufactured and sold shoes and rubber heels bearing a red circular plug in the center of the heel. The defendant sold heels bearing a circular reddish mark closely resembling that of the plaintiff. A prayer for an injunction and an accounting of profits was sustained although the plaintiff could offer no evidence of actual sales loss. Mr. Justice Frankfurter stated:

The burden is the infringer's to prove that his infringement had no cash value in sales made by him. If he does not do so, the profits made on sales of goods bearing the infringing mark properly belong to the owner of the mark. . . . There may well be a windfall to the trademark owner where it is impossible to isolate the profits which are attributable to the use of the infringing mark. But to hold otherwise would give the windfall to the wrongdoer. In the absence of his proving the contrary, it promotes honesty and comports with experience to assume that the wrongdoer who makes profits from the sales of goods bearing a mark belonging to another was enabled to do so because he was drawing upon the good will generated by that mark.<sup>49</sup>

Despite these pronouncements the courts remained inconsistent both as to results in accounting cases and the bases selected to rationalize them.<sup>50</sup> The pre-Lanham Act case law was chiefly significant for the restitutionary flavor of some of its judicial language.<sup>51</sup> The majority of cases, however, before and after the Lanham Act, have held tenaciously to the direct competition requirement.<sup>52</sup>

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40 Cal. 593, 598-99 (1871) as follows: "If one wrongfully mixes his own goods with those of another, so that they cannot be distinguished and separated, he shall lose the whole, for the reason that the fault is his; and it is but just that he should suffer the loss rather than an innocent party, who in no degree contributed to the wrong." The theory upon which this passage is based was analogized to the theory upon which an accounting of profits in trade-symbol infringement cases should be based. See *Anchor Stove & Range Co. v. Rymer*, 97 F.2d 689 (6th Cir.), *cert. denied*, 305 U.S. 653 (1938); *Garella v. Log Cabin Products Co.*, 89 F.2d 891 (2d Cir. 1937).

47. *Ibid.*

48. 316 U.S. 203 (1942).

49. *Id.* at 206-07.

50. See notes 4 & 21 *supra*.

51. Two pre-Lanham Act cases sanctioning injunctive relief in the absence of direct competition upon an unjust enrichment theory: *Bond Stores, Inc. v. Bond Stores, Inc.*, 104 F.2d 124 (3d Cir. 1939); and *Dodge v. East*, 8 F.2d 872 (E.D.N.Y. 1925). "[F]ilching of a good name and obtaining an unearned benefit." *Bond Stores, Inc. v. Bond Stores, Inc.*, *supra* at 125.

52. See note 4 *supra*.

However, as will be developed in detail below, there has been a line of post-Lanham Act cases which have awarded an accounting of the trade-symbol infringer's profits in the absence of direct competition.<sup>53</sup> Although this line of cases has sustained the accounting remedy absent direct competition, the underlying theory has been obscured, if explicated at all.<sup>54</sup> These decisions, however, indicate that some modern equity courts are simply unwilling to contribute to a gap in trade-symbol law inviting palming-off with its resultant customer confusion.<sup>55</sup>

#### VI. BASIS FOR THE RESTITUTION RATIONALE IN POST-LANHAM ACT CASE LAW

An example of this line of post-Lanham Act cases is *Century Distilling Co. v. Continental Distilling Corp.*<sup>56</sup> in which the Third Circuit recognized an accounting absent direct competition but failed to indicate the basis for its award. Continental distilled and sold a quality gin under the registered mark Dixie Belle while defendant sold a bourbon of lesser quality under the mark Dixie Due. Continental's prayer for an injunction and the recovery of defendant's profits was sustained. The court summarily ruled that even though the referee made a *subsequent* finding that there existed direct geographical competition, the trial court properly ordered the accounting of profits without such evidence.<sup>57</sup>

