The Continuing Viability of The Deterrence Rationale In Trademark Infringement Accountings

Bryan M. Otake

I. INTRODUCTION

Trademark enforcement is of great concern to American commerce in general and the entertainment industry in particular. Producers of entertainment products devote considerable efforts and resources to the cultivation of customer loyalty and brand identification. Recently, the entertainment industry has become one of America's major producers of economic wealth and jobs. However, increasing numbers of counterfeiters and trademark infringers are threatening the vigor of this economic sector.

---

2 The term "entertainment industry," a notoriously elastic rubric, is used hereafter to refer to commercial and business activities engaged in the production and promotion of music, audiovisual works, recreational computer software, amusement parks, professional sports, fictional literary works, performance art, and other recreational pastimes.
Plaintiff trademark holders theoretically have a number of legal statutes and remedies at their disposal in the battle against counterfeitters. One particularly powerful weapon in the escalating war against trademark infringement is the remedy of an accounting of an infringer’s profits, which is provided for in the Lanham Act of 1946.\(^3\) Many jurisdictions permit an accounting of a defendant infringer’s profits under the rationales of (1) plaintiff compensation; (2) unjust enrichment; and (3) deterrence.\(^4\)

The issuance of the accounting remedy in trademark cases, however, is not a common occurrence.\(^5\) Federal district courts have been markedly reluctant in issuing the accounting remedy, to the disapproval of the appellate courts.\(^6\) A fair number of academics have also attacked the accounting remedy as anachronistic and improper. One commentator likened an accounting to a “common law dinosaur surviving more by tradition than utility.”\(^7\) Others have attempted to retrofit the accounting process\(^8\) and proposed its simplification.\(^9\)

Despite the pronouncement by many courts that the use of the deterrence rationale as a basis for an accounting is “firmly established,”\(^10\) lingering confusion remains over the role of deterrence in the Lanham

---


\(^7\) James M. Koelemay, Jr., Monetary Relief for Trademark Infringement Under the Lanham Act, 72 Trademark Rep. 458, 537 (1982).


Act. Even the seminal academic commentary on trademark accountings of profits argues that deterrence should be precluded from being the sole basis for an accounting. Some decisions reflect continuing confusion over interpretation of the Lanham Act’s statement that no remedy should constitute a “penalty.” Moreover, it has been suggested that where an accounting is impossible under a compensatory rationale, other remedies such as a reasonable royalty or an award of attorney fees may be equally effective.

The primary objective of this Comment is to reaffirm the deterrence rationale as a basis for an accounting through a survey of the cases and theories in trademark law and remedies. Though some academic light has already been cast in this area, the continued confusion indicates that this is a field worthy of continued explication. Both practitioners and law students would benefit from a “ventilation” of the salient issues involved. Thus, this Comment will critically survey the role of deterrence in trademark infringement. In the process, this work will illustrate the short-comings of other remedial schemes and the continued judicial strictures on the establishment of trademark remedies. The Comment will then argue why the continued use of the deterrence regime is both necessary and useful as a weapon against the ever increasing wave of trademark piracy in terms of policy and efficacy.

Protection of the trademark holder from repeated violations by the professional trademark counterfeiter and the brazen corporate infringer has been slighted in an attempt to restrict the Lanham Act to the prevention of customer confusion. This survey of the extant case law and literature will attempt to repair the imbalance. Part II of this Comment will describe the general purpose of trademark law and the creation of statutory remedies for trademark infringement in the Lanham Act. Part III will detail the types of remedies available under the Act, including the remedy of an accounting of profits. Part IV will delineate the various rationales for an accounting of profits in trademark cases and highlight their advantages and limitations. Part V will present arguments for the continued use of the deterrence rationale as a basis for an accounting of profits, in the process critiquing various alternatives to an accounting of profits for the goal of deterring counterfeitters.

11 Koelemay, supra note 7.
It should be emphasized that this work is meant to be a reference source for those who want to know more about the role of deterrence in the awarding of profits in trademark infringement cases. It is hoped that this survey will help to alleviate some of the confusion that clouds trademark remedies.

II. PROTECTION OF TRADEMARKS AND THE LANHAM TRADEMARK ACT

A. Role of Trademarks

A "trademark" is a "word, slogan, design, picture, or any other symbol used to identify and distinguish goods." For purposes of the law, it is unimportant if the consumer forgets the name of the particular manufacturer as long as the mark distinguishes similar goods and services at the time of examination or purchase.

The U.S. Supreme Court has described the purpose of trademark law in the following fashion:

"The protection of trade-marks is the law's recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them. A trade-mark is a merchandising short-cut which induces a purchaser to select what he wants, or what he has been led to believe he wants. The owner of a mark exploits this human propensity by making every effort to impregnate the atmosphere of the market with the drawing power of a congenial symbol. Whatever the means employed, the aim is the same—to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trademark owner has something of value. If another poaches upon the commercial magnetism of the symbol he has created, the owner can obtain legal re-

---

The importance of protecting the trademark holder has not been lost on Congress in its formulation of intellectual property legislation. As one of the main groups affected by trademark legislation, the entertainment industry has followed with great interest the creation of trademark rights and their protection. The uses of trademarks in the arts and entertainment field include: the protection of movie titles; the use of characters from fictional literary works; home video games; computer entertainment software; the names of musical groups; the use of deceased entertainers in advertising; and the protection of cross-marketed products with identifying marks.

15 "Trade-marks, indeed, are the essence of competition, because they make possible a choice between competing articles by enabling the buyer to distinguish one from the other. Trade-marks encourage the maintenance of quality by securing to the producer the benefit of the good reputation which excellence creates." S. REP. NO. 1333, 1946 U.S. CODE CONG. SERV. 1275.


17 E.g., John Marks, Goodbye, Darth Vader. Hello, Gandalf, U.S. NEWS & WORLD REPORT (March 10, 1997), at 56 (noting trademark dispute over character name "Gandalf" and expected profits for trademark holder of J.R.R. Tolkien's "Lord of the Rings" if film version of literary trilogy is produced).


21 E.g., John M. Glionna, The Late, Great (and Profitable), L.A. TIMES, October 6, 1997, at B1 (enforcing trademark against use of images of celebrities such as John Wayne, Rod Serling, and Mae West).
B. *Lanham Trademark Act and Section 1117(a).*

In 1946, Congress created the operative statutory framework that protects and provides for remedies in cases of trademark infringement. The purpose of this landmark trademark protection act is two-fold:

"One is to protect the public so it may be confident that, in purchasing a product bearing a particular trademark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats."

Of particular importance, for purposes of this Comment, is section 1117(a), which provides for recovery for violations of trademark rights. It states:

"When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, or a violation under section 1125(a) . . . shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 . . . 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 plaintiffs 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. The court in exceptional cases may award reasonable attorney fees to the prevailing party."

It is this section that, among other things, provides for the accounting of a defendant counterfeiter's profits in a trademark action.

---

III. GENERAL REMEDIES FOR TRADEMARK INFRINGEMENT UNDER THE LANHAM ACT

Anglo-American law has long recognized the right of trademark holders to pursue remedies for infringement of their marks. Prior to the merger of law and equity, trademark holders "could bring an action at law for damages or an action in equity for injunctive relief." To achieve efficiency of administration, courts of equity sometimes awarded damages or an accounting of the defendant's profits, in addition to its traditional power of injunction. Modern American trademark regulation, after the merger of law and equity, reflects this conjugal history.

For example, Section 35 of the 1946 Lanham Act, as amended, provides for monetary recovery in trademark infringement and unfair competition cases "subject to the principles of equity." Moreover, while contemporary federal regulation of trademark infringement has flowed from the provisions of the Lanham Act and its predecessor, the Trademark Act of 1905, the interpretation and actuation of these statutes has descended from the common law tradition.

A. Injunctive Relief

In trademark infringement cases, an injunction alone is often held to be the most equitable remedy. An injunction is a preventative

---

24 For a masterful review of the historical development of trademark remedies, see James M. Koelemay, Jr., supra note 7.
26 Id.
27 Trade-Mark Act of 1946, supra note 3.
28 But despite this explicit confluence with equitable principles, parties seeking damages under the Lanham Act are still entitled to a jury trial. Dairy Queen, Inc. v. Wood, 369 U.S. 469 (1962); Holiday Inns of America, Inc. v. Lussi, 42 F.R.D. 27 (N.D.N.Y. 1967).
29 The Trade-Mark Act of 1905 was the first federal statute to delineate a clear set of civil remedies for trademark infringement. Koelemay, supra note 7, 72 TRADEMARK REP. 458, 474 (1982).
30 15 U.S.C. § 1116(a) (stating courts may issue injunctions "according to the principles of equity and upon such terms as the court may deem reasonable") to pre-
remedy, which may preclude the performance of a censured activity before it commences or inhibit the continuance of a censured activity that has already started. The rules and standards for injunctive relief in trademark cases are similar to those applied in other areas of equity. A judge has great discretion in crafting an injunction to the particular needs of the case. Under 15 U.S.C. § 1116, the court may issue injunctive relief “according to the principles of equity and upon such terms as the court may deem reasonable, to prevent the violations of any right of the registrant of a mark registered in the Patent and Trademark Office or to prevent a violation under section 1125(a) of this title.”

For example, in Springs Mills, Inc. v. Ultracashmere House, Ltd., the Second Circuit upheld the district court’s issue of a limited injunction. In the proceedings below, the district court rejected the proposed judgment crafted by the prevailing trademark owner, which provided for an absolute injunction. Instead, the district court issued a limited injunction that permitted the defendants’ continued use of the trademark “ULTRACASHMERE” in trade dress, advertisements, and promotional material, as long as such use was accompanied with a disclaimer. The Court of Appeals upheld the judgment on the grounds that it had found in previous proceedings that the plaintiff, while the victim of blatant copying of its trade dress, was not entitled to the exclusive rights of its trademark prefix “ULTRA.” Such flexibility, it held, seemed reasonable in view of the trademark’s strength.

vent further trademark infringement”); RESTATEMENT (THIRD), supra note 25, § 36 cmt. c (“An injunction is the most common remedy in unfair competition cases.”); Ralph S. Brown, Civil Remedies for Intellectual Property Invasions: Themes and Variations, 55 LAW & CONTEMP. PROBS. 45, 51 (1992) (granting injunction pursuant to “easily satisfied formulas”).

32 Id.
34 724 F.2d 352 (2d. Cir. 1983)
35 Id. at 354.
36 Id. at 355.
Such flexibility explains, perhaps, the propensity of trial courts to issue injunctive relief in trademark cases. Judges are willing to protect the "psychological value of the trade-mark by means of an injunction against infringement, even where the products are of different descriptive qualities and are, therefore, not in competition."\(^{37}\) Given the often scanty and speculative evidence produced in support of market diversion, judges have often felt more comfortable with the issuance of prohibitive strictures than with the imposition of monetary compensation for possibly unfounded injury.

B. *Monetary Relief*

Pursuant to the Lanham Act, a trademark holder plaintiff is entitled to recover: (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action.\(^{38}\) In "exceptional" cases, the court may award reasonable attorney fees.\(^{39}\) However, large monetary relief is the exception rather than the rule.\(^{40}\)

1. Damages

An award of damages under the second category of 15 U.S.C. § 1117(a), the "damage sustained by plaintiff" clause, is incumbent upon proof showing injury in fact and the amount of damage.\(^{41}\) The term of art "damages" is limited to the actual pecuniary loss inflicted on the plaintiff.\(^{42}\) In general, it is often difficult for a trademark holder to

\(^{37}\) *Maier Brewing Co. v. Fleischmann Distilling Corp.*, 390 F.2d 117, 122 (9th Cir. 1968).


\(^{39}\) *Id.*


procure sufficient evidence to show her injury. Bootleggers, counterfeiters, and copycats often engage in undercover practices such as the maintenance of misleading or incomplete inventory records and the use of false fronts. Most courts have held that if a plaintiff is unable to establish specific diversions of trademarked goods or actual customer confusion, no damage exists. Awards for remote or speculative claims of trademark damages are denied completely or reduced. Some courts, however, have held that clear proof that a defendant's actions were intentionally deceptive may give rise to a rebuttable presumption of consumer confusion and support an award of damages.