In a similar case, *Maternally Yours, Inc. v. Your Maternity Shop, Inc.*,<sup>58</sup> the plaintiff was engaged in the retail merchandising of maternity apparel in the New York metropolitan area. Defendant, Your Maternity Shop, opened its shops in New Rochelle, New York and Philadelphia, Pennsylvania. The defendant contended that its Philadelphia store should not be included in the accounting because the plaintiff did not have a competing store in the Philadelphia area. The trial judge's findings that defendant adopted its tradename with knowledge of plaintiff's trade-mark, and that an infringer must ac-

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53. *Maternally Yours, Inc. v. Your Maternity Shop, Inc.*, 234 F.2d 538 (2d Cir. 1956); *Blue Bell Co. v. Frontier Refining Co.*, 213 F.2d 354 (10th Cir. 1954); *Dad's Root Beer Co. v. Doc's Beverages, Inc.*, 193 F.2d 77 (2d Cir. 1951); *Admiral Corp. v. Price Vacuum Stores, Inc.*, 141 F. Supp. 796 (1956). See *Century Distilling Co. v. Continental Distilling Corp.*, 205 F.2d 140 (3d Cir.), *cert. denied*, 346 U.S. 900 (1953); *Lou Schnieder, Inc. v. Carl Gutman & Co.*, 69 F. Supp. 392 (S.D.N.Y. 1946).

54. See *Century Distilling Co. v. Continental Distilling Corp.* and *Admiral Corp. v. Price Vacuum Stores, Inc.*, *supra* note 53.

55. See cases cited note 53 *supra*.

56. 205 F.2d 140 (3d Cir. 1953).

57. *Id.* at 144.

58. 234 F.2d 538 (2d Cir. 1956).

count for profits even in areas where he does not directly compete with the trade-mark owner, were affirmed without comment.

Other courts abandoning the direct competition requirement have been more articulate in stating a foundation upon which such action might be based and lend support to a restitution grounded accounting. *Dad's Root Beer Co. v. Doc's Beverages, Inc.*<sup>59</sup> is illustrative. The defendant, a franchised bottler of plaintiff's root beer, was charged with trade-mark infringement and unfair competition for the appropriation of the plaintiff's corporate name, trade-mark, distinctive label and bottle shape. It appeared from the evidence that there was no direct competition between the parties in the New York City consuming market and hence no provable loss of sales. The nearest distribution points for the plaintiff's root beer were as distant as Buffalo, New York, Newark, New Jersey and Philadelphia, Pennsylvania. The Second Circuit rejected the defendant's contention that in the absence of direct competition the plaintiff was not entitled to an accounting of profits. The court stated: "As the district judge pointed out, it is well settled in equity that a trademark infringer is liable as trustee for profits accruing from his illegal acts, even though the owner was not doing business in the consuming market where the infringement occurred."<sup>60</sup> Considering the equitable nature of an accounting the court continued: "[I]t is well settled that the court 'will endeavor to adapt its relief to the general equities of the particular situation, as nearly as it is possible to do so' in designing relief for unfair competition."<sup>61</sup>

The Tenth Circuit, in *Blue Bell Co. v. Frontier Refining Co.*,<sup>62</sup> furnished added support to a restitution based accounting. Frontier sought an injunction and accounting of profits for infringement and unfair competition, when, upon a rescission of an exchange agreement, Blue Bell continued to use Frontier's advertising and trade equipment and distributed gasoline under the Frontier brand. The district court found infringement and decreed injunctive relief submitting to an advisory jury the task of computing defendant's profits in the states of Idaho and Utah. Blue Bell appealed alleging that the measure of recovery was not its profits, but Frontier's provable loss because there was no direct competition in those two states. Blue Bell's contention was rejected. Affirming the district court's holding, the appellate court stated that the case was correctly sent to the jury on the question of recoverable profits. Citing the *Mishawaka* case, the court burdened Blue Bell with the onus of showing that the profits realized

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59. 193 F.2d 77 (2d Cir. 1951).

60. *Id.* at 82.

61. *Id.* at 83.