2. Accounting Remedy

As a result of the difficulties in establishing actual damages, many plaintiff trademark holders seek the accounting of profits remedy under 15 U.S.C. § 1117(a). An accounting of a defendant's profits

---

44 The likelihood of customer confusion, the main issue in any trademark infringement action, is whether "there is any likelihood that an appreciable number of ordinarily prudent purchasers are likely to be misled, or indeed simply confused, as to the source of the goods in question." Lang v. Retirement Living Pub. Co., Inc. 949 F.2d 576, 579-80 (2d Cir. 1991).
45 Champion Spark Plug Co. v. Sanders, 331 U.S. 125, 128-30 (1947).
46 Lindy Pen Co., Inc. v. Bic Pen Corp., 982 F.2d 1400, 1407 (9th Cir. 1993) (finding no rational basis for damages when clearly noninfringed goods were included in estimation of lost profits); Burndy Corp. v. Teledyne Indus., Inc., 584 F. Supp. 656, 664 (D. Conn. 1984) (requiring "actually proven damages"); Foxtrap, Inc. v. Foxtrap, Inc., 671 F.2d 636, 642 (D.C. Cir. 1982) (stating that a remedy "based on plaintiff's damages requires some showing of actual loss"); Vuitton et Fils, S.A. v. Crown Handbags, 492 F.Supp. 1071, 1077 (S.D.N.Y. 1979) (awarding damages is discretionary and requires "an evidentiary basis on which to rest such an award").
48 4 CALLMAN, supra note 31, § 22.48, at 377 (noting trademark infringement damages "can seldom be measured with any assurance of mathematical accuracy"); RESTATEMENT (THIRD) OF UNFAIR COMPETITION, § 36 cmt. b, at 378 (accounting remedy preferred since proof of loss for damages was difficult to prove in competi-
functions as an "equitable measure of compensation." An award of an infringer's profits was historically justified on the grounds that "profits earned by the defendant represented profits diverted from the plaintiff."

In contrast to the legal remedy of damages, a plaintiff requesting an accounting need only prove the amount of the defendant's sales, placing the burden on the defendant to prove "all elements of cost or deduction claimed [from the accounting]." The defendant may defeat an accounting only if he can establish that his profits are "demonstrably not attributable to the unlawful use of his mark."

Nevertheless, an awarding of profits is not automatic. An accounting, like the other monetary remedies under the Lanham Act, is subject to the principles of equity. Due to the burden-shifting mechanism of an accounting and the potentially harsh nature of the remedy, courts have been cautious in granting an accounting. Some courts have held that a prerequisite of "bad faith" or "willfulness" is necessary for an accounting of profits. Decisional precedent is mixed and discordant.

50 RESTATEMENT (THIRD) TRADEMARKS, § 37 cmt. b, at 397.
51 15 U.S.C. § 1117(a). The policy behind this burden shifting was expressed in the legislative record of the Trade-Mark Act of 1905, the predecessor of the currently operative Lanham Act. In reference to an identical mechanism in the Act of 1905, the Congress stated:

"Under existing rules it is necessary for the complainant to prove sales and costs with reasonable and absolute accuracy. The only persons having knowledge of making the sales are the defendant or someone in his employ. It has seemed, therefore, only fair and just that if the complainant proves the sales, the defendant should be required to produce evidence of the expenses he was put to in making such sales as an offset against the sales."

H Rep No. 31467, 58th Cong. 3d Sess. 9 (1904).
53 RESTATEMENT (THIRD) UNFAIR COMPETITION § 37 cmt. e, at 398-99 ("An award of the defendant's profits creates a potential windfall to the plaintiff and a potential penalty to the defendant.").
54 Id. at § 37, cmt. f, at 399 (disapproving of an accounting as punishment for good faith infringement because of chilling effect on lawful behavior); see generally, Banff Ltd. V. Colberts Inc., 996 F.2d 33 (2d Cir. 1993) (injunction, rather than ac-
Among jurisdictions where scienter is required, there is little consistency in defining what actions connote the prohibited behavior.\textsuperscript{55} A wide range of activities may trigger an accounting: the "callous disregard for the rights of a competitor and the mandates of the federal courts;"\textsuperscript{56} continued use of a mark despite inability to register with the Patent and Trademark Office;\textsuperscript{57} "targeting" a trademark holder for false comparison and false deprecatory remark;\textsuperscript{58} infringement based on feigned reliance of the advice of counsel;\textsuperscript{59} and utilization of a

\textsuperscript{55} Such definitional battles over the meaning of "willfulness" or "bad faith" are not limited to trademark law. See, e.g., Comment, \textit{Willful Copyright Infringement: In Search of a Standard}, 65 \textit{WASH. L. REV.} 903 (1990) (analyzing different assessments of willfulness in copyright law); \textit{Ratzlaf v. U.S.}, 510 U.S. 135, 1441-45 (1994) (describing definitions of "willfulness" in currency transaction statutes); \textit{U.S. v. Eisenstein}, 731 F.2d 1540, 1544 (11th Cir. 1984) (holding a violation of currency transaction while relying on counsel does not constitute "willfulness").

\textsuperscript{56} \textit{W.E. Bassett Co. v. Revlon, Inc.}, 435 F.2d 656, 664 (2d Cir. 1970).

\textsuperscript{57} \textit{Maltina Corp. v. Cawy Bottling Co., Inc.}, 613 F.2d 582, 585 (5th Cir. 1980) (defendant's application for trademark registration denied); \textit{Williamson-Dickie Mfg. Co. v. Davis Mfg. Co.}, 251 F.2d 924, 927 (3d Cir. 1958) (default judgment entered against defendant's registration application).

\textsuperscript{58} \textit{Otis Clapp & Son, Inc. v. Filmore Vitamin Co.}, 754 F.2d 738 (7th Cir. 1985).

\textsuperscript{59} \textit{Wolfe v. Nat'l Lead Co.}, 272 F.2d 867, 871 (9th Cir. 1959) (continuing infringement was willful, despite plaintiff's claim of reliance on counsel, since plaintiff "knowingly and deliberately" cashed in upon good will of defendant); \textit{Volkswagen Aktiengesellschaft v. Uptown Motors}, 1995 U.S. Dist. LEXIS 13869, *28 (July 13, 1995) (ruled that a casual inquiry with attorney customer insufficient to preclude finding of willfulness); \textit{but see, Knaack Mfg. Co. v. Rally Accessories, Inc.}, 955 F. Supp. 991, 1004 (N.D. Ill. 1997) (referencing with counsel through "every step of process" not indicative of willful conduct); \textit{Nikon, Inc. v. Ikon, Corp.}, 1192 U.S. Dist. LEXIS 6299, *20-21 (May 1, 1992) (consulting with "highly experienced" counsel will prevent finding of willful infringement); \textit{Cuisinarts, Inc. v. Robot-Coupe Int'l Corp.}, 580 F. Supp. 634, 638 (S.D. N.Y. 1984) (finding good faith infringement based on timely consultation with counsel, adequate disclosure, and incorporation of counsel's advice not "willful" or "fraudulent"); \textit{Robert Bruce, Inc. v. Sears, Roebuck \& Co.}, 343 D.Supp. 1333, 1349 (E.D. Pa 1972) (ruling bad intent not extant since
mark after knowledge of another's use of the same mark. While some decisions have required direct evidence of wrongful intent, the court in *Wynn Oil Co. v. American Way Serv. Corp.* held that scienter could also be inferred from the defendant's actions and other circumstantial evidence.