62. 213 F.2d 354 (10th Cir. 1954).

were not attributable to the infringement. Dispensing with the direct competition requirement the court indicated a restitution base for its ruling:

Out of the welter of confusion occasioned by the judicial effort to fashion a remedy which would satisfy both legal and equitable concepts of appropriate relief for patent and trademark infringements, . . . [the] infringer is liable as a trustee for profits . . . even though the owner of the mark was not doing business in the . . . market where the infringement occurred. . . . Recovery is predicated upon the equitable principle of unjust enrichment, not the legal theory of provable damages.<sup>63</sup>

However, in both the *Dad's Root Beer* and the *Blue Bell* cases, the two markets were in close geographical proximity though not close enough to be technically direct. While the *direct* competition requirement was shelved, competition in some form was involved. The form of competition envisioned would seem to have been based upon the recognition that goods sold to dealers and to the public ultimately become competitive, and concerns doing business in separate territories may be potential competitors.<sup>64</sup>

#### VII. ANOTHER IMPEDIMENT TO THE RESTITUTION RATIONALE— DESCRIPTIVE PROPERTIES QUALIFICATION

The direct competition requirement has not been the sole obstacle to a restitutionary recovery of a trade-symbol infringer's profits. The potential scope of restitution based accounting has also been qualified by requiring non-competing goods to be of the same descriptive properties.<sup>65</sup> This requirement, though mandatory by the 1905 Trade-Mark Statute, does not appear in the Lanham Act.<sup>66</sup> Its introduction into the cases may be explained by the strict construction some courts has placed on the Lanham Act's "likelihood of confusion" test.<sup>67</sup> In *Lou Schneider, Inc. v. Carl Gutman & Co.*,<sup>68</sup> plaintiff was the owner of the registered mark Hoot Lass Bonnie under which it sold ladies' coats. Defendant manufactured women's sweaters, skirts and blouses under the name Bonnie Lassie. An injunction was

63. *Id.* at 362-63.

64. 2 NIMS § 374, at 1195.

65. A case awarding profits in the absence of direct competition, but emphasizing the similarity of the non-competitive products: *Admiral Corp. v. Price Vacuum Stores, Inc.*, 141 F. Supp. 796 (E.D. Pa. 1956); see *Maternally Yours, Inc. v. Your Maternity Shop, Inc.*, 234 F.2d 538 (2d Cir. 1955).

66. 1905 Trade-Mark Act § 16, 33 Stat. 724.

67. The Lanham Act protects the owner of a registered mark from the use of another that is "likely to cause confusion or mistake or to deceive purchasers as to the source of origin." 60 Stat. 437 (1946), 15 U.S.C. § 1114 (1958).

68. 69 F. Supp. 392 (S.D.N.Y. 1946).

granted and accounting of profits ordered. The court, however, stressed the fact that the non-competing goods contained similar descriptive properties.

The "likelihood of confusion" test as expressed in section 1114(1) of the Lanham Act states in part that the goods must be "likely to cause confusion or mistake or to deceive purchasers as to the source of origin of such goods or services."<sup>69</sup> This language does not require that the products be of the same descriptive properties. It is not the confusion of the goods which is crucial, but the confusion of source.<sup>70</sup> The Lanham Act certainly comprehends goods which are unrelated as well as those having a degree of similarity. "[G]oods, though different, may be so related as to fall within the mischief which equity should prevent."<sup>71</sup> Strict adherence to a descriptive properties qualification is unwarranted and inhibitive to a legitimate accounting of profits based upon a restitution theory.<sup>72</sup>

### A. *Scienter*

A trade-symbol infringer must act in a deliberate and intentional fashion before an accounting of profits will be ordered.<sup>73</sup> This scienter requisite seems to have been firmly entrenched in the pre-Lanham Act period, and there is rigid adherence to its dictates. Indeed the presence of scienter seems to be a motivating factor of considerable strength in the attitudes of most courts toward this problem.<sup>74</sup>

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69. 60 Stat. 437 (1946), 15 U.S.C. § 1114 (1958).