Other courts, however, have eschewed the willfulness requirement or limited its application. In *Burger King Corp. v. Mason*, the Eleventh Circuit Court of Appeals rejected the contention that "some higher showing of culpability on the part of [the] defendant" was required for an award under the unjust enrichment or deterrence regimes. In the Seventh Circuit, there is apparently no requirement of bad faith or scienter for an accounting under any rationale. Other courts are, at the very least, ambivalent.

---

60 *TakeCare Corp. v. TakeCare of Oklahoma*, 889 F.2d 955, 956 (10th Cir. 1989) ("defendant's continued use of the mark without explanation after notice... amounted to a wilful and deliberate infringement"); *Century Distilling Co. v. Continental Distilling Corp.*, 205 F.2d 140, 149 (3d Cir. 1953) (holding willful infringement occurs when infringer is aware of mark and took the deliberate risk); *but see, Scarves by Vera, Inc. v. Todo Imports Ltd.*, 544 F.2d 1167, 1175 (2d Cir. 1976) (continuing trademark violations after notice of plaintiff's mark not willful since mark was identical to surname of founder of defendant's company); *Cf. Electro Med. Sys., S.A. v. Cooper Life Sciences, Inc.*, 34 F.3d 1048, 1056 (Fed. Cir. 1994) (affirmative duty of due care imposed when defendant becomes aware of competing intellectual property claims).

61 943 F.2d 595 (6th Cir. 1991).

62 Id.

63 855 F.2d 779, 781 (11th Cir. 1988).

64 *Sands, Taylor & Wood v. Quaker Oats Co.*, 34 F.3d 1340 (7th Cir. 1994).

IV. RATIONALES FOR AN ACCOUNTING OF PROFITS

Three distinct rationales have emerged for an accounting of profits: (1) compensation of plaintiff's damages; (2) unjust enrichment; and (3) deterrence. Courts sometimes recite all three rationales en masse or some combination of them when forming the basis of a decision. Nevertheless, many courts now recognize a conceptual severance of these rationales where any one theory may support an accounting.

A. Compensation for a Plaintiff's Damages: Accounting as an Uneasy Proxy

An accounting has historically been viewed as "a surrogate for plaintiff's lost profits" or a proxy for exact measurement of damages in a complex market. As a result, compensable damages can be calculated in terms of an accounting of sales diverted from the plaintiff, rather than a direct calculation of net profits accrued by the defendant. Extrapolations and reasonable estimates can be employed to determine gross sales in situations where a defendant has kept inadequate records.


68 RESTATEMENT (THIRD) TRADEMARKS, §37 cmt. b, at 397.


70 Deering, Miliken & Co. v. Gilbert, 269 F.2d 191, 193 (2d Cir. 1959) (using number of hang tags as proxy for total number of infringing articles sold and then multiplying the estimate by trademark owner's royalty).
The Supreme Court applied these precepts in a compensatory fashion in the case of *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.* The plaintiff producer of shoes and rubber heels claimed that the defendant had imitated its registered mark of a red circular plug embedded in the center of the heel. The defendant infringer had sold heels of inferior quality that closely resembled the petitioner's mark. Although there was no evidence that customers were actually deceived or mislead as to the source of the products, the district court found that "[t]he ordinary purchaser, having become familiar with the plaintiff's trade-mark, would naturally be led to believe that the heels marketed by the defendant were the product of the plaintiff company." Because of this "reasonable likelihood" of customer confusion, the district court held that there should be an accounting of profits gained from sales "to purchasers who were induced to buy because they believed the heels to be those of the plaintiff and which sales plaintiff would otherwise have made."

The U.S. Supreme Court upheld the *Mishiwaka* lower courts' compensatory use of an accounting. The Court conceded that "[t]here may be a windfall to the trade-mark owner where it is impossible to isolate the profits which are attributable to the use of the infringing mark." Nevertheless, the Court feared that to hold otherwise would shift the potential of a windfall to the wrongdoer. The potentially onerous burdens of the compensatory remedy were justified on the grounds that "it promotes honesty" and that it "comports with experience to assume that the wrongdoer who makes profits was enabled to do so because he was drawing upon the good will generated by that mark." The only caveat provided by the Court was that the plaintiff was not entitled to profits "demonstrably not attributable to the unlawful use of his mark."

---

71 316 U.S. 203 (1942).
72 *Id.* at 204.
73 *Id.*
74 *Id.*
75 *Id.* at 207.
76 *Id.*
77 *Id.* at 206.
In *Champion Plug Co. v. Sanders*, the Supreme Court reiterated its *Mishawaka* requirement that a plaintiff had to prove her general right to compensation before the defendant's profits were recoverable. Specifically, the Court held that an awarding of profits was inappropriate where there was no showing of "fraud or palming off." While their absence did not undermine the trial court's finding of unfair competition, lack of any indication of customer confusion and profit diversion suggested that an injunction alone would satisfy the equities.

Proceeding under the ambit of these Supreme Court decisions, federal courts have continued to award profits for compensatory purposes as long as plaintiffs could establish some showing of actual injury.

It is important to remember that an accounting under the compensatory rationale originated from tort principles. Thus, courts may limit profit awards to only those geographic markets in which the mark was identified with the plaintiff or situations where the infringer was in direct competition with the trademark holder. In short, there must

---

78 331 U.S. 125, 131 (1947).
79 Id. at 130.
80 Id. at 131.