70. *Time, Inc. v. Barshay*, 27 F. Supp. 870 (S.D.N.Y. 1939); *Vick Chem. Co. v. Vick Medicine Co.*, 8 F.2d 49 (S.D. Ga. 1925), *aff'd*, 11 F.2d 33 (5th Cir. 1926); 1 NIMS § 221 h, at 692.

71. *Aunt Jemima Mills Co. v. Rigney & Co.*, 247 Fed. 407, 409-10 (2d Cir. 1917), *cert. denied*, 245 U.S. 672 (1918).

72. The term "related goods" has recently found more frequent use. See *Kotabs, Inc. v. Kotex Co.*, 50 F.2d 810 (3d Cir.), *cert. denied*, 284 U.S. 665 (1931); *John F. Jelke Co. v. Eastern Baking Co.*, 29 F. Supp. 333 (D. Mass. 1939); 1 NIMS § 221 h, at 691.

73. *National Lead Co. v. Wolfe*, 223 F.2d 195 (9th Cir.) *cert. denied*, 350 U.S. 883 (1955); *Maternally Yours, Inc. v. Your Maternity Shop, Inc.*, 234 F.2d 538 (2d Cir. 1956); *Blue Bell Co. v. Frontier Refining Co.*, 213 F.2d 354 (10th Cir. 1954); *Dad's Root Beer Co. v. Doc's Beverages, Inc.*, 193 F.2d 77 (2d Cir. 1951); *Doran v. Sunset House Distrib. Corp.*, 197 F. Supp. 940 (S.D. Cal. 1961), *aff'd*, 304 F.2d 251 (9th Cir. 1962); *Pikle-Rite Co. v. Chicago Pickle Co.*, 171 F. Supp. 671 (N.D. Ill. 1959); *Admiral Corp. v. Price Vacuum Stores*, 141 F. Supp. 796 (E.D. Pa. 1956); see *Century Distilling Co. v. Continental Distilling Corp.*, 205 F.2d 140 (3d Cir.), *cert. denied*, 346 U.S. 900 (1953); *Lou Schneider, Inc. v. Carl Gutman & Co.*, 69 F. Supp. 392 (S.D.N.Y. 1946). This has been the trend of decisions despite the fact that the Supreme Court had granted an accounting against a non-willful infringer prior to the Lanham Act in *Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co.*, 316 U.S. 203 (1942).

74. This has been true of courts which have indicated a restitutionary theory

*France Free Mfg. Co. v. Fancy Free Fashions, Inc.*<sup>75</sup> illustrates this principle. The plaintiff sold women's intimate apparel under the mark Fancee Free while defendant used Fancy Free Fashions on women's lounging wear. The court held that there was infringement and issued an injunction, but an accounting of the defendant's profits was denied, in part<sup>76</sup> due to the absence of the requisite intent.<sup>77</sup>

In *Miles Lab., Inc. v. Frolich*<sup>78</sup> the plaintiff's prayer for injunctive relief and an accounting was denied,<sup>79</sup> the court holding that although "intent to deceive the public is not a material element in an allegation for trade-mark infringement . . . it is necessary to prove intent in order to recover profits. . . ."<sup>80</sup>

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as well as those which have not. See *Fuller Products Co. v. Fuller Brush Co.*, 299 F.2d 772 (7th Cir.), *cert. denied*, 370 U.S. 923 (1962); *Square D Co. v. Sorensen*, 224 F.2d 61 (7th Cir. 1955); *Hemmeter Cigar Co. v. Congress Cigar Co.*, 118 F.2d 64 (6th Cir. 1941); *Golden West Brewing Co. v. Milonsa & Sons, Inc.*, 104 F.2d 880 (9th Cir. 1939); *Wisconsin Elec. Co. v. Dunmore Co.*, 35 F.2d 555 (6th Cir.), *cert. granted*, 281 U.S. 710 (1929), *dismissed*, 282 U.S. 813 (1930); *Pikle-Rite Co. v. Chicago Pickle Co.*, 171 F. Supp. 671 (N.D. Ill. 1959); *Fancee Free Mfg. Co. v. Fancy Free Fashions, Inc.*, 148 F. Supp. 825 (S.D.N.Y. 1957); note 73 *supra*.

As for appellant's rights under the trade-mark acts, since this is not a case where there has been "no showing of fraud or palming off," . . . but where the showing is quite to the contrary and the intentional misleading has been demonstrated, appellant is entitled not merely to an injunction as prayed for but to an accounting of appellees' profits . . . . *National Lead Co. v. Wolfe*, 223 F.2d 195, 205 (9th Cir.), *cert. denied*, 350 U.S. 883 (1955). See *Blue Bell Co. v. Frontier Refining Co.*, 213 F.2d 354 (10th Cir. 1954); *Dad's Root Beer Co. v. Doc's Beverages, Inc.*, 193 F.2d 77 (2d Cir. 1951); *Admiral Corp. v. Price Vacuum Stores*, 141 F. Supp. 796 (E.D. Pa. 1956).

75. 148 F. Supp. 825 (S.D.N.Y. 1957); see *Pastificio Spiga Societa v. De Martini Macaroni Co.*, 200 F.2d 325 (2d Cir. 1952), allowing an accounting where the plaintiff was precluded from same market by a fraudulent defendant.

76. There was no proof presented to the court that the defendant used its mark "to deceive customers into buying" its merchandise nor was there sufficient proof of pirated profits. *Fancee Free Mfg. Co. v. Fancy Free Fashions, Inc.*, 148 F. Supp. 825, 831 (S.D.N.Y. 1957).

77. *Accord*, *Doran v. Sunset House Distrib. Corp.*, 197 F. Supp. 940 (S.D. Cal. 1961), *aff'd*, 304 F.2d 251 (9th Cir. 1962); *Pikle-Rite Co. v. Chicago Pickle Co.*, 171 F. Supp. 671 (N.D. Ill. 1959); *but see* *Maternally Yours, Inc. v. Your Maternity Shop, Inc.*, 234 F.2d 538 (2d Cir. 1955) which would seem to illustrate a de-emphasis of the fraud requirement. The appellate tribunal thought the lower court had reached the right result in awarding profits, but that less emphasis should have been placed on the subjective intent of the infringer. Fraudulent intent was considered as merely one of many relevant factors in determining likelihood of confusion.

78. 195 F. Supp. 256 (S.D. Cal.), *aff'd per curiam*, 296 F.2d 740 (9th Cir. 1961), *cert. denied*, 369 U.S. 865 (1962); see *A. Smith Bowman Distillery v. Schenley Distillers, Inc.*, 198 F. Supp. 822 (D.C. Del. 1961).

79. The court initially found no infringement.

80. *Miles Lab. Inc. v. Frolich*, 195 F. Supp. 256 (S.D. Cal.), *aff'd per curiam*, 296 F.2d 740 (9th Cir. 1961), *cert. denied*, 369 U.S. 865 (1962).

*Fuller Products Co. v. Fuller Brush Co.*<sup>81</sup> directly held that where "the acts of The Fuller Brush Company . . . have not been shown to be wantonly and intentionally fraudulent" a trade-symbol owner is not entitled to profits.<sup>82</sup>

An accounting of profits based upon a restitution rationale would not eliminate the present requirement of proof of scienter. The *Restatement of Restitution* requires a conscious taking for liability for profits.<sup>83</sup> On the other hand a restitution based recovery does not ignore inadvertent infringement. Redress to the extent of the market value of a trade-symbol would be available.<sup>84</sup> Indeed an inadvertent converter is placed by the *Restatement* under a duty to pay the value of the subject of conversion.<sup>85</sup> Source identification, the property right of a trade-symbol previously discussed, certainly is capable of a market value assessment. Moreover the constructive notice provision of the Lanham Act<sup>86</sup> would seem to abolish any defense based upon inadvertence in reference to registered marks.