82 RESTATEMENT OF TORTS § 747, cmt. g (accounting unavailable where there is no direct competition because of no infliction of injury).
be some discernible, quantifiable injury in fact for an award of profits under the compensatory rationale.\(^84\)

B. Unjust Enrichment

In contrast to the tort basis of the compensation rationale, the unjust enrichment rationale for an accounting of profits flows from property law. In this analytical context, a trademark and its attendant psychological effects (i.e. goodwill) make up distinct property interests to which a trademark holder has exclusive rights.\(^85\) Any revenue generated from such rights by an unlawful infringer is therefore gained “unjustly.” The Fifth Circuit defined unjust enrichment as “the unjust retention of a benefit to the loss of another or unjust retention of money or property of another which is against the fundamental principles of justice or equity and good conscience.”\(^86\)

The Supreme Court applied this property-based notion of trademarks in the case of Hamilton-Brown Shoe Co. v. Wolf Brothers & Co.\(^87\) There, after concluding that the respondent had infringed on the complainant’s trademark of the term ‘THE AMERICAN GIRL,’ the Court proceeded under the theory that trademarks were a type of property right.\(^88\) Holding that the infringer had interfered with the trademark owner’s right to exclusive enjoyment of the mark, the court ruled that 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 profits acquired by wrongful use of the property of cestui que trust.”\(^89\) Thus, monetary relief beyond mere injury in fact was given official sanction.

---

983 (1966).

84 Chester H. Roth, Inc. v. Esquire, Inc., 186 F.2d 11 (2d Cir. 1951) (holding that denying damage award if no damages existed is not an error).


87 240 U.S. 251 (1916).

88 Id. at 259.

89 Id. (citation omitted).
Through ambiguous draftsmanship, the creators of the 1946 Lanham Act provided further support for an accounting beyond merely those situations involving the diversion of sales. Congressional records of the Act state that:

“This bill, as any other proper legislation on trade-marks, has its object the protection of trade-marks, the securing to the owner the good will of his business and protecting the public against spurious and falsely marked goods. The matter has been approached with the view that of protecting trade-marks and making infringement and piracy unprofitable.”

Thus, there was no express linkage between the accounting remedy and the compensation of damage to the trademark holder in terms of diverted sales, sullied reputation, or customer confusion.

The Ninth Circuit took advantage of this ambiguous draftsmanship and the decisional precedent in cases like Hamilton-Shoe in the case of Maier Brewing Co. v. Fleishmann Distilling Corp. There, the court explicitly adopted the unjust enrichment rationale as a basis for an accounting. In a vigorously litigated case involving three appeals, the Ninth Circuit held that courts treating the accounting remedy “solely as a method of compensating for the diversion of customers fail to fully effectuate the policies of the [Lanham] Act.” In a sharp rebuke of courts utilizing a direct competition requirement, it stated:

“These courts are protecting the trade-mark owner from only the most obvious form of damages—the diversion of sales, and are not in fact providing protection to the value of the good will built up in the trade-mark itself. No recognition is given to the possibility that customers who believe that they are buying a product manufactured by the plaintiff—whether such product is competitive or non-competitive—may be so unhappy with that product that they will never again want to buy that product or any other product produced by the same manufacturer, who they believe to be the plaintiff. Nor do these opinions recognize that even if the infringing product is of higher quality than that bearing the registered mark, the trade-mark registrant has been deprived of his right to the exclusive use and control of the reputation of his product.”

---

90 S.Rep.No. 1333, supra note 3 (emphasis added).
91 390 F.2d 117 (9th Cir. 1968)
92 Id. at 123.
93 Id. at 122.
As a result, the *Maier* court held that unjust enrichment as a basis for an accounting was necessary to effectuate the Lanham Act’s purpose to make the trademark infringement “unprofitable.”

Similarly, in *Roulo v. Russ Berrie & Co.*, the Seventh Circuit upheld the district court’s decision to allow an accounting despite the plaintiff trademark holder’s failure to demonstrate any actual damages, confusion, competition between the parties or willfulness on the part of the defendant. Citing previous interpretations of the purpose of the Lanham Act as making trademark “unprofitable,” the Seventh Circuit held that other than general equitable considerations, no requirement of direct competition or willful infringement of trade dress was necessary to justify an accounting. The *Roulo* district court had assessed a high likelihood of intentional imitation, given the striking similarity of the trademark greeting card in a side-by-side comparison with the infringing product, the two products’ distribution through identical retailers, and the prior business relationship between the plaintiff and the defendant. While eschewing direct competition as a requirement for an accounting under unjust enrichment, the *Roulo* court did note repeatedly that the trademarked greeting card and its counterfeit were sold through the same venues as “impulse purchase items likely to be marketed near each other at a price less than a dollar, discouraging much thoughtful research before purchase.”

It is important to note that for any enrichment to be considered “unjust,” the defendant’s financial gain most flow from her use of the infringing mark. Thus, in *W.E. Basset Co. v. Revlon, Inc.*, the Second Circuit refused to issue an accounting on the basis of unjust enrichment, on the grounds that the defendant’s sales of cuticle trimmers occurred during a period in which the plaintiff trademark holder did not manufacture any trimmers of its own. Thus, according to the Second Circuit, the defendants financial gains were not due to the

---

94 886 F.2d 931 (7th Cir. 1989).
95 *Id.* at 941.
96 *Id.* at 937.
97 *Id.*
98 435 F.2d 656 (2d Cir. 1970).
99 *Id.* at 664.
mark, "but because Revlon made one and Basset did not." In other words, the innate value of the product and not the product's mark were responsible for the sales. To complicate matters, other courts have labeled an infringer's financial gain as unjust only when such use of the plaintiff's mark is the result of willful, malicious deception.

C. Deterrence as an Independent Rationale: Monsanto and W.E. Basset

In Monsanto Chemical Co. v. Perfect Fit Products Mfg. Co., the Second Circuit established the deterrence of trademark infringement as an independent, conceptually separate basis for an accounting. There, the defendant infringer marketed mattress pads falsely labeled as containing the plaintiff's trademarked "ACRILAN" fiber. The mattress pads, however, contained little or none of the trademarked product and instead changed into a cheap, poor-quality cloth after an initial washing. As the plaintiff Monsanto merely produced the trademarked ACRILAN and apparently left the utilization of the fiber in finished goods to clothing and houseware manufacturers, the defendant infringer was not in direct competition with the trademark holder. In addition, the plaintiff was unable to prove to the district court that the trademark was subject to distinct damages or customer confusion, an arduous process that would have required the plaintiff to trace the mattress pads from the defendant through the retailer to their ultimate buyer, and then to introduce, in some manner, the testimony of a sample of such buyers.