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81. 299 F.2d 772 (7th Cir.), *cert. denied*, 370 U.S. 923 (1962).

82. *Id.* at 777.

83. "f. *Profits and losses.* A person who tortiously has acquired, retained or disposed of another's property with knowledge that such conduct is wrongful is entitled to no profits therefrom. He is . . . liable for profits made by its use. . . ." RESTATEMENT, RESTITUTION § 151, comment f (1937). "A person who has tortiously used a tradename, trade secret, franchise, profit a prendre, or other similar interest of another, is under a duty of restitution for the value of the benefit thereby received." RESTATEMENT, RESTITUTION § 136 (1937).

84. RESTATEMENT, RESTITUTION § 154, comment a (1937); "An innocent converter . . . despite his good faith . . . is under a duty to restore . . . or . . . to pay . . . value."

"Where a person is entitled to restitution from another because of an innocent conversion, the measure of recovery for the benefit thus received is . . . the value of the property." RESTATEMENT, RESTITUTION § 154 (1937).

85. RESTATEMENT, RESTITUTION § 154 (1937).

86. 60 Stat. 435 (1946), 15 U.S.C. § 1072 (1958). This provision reads in part: "Registration of a mark on the principal register provided by this chapter . . . shall be constructive notice of registrant's claim of ownership thereof." *Quality Courts United, Inc. v. Quality Courts, Inc.*, 140 F. Supp. 341 (M.D. Pa. 1956).

[I]t may be said that the principal advantages of registration are more practical than legal, namely, the registration gives effectual *constructive* notice to the public of the claim to the trade-mark and tends to give *actual* notice, since the proposed trade-mark must be published in the Official Gazette of the Patent Office. Also, the applicant for registration has the benefit of the examination of his mark by the Patent Office before it is registered and of the publication of it just mentioned, which tends to invite opposition if there be any, and therefore, to aid the determination of doubtful questions of validity.

*Coca-Cola Co. v. Dixi-Cola Lab. Inc.*, 31 F. Supp. 835, 842-43 (D.C. Md. 1940), *modified on other grounds*, 117 F.2d 852 (4th Cir.), *cert. denied*, 314 U.S. 629 (1941).

## VIII. THE ADMIRAL CASES

Two recent cases have ostensibly reached opposite results though arising out of the same fact pattern. These decisions have confused the law and merit detailed consideration. *Admiral Corp. v. Penco, Inc.*<sup>87</sup> and *Admiral Corp. v. Price Vacuum Stores*<sup>88</sup> arose from litigation precipitated by an action by Admiral for trade-mark infringement and unfair competition based upon the use by Price Stores of the registered mark Admiral.

Admiral manufactures and sells various electrical appliances, except vacuum cleaners and sewing machines. Defendant Price Stores sold electric vacuum cleaners and sewing machines under the Admiral mark from retail outlets in the same geographical market.

Admiral's initial action was against Penco, a subsidiary of Price Stores. The district court for western New York granted Admiral an injunction restraining the distribution and sale of house-hold appliances by the defendant under the plaintiff's mark. An accounting of profits was denied.<sup>89</sup> Admiral filed a cross appeal alleging that its right to an accounting had become mandatory under section 1117<sup>90</sup> of the Lanham Act. The Second Circuit rejected this contention and affirmed the lower court.

*Admiral Corp. v. Price Vacuum Stores*<sup>91</sup> was an action against the defendant's remaining five subsidiaries. Judge Grim of the eastern district of Pennsylvania granted an injunction and an accounting of the defendant's profits.<sup>92</sup>

These two cases appear contradictory, *Penco* adhering to the direct competition requirement and *Price Stores* rejecting it. The decisions, however, are reconcilable. In the *Penco* case the plaintiff urged that the right to an accounting had become mandatory under the Lanham Act.<sup>93</sup> The court said that the circuit had held otherwise in line with what seemed to be the settled construction of the statute. The authority of the *Penco* decision is limited to this principle. It cannot properly be interpreted as a holding on the proposition that an accounting will be denied in the absence of direct competition. Moreover, the Second Circuit in the previously discussed *Dad's Root Beer*<sup>94</sup> case, sustained an accounting for non-competing goods in an opinion rationalizing the holding in restitution terms. It does not appear that

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87. 106 F. Supp. 1015 (W.D.N.Y.) 1952), *aff'd*, 203 F.2d 517 (2 Cir. 1953).