The Monsanto Court of Appeal emphasized that despite the district court's finding that the plaintiff had failed to prove any recoverable damages, it observed that it "seems obvious that there must have been

100 Id. In essence, the court seems to be assuming that there were no other alternatives to Revlon's trimmers, an assumption that seems dubious at best.
103 Id. at 390.
104 Id.
some economic injury to [plaintiff] Monsanto, such as loss of sales to legitimate producers and the loss of the goodwill of some of the retail purchasers" of the mattress pads falsely labeled as containing ACRILAN. The Monsanto court observed that the defendant was "a commercial racketeer" that had committed three other similar counterfeit schemes in the past. The Monsanto court also noted the high costs of private actions in cases of trademark infringement.

The conceptual severance of deterrence as an independent basis for an accounting was strengthened in the previously mentioned case of *W.E. Bassett Co. v. Revlon, Inc.* There, the plaintiff W.E. Bassett was a manufacturer of manicuring implements that it sold under its basic trademark "TRIM." Though Bassett and the defendant Revlon were competitors in the general field of beauty care products, Bassett did not manufacture the cuticle trimmers that sparked the litigation between the two parties. An accounting of profits under the compensatory rationale was denied on the grounds that the two parties were not in competition and that Bassett did not sustain damages in good will since Revlon's product was of high quality. An accounting under the unjust enrichment rationale was denied on the grounds that defendant Revlon’s gains were due to the innate quality of the product.

However, the *W.E. Bassett* court ordered an accounting under the deterrence rationale, reasoning that the defendant had deliberately and fraudulently infringed plaintiff Bassett’s mark. Though there was no evidence of actual confusion, the court noted the great difficulties in producing sufficient evidence in trademark cases and the high likelihood of confusion between the two very similar names. Moreover, the court held that the defendant’s conduct in the matter “demonstrated a callous disregard for the rights of a competitor and for the mandates of the federal courts.” Specifically, the defendant had marketed the infringing name only after failing to acquire the Bassett Company and

---

105 Id. at 395.
106 Id. at 396.
107 435 F.2d 656.
108 Id. at 659.
109 Id. at 664.
110 Id.
111 Id. at 662.
112 Id. at 664.
its trademarks, been rebuffed twice by the patent office in its attempts to register the infringing name, had procured a stay of a preliminary injunction through fraud, and had been found in contempt due to violation of a modification order. To protect the plaintiff trademark holder from such conduct, the court held that an accounting was proper as a deterrent.

V. THE CONTINUING VIABILITY OF THE DETERRENCE RATIONALE FOR AN ACCOUNTING OF PROFITS

Pursuant to the Monsanto and W.E. Bassett cases, many courts have embraced the deterrence regime as a separate basis for an accounting. Nevertheless, some doubts have lingered. Courts are still troubled by the Lanham Act’s statement that an accounting “shall constitute compensation and not a penalty.” Other courts have barred an accounting in cases of non-competitive products where damages are not shown. Mr. Koelemay has suggested that accountings based on deterrence alone are unnecessary, as other remedies such as a reasonable royalty are available under the Lanham Act. However, the deterrence rationale continues to be a necessary component of the accounting regime because of the need to: (a) prevent the oppression of less sophisticated, small trademark holders by larger, more sophisticated corporate infringers; (b) focus social opprobrium on the recidivist or professional counterfeiter; and (c) discourage surreptitious activity by the defendant that prevents the discovery of the degree of

113 Id. at 660.
114 Id. at 664.
115 See, e.g., George Basch Co, Inc. v. Blue Coral, Inc., 968 F.2d 1532 (2d Cir. 1992); Masterpiece of Penn., Inc. v. Consolidated Novelty Co., 186 U.S.P.Q. 134, 137 (S.D.N.Y. 1975) (holding that though no evidence of direct damage, actual confusion, or unjust enrichment, accounting nevertheless should be imposed to deter future infringement acts).
117 See, e.g. Valmor Prods, 464 F.2d 200.
118 Koelemay, supra note 7, at 542-45.
unjust enrichment or damages.

A. Policy Reasons for the Continued Use of the Deterrence Rationale in an Accounting of Profits

First, the deterrence rationale in the accounting regime is necessary to prevent the oppression of less sophisticated, small trademark holders by larger, more sophisticated corporate infringers. The unjust enrichment and compensatory rationales can place heavy economic burdens on the plaintiff trademark holder. Actual customer confusion is a difficult evidentiary burden to meet; it often requires the tracing of manufactured products to retailers and subsequent customers, focus group questions, customer surveys, sample interviews, and a host of other indices in the admittedly imprecise science of measuring customer confusion. Without the dire threat of an accounting for the purposes of deterrence, corporate infringers may be tempted to usurp the trademarks of smaller entities on the theory that the evidentiary expenses inherent in the establishment of diverted sales or customer confusion would dissuade potential plaintiffs from even bringing the lawsuit. Alternatively, a corporate infringer may believe that the chances of a finding of customer confusion so unlikely as to allow abusive treatment of the plaintiff's trademark rights.

Implicitly, this may have been the economic analysis that Revlon engaged in when it decided to usurp the plaintiff's trademark in the *W.E. Basset* case. Having failed to acquire the plaintiff company or its trademark in an attempted buy-out, Revlon then proceeded to "callously" disregard the rights of the plaintiff trademark holder. Two attempts to register its infringing mark were denied by the patent office. Yet, Revlon had apparently decided that its infringement would be impervious from the evidentiary standard of diverted sales or customer confusion. An accounting of profits under the deterrence rationale, the *W.E. Basset* court held, was necessary because only the severe measure of a deprivation of profits would be sufficient to deter the willful corporate infringer from attempting to circumvent the prop-

---


120 *W.E. Basset*, 435 F.2d at 662.
erty rights of its competitors.121

It should be noted that when attempting to prevent trademark violations by corporate infringers, a deterrence accounting should be reserved for only those egregious infringers who snub the rights of the plaintiff. A court should always engage in the balancing process of equity, in which various factors are weighed, to determine whether an accounting is necessary. Thus, the court in Robert Bruce, Inc. v. Sears, Roebuck & Co.122 held that though corporate defendant Sears Roebuck had infringed the plaintiff's mark, an accounting was inappropriate due to the defendant's lack of bad faith. Instead, the defendant had merely "gambled on the advice of counsel [who suggested no infringement] and lost."

Secondly, an accounting based on the deterrence regime can also be used to explicitly focus social opprobrium on the recidivist or professional counterfeiter. In general restitution doctrine, the necessity for disgorgement of a defendant's gain does not flow exclusively from acts of misconduct. Sometimes, a defendant may receive a benefit without fault or breach of duty on her part, but still be held to have benefited "unfairly."123 Perhaps this is why some courts deciding trademark cases have attempted to graft a scienter or willfulness prerequisite to an accounting claimed under the unjust enrichment and compensatory rationales.124 The Seventh and Eleventh Circuits, however, have refused to require such a prerequisite for an unjust enrichment or compensatory accounting.125 In those latter courts, an accounting issued under the deterrence rationale brands the defendant as one who needs punishment to prevent future recidivist infringement. In short, a judgment under the deterrence rationale brands a defendant as a professional counterfeiter, whereas a decision under the unjust enrichment rationale may indicate that the defendant was merely negligent of the plaintiff's trademark rights.

It is true that punishments focused on deterrence may have the ap-

121 Id. at 664.
123 DAN B. DOBBS, LAW OF REMEDIES 374 (2d ed. 1993) (citing examples of mistake or joint obligation).
124 See supra notes 52-60 and accompanying text.
125 See supra notes 61-63 and accompanying text.
pearance of being overbroad. Yet courts have stated that deterrence accountings are limited only to “the period of knowing infringement because monetary relief will not deter innocent infringement.”126 Thus, entrepreneurial behavior is encouraged to the extent that the labor of unwitting, coincidental imitators is not punished by an accounting. On the other hand, those who act maliciously in the violation of the trademark rights of others are given strong signs of social disapproval.

Thirdly, the deterrence rationale provides disincentives for surreptitious activity by the defendant that makes the plaintiff’s discovery of trademark damages or losses difficult to prove. Professional counterfeiters often operate without revenue accounting procedures, shipment records, or bills of sale. When dealing with such sophisticated counterfeiters, an accounting under the deterrence regime is necessary to discourage such acts of subterfuge.

Court disapproval of defendant chicanery in trademark cases is clear. For example, in *Boston Professional Hockey Ass’n v. Dallas Cap & Emblem Mfg.*,127 the Fifth Circuit held that the seemingly punitive nature of an increased damage award under § 1117(a) could be justified “by the defendant’s withholding or misrepresenting available sales records” or otherwise “stonewalling” the question of infringing sales.”128 This same argument for the necessity of damage enhancements could also be equally applied to an accounting of profits to further the goal of deterrence of trademark counterfeiting.

B. The Use of the Deterrence Rationale is Not Barred by the Lanham Act

Section 35 of the Lanham Act states that a trademark accounting “shall constitute compensation, and not a penalty.” Some courts have incorrectly interpreted this clause in ways that prevent the use of purely punitive or deterrent remedies.

For example, in *Jurgens v. McKasy*,129 the Federal Circuit overturned the district court’s trebling of a trademark damage award on the

---

126 Corgill, *supra* note 8, at 1933.
127 597 F.2d 71 (5th Cir. 1979)
128 *Id.* at 77.
129 927 F.2d 1552 (Fed. Cir. 1991).
grounds that its adjustment of the award was purely “punitive.” Adopting a plain reading of the statute, the Federal Circuit held that a damage award that was issued solely for the purposes of punitive or deterrent purposes constituted a “penalty.” 130 Other courts have expressed similar misgivings about purely deterrent, exemplary, or punitive damages on the grounds that such awards seem to violate a facial interpretation of the statute. 131 A plain reading policy is supported by the Supreme Court holding that “[s]tatutory construction must begin with the language employed by Congress and the assumption that the ordinary meaning of that language accurately expresses the legislative purpose.” 132

The seemingly contradictory phraseology of the act is best resolved in the following fashion. First, as Professor Dennis S. Corgill so deftly pointed out, the solution to the contradiction is to argue that the Lanham Act functions partly like tort remedies in that an important goal is the protection of the public interest and the deterrence of future misconduct. 133 The accounting remedy, by depriving the counterfeiters of any unlawful gains, provides disincentives to future violations by either the miscreant or others considering similar activities. 134 When compared to the analog of tort law, an accounting on the basis of deterrence is not a “penalty” as long it is calculated to be necessary to prevent future “tortious” activity, rather than the product of mere judicial whimsy. 135

---

130 Id. at 1564.
131 Taco Cabana Int'l, Inc. v. Two Pesos, Inc., 932 F.2d 1113, 1127 (5th Cir. 1991) (“It is anomalous to say that an enhancement of damages, which implies an award exceeding the amount found ‘compensatory,’ must be ‘compensatory’ and not ‘punitive.’”); ALPO Petfoods Inc. v. Ralston Purina Co., 913 F.2d at 970 (D.C. Cir. 1990) (holding judgment award must be compensatory and not a penalty); see also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 36 cmt. m, at 386 (1995) (trebling of damages may be proper notwithstanding ‘not a penalty’ phrase since court may infer that where some customer confusion occurred, other unproven confusion also existed).
133 Corgill, supra note 8, at 1928-29, n. 85-87 and accompanying text.
134 Id.
135 Sands, Taylor & Wood v. Quaker Oats Co., 34 F.3d 1340, 1348 (7th Cir. 1994) (accounting as deterrent ensures that “the guilty party will not return to its former ways and once again pollute the marketplace”).
Alternatively, Professor Ralph Brown and to an extent Professor J.
T. McCarthy support the notion that the "not a penalty" clause merely
declares that enhanced damages and accountings of profits under the
various rationales are authorized by Congress and thus not a penalty at
all. That is, the phrase is not an admonition at all, but rather a
"green light" for courts to issue accountings and enhanced damages.

C. An Accounting Based on the Deterrence Rationale Is Still
Needed, Since Other Valuation Methods May be Inappropriate.

The accounting remedy has been attacked at times for being inap-
propriate or burdensome. Some scholars and courts have proposed the
use of a reasonable royalty scheme or the increased use of the award of
attorney fees. However, as will be shown, there still remains a need
for trademark accountings.