88. 141 F. Supp. 796 (E.D. Pa. 1956).

89. *Admiral Corp. v. Penco, Inc.*, 106 F. Supp. 1015 (W.D.N.Y. 1952).

90. 60 Stat. 439 (1946), 15 U.S.C. § 1117 (1958).

91. 141 F. Supp. 796 (E.D. Pa. 1956).

92. Letter from Caesar and Rivise, to author.

93. 203 F.2d 517, 521 (2d Cir. 1953).

94. *Dad's Root Beer Co. v. Doc's Beverages, Inc.*, 193 F.2d 77 (2d Cir. 1951).

the plaintiff asked for separation of the issues of infringement and accounting. Thus Admiral's efforts in *Penco* were geared primarily toward achieving injunctive relief, reserving a prayer for an accounting to be determined thereafter. The court indicated that this was the strategy:

Plaintiff now says that the trial should have been in two stages, referring to certain patent cases . . . . The trial judge undoubtedly might in his discretion separate the issues and try them as convenient; but we know of no rule which would compel him to do so, particularly without warning or request therefor from a party.<sup>95</sup>

The *Penco* case did not reject or limit the restitution language previously enunciated by the Second Circuit. Ostensibly that language may still serve as a basis for an accounting in the absence of direct competition. The *Price Stores* decision falls in line with such post-Lanham Act cases as *Century* and *Maternally Yours*, which ignored the direct competition requirement without justification.

#### CONCLUSION

Although the Supreme Court has not dealt directly with the diverse handling by the circuits of these issues<sup>96</sup> since the passage of the Lanham Act, the language of pre-Lanham Act pronouncements in the *Hamilton-Brown* and *Mishawaka* cases indicates that a restitution rationale will meet with favorable treatment by the high court when the issue is presented.

Presently some courts have recognized that legal capabilities for frustration of trade-symbol piracy are incomplete without the weapon of accounting for profits as a measure of recovery. However, they have been unsure in articulating the basis of their abandonment of the traditional direct competition requirement for the accounting of profits. Other courts still seem to cling to such a requirement regardless of its irrelevance with respect to the policy underlying restitution recovery.

A clarified restitution rationale has been suggested as a theory capable of eliminating present deficiencies. An accounting is based upon principles analogous to those charging a trustee with profits acquired by wrongful use of the property of a cestui que trust. The restitution rationale holds a trade-symbol infringer accountable to the party he has wronged regardless of indemnity principles, for

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95. *Admiral Corp. v. Penco, Inc.*, 203 F.2d 517, 521 (2d Cir. 1953); see *Alligator Co. v. Ciarochi*, 141 F. Supp. 806 (E.D. Pa. 1956) where accounting was denied because waived by the plaintiff.

96. See notes 2 & 4 *supra*.

those profits derived from the infringement by which he has been unjustly enriched.

Although an accounting of profits based upon an exclusively restitution theory has found only tentative expression in but a few decisions, it must be recognized that judicial development and refinement of legal theory is a slow process. The "principle of equity"<sup>97</sup> spirit which pervades the Lanham Act is in accord with this concept. The future should see an expanded area of protection from trade-symbol infringement by an accounting of profits based upon a theory of restitution.

Pre-Lanham Act pronouncements and post-Lanham Act decisions evince a legal basis for the restitution rationale. Other decisions illustrate an inarticulate judicial temperament disinclined to allow a trade-symbol pirate to profit from his wrongdoing.

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97. "Subject to the principles of equity," 60 Stat. 439 (1946), 15 U.S.C. § 1117 (1958).