1. Reasonable Royalty

Koelemay argues that in lieu of the accounting remedy in general,
courts should use a reasonable royalty to calculate damages. The
reasonable royalty assesses the standard licensing fee a defendant
would have had to pay the trademark holder in a standard arms-length
transaction. This licensing fee is then used as the basis for an award
to a successful trademark plaintiff.

The inadequacies of the reasonable royalty have been criticized in
the most recent edition of the Restatement of Unfair Competition:

"[D]amages measured by a reasonable royalty rate provide little disin-
centive against infringement since they leave the infringer no worse off
than one who properly obtains a license, and in some cases the royalty
measure may also fail to account for the absence of other benefits and

136 Ralph S. Brown, Civil Remedies for Intellectual Property Invasions: Themes
and Variations, 55 Law & Contemp. Probs. 45, 76 (1992); McCarthy, supra note
5, at § 30:91 at 147.
137 Koelemay, supra note 7, 542-45.
138 Sands, Taylor & Wood, 34 F.3d at 1340.
burdens present in an actual licensing relationship.\textsuperscript{139}

The case of \textit{Playboy Enters. v. Baccarat Clothing Co.}\textsuperscript{140} is illustrative. There, the court issued damages of $12,750 based on the revenue that the trademark holder ordinarily received under its standard five percent licensing rate.\textsuperscript{141} The district court, however, had denied an accounting of the defendants’ profits amounting to $120,000 from their sale of the counterfeited goods.\textsuperscript{142} In a caustic decision, the Ninth Circuit held that the denial of an accounting was clear error because:

[A]n award of little more than nominal damages would encourage a counterfeiter to merely switch from one infringing scheme to another as soon as the infringed owner became aware of the fabrication. Such a method of enforcement would fail to serve a convincing deterrent to the profit maximizing entrepreneur who engages in trademark piracy. The judicial penalties imposed under such an approach would be simply factored into the infringer’s profit and loss statement. If after deducting his “judicial expense” the entrepreneur still earns a suitable return on his investment he will continue the infringing activities. Under these circumstances the best advice to a counterfeiter would be to plead the Fifth Amendment . . . Through the employment of such ineffective remedies the counterfeiter escapes without suffering the economic harm necessary to serve as a deterrent to future infringing activities.\textsuperscript{143}

Professor McCarthy approved of the \textit{Playboy} court’s reasoning, citing that in reasonable royalty cases, the “defendant is no worse off than if it had been licensed in the first place, which is exactly what plaintiff refused to do.”\textsuperscript{144}

\begin{footnotesize}
\begin{enumerate}
\item \textsuperscript{139} \textit{Restatement (Third) of Unfair Competition}, § 36 cmt. d, at 382 (1995).
\item \textsuperscript{140} 692 F.2d 1272 (9th Cir. 1982).
\item \textsuperscript{141} \textit{Id.} at 1274.
\item \textsuperscript{142} \textit{Id.} at 1275.
\item \textsuperscript{143} \textit{Id.} at 1274-75.
\item \textsuperscript{144} \textit{McCarthy, supra} note 5, § 30:87 at 141.
\end{enumerate}
\end{footnotesize}
Moreover, the reasonable royalty scheme is essentially an exercise in speculative history. As the Sands, Taylor and Wood court admitted, "[t]he court must review the probable happenings at a hypothetical bargaining table between parties that might well have never chosen to bargain with each other on a voluntary basis." This is not an easy exercise, since "true market transactions are few, the information about them is scarcer still, and knowledge about the degree of comparability is rarer yet."

True, an equitable enhancement of a reasonable royalty award may be proper in cases in which there is insufficient evidence to determine lost profits or other damages. Alternatively, where sales of a product are only partially attributable to the infringed trademark, an accounting of profits would be disproportionate to the wrongful gains of the defendant and constitute a windfall to the plaintiff. But such speculative enhancements should be avoided when there is sufficient evidence to use the metric of profits, which appear to a more accurate metric of ill-gotten gain.

2. Attorney Fees.

In 1975, Congress amended the Lanham Act to allow the award of attorney fees to the prevailing party in "exceptional cases." Courts have generally construed exceptional situations in cases where the infringer is willful, deliberate, fraudulent, or vindictive. Koelemay argues that the attorney's fees could also satisfy the need for the deterrence of willful infringers, since such fees may sometimes exceed the infringers' profits. Nevertheless, given the uneven nature of legal expenditures, it would seem wiser to widen the scope of remedies available to the court in its exercise of equity.

145 Sands, Taylor & Wood, 34 F.2d at 1351.
146 GORDON V. SMITH, TRADEMARK VALUATION 197 (1997)
147 Sands, Taylor & Wood, 34 F.3d at 1350.
148 Id. at 1342.
151 Koelemay, supra note 5, at 537.
VI. CONCLUSION.

From this survey, it is hoped that the reader may gather a better understanding of the accounting of profits remedy and the role of deterrence. Most importantly, the deterrence rationale vindicates the property rights of trademark holders by mitigating the economic burdens of proving customer confusion or actually injury. Instead, corporate infringers are given powerful disincentives to abusing the rights of less sophisticated or less well-financed trademark holders. Alternatively, when dealing with the professional counterfeiter (who is often non-corporate in form), the deterrence regime will focus social opprobrium on the illicit activity. While in economic terms it is irrelevant whether the accounting was issued under the theory of unjust enrichment or deterrence, in perceptual terms the defendant would be marked as a "counterfeiter" in the eyes of industry when an accounting is issued under the deterrence regime. This should not be seen as mere semantic gymnastics. An inadvertent infringer may be required to disgorge his gains under the unjust enrichment regime, perhaps due to his gross negligence in conducting a trademark search or exercising other due care. But the defendant who needs to be "deterred" is the recidivist, professional copier. In short, he is a counterfeiter. To this end, any subterfuge engaged in by the professional to hide his ill-gotten gains should be similarly discouraged by the accounting remedy.

It should be noted that an accounting of a defendant's profits is not a panacea to trademark counterfeiting. Each trademark violation case is different, with its own levels of evidentiary support and degrees of infringement. In some cases, indeed, an accounting might produce a windfall to the plaintiff. In other cases, because of the lack of evidence sufficient to extrapolate profits or damages, a reasonable royalty may be the best baseline for compensatory or deterrent purposes. However, given the court's powers of equity in the meting out of trademark remedies, it is important to preserve the deterrence rationale as a basis for an accounting. To do anything less would be a betrayal of Congressional intent to make trademark counterfeiting unprofitable.