



**COOPER INDUSTRIES, INC. v. LEATHERMAN TOOL GROUP, INC.
SUPREME COURT OF THE UNITED STATES**

532 U.S. 424

May 14, 2001

[8 – 1]

OPINION: Stevens/Rehnquist/O'Connor/Kennedy/Souter/Thomas/Breyer/Scalia...A jury found petitioner guilty of unfair competition and awarded respondent \$50,000 in compensatory damages and \$4.5 million in punitive damages. The District Court held that the punitive damages award did not violate the Federal Constitution. The Court of Appeals concluded that "the district court did not abuse its discretion in declining to reduce the amount of punitive damages." The issue in this case is whether the Court of Appeals applied the wrong standard of review in considering the constitutionality of the punitive damages award.

The parties are competing tool manufacturers. In the 1980's, Leatherman Tool Group, Inc. introduced its Pocket Survival Tool (PST). The Court of Appeals described the PST as an "ingenious multi-function pocket tool which improves on the classic 'Swiss army knife' in a number of respects. Not the least of the improvements was the inclusion of pliers, which, when unfolded, are nearly equivalent to regular full-sized pliers...Leatherman apparently created largely and undisputedly now dominates the market for multifunction pocket tools which generally resemble the PST.

In 1995, Cooper Industries, Inc. decided to design and market a competing multifunction tool. Cooper planned to copy the basic features of the PST, add a few features of its own, and sell the new tool under the name "ToolZall." Cooper hoped to capture about 5% of the multifunction tool market. The first ToolZall was designed to be virtually identical to the PST, but the design was ultimately modified in response to this litigation. **The controversy to be resolved in this case involves Cooper's improper advertising of its original ToolZall design.**

Cooper introduced the original ToolZall in August 1996 at the National Hardware Show in Chicago. At that show, it used photographs in its posters, packaging, and advertising materials that purported to be of a ToolZall but were actually of a modified PST. When those materials were prepared, the first of the ToolZalls had not yet been manufactured. A Cooper employee created a ToolZall "mock-up" by grinding the Leatherman trademark from handles and pliers of a PST and substituting the unique fastenings that were to be used on the ToolZall. At least one of photographs was retouched to remove a curved indentation where the Leatherman trademark had been. The photographs were used, not only at the trade show, which normally draws an audience of over 70,000 people, but also in the marketing materials and catalogs used by Cooper's sales

force throughout the United States. Cooper also distributed a touched-up line drawing of a PST to its international sales representatives.

Shortly after the trade show, Leatherman filed this action asserting claims of trade-dress infringement, unfair competition, and false advertising under...the Trademark Act of 1946 (Lanham Act) and a common-law claim of unfair competition for advertising and selling an "imitation" of the PST. In December 1996, the District Court entered a preliminary injunction prohibiting Cooper from marketing the ToolZall and from using pictures of the modified PST in its advertising. Cooper withdrew the original ToolZall from the market and developed a new model with plastic coated handles that differed from the PST. In November 1996, it had anticipatorily sent a notice to its sales personnel ordering a recall of all promotional materials containing pictures of the PST, but it did not attempt to retrieve the materials it had sent to its customers until the following April. As a result, the offending promotional materials continued to appear in catalogs and advertisements well into 1997.

After a trial conducted in October 1997, the jury returned a verdict that answered several special interrogatories. With respect to the Lanham Act infringement claims, the jury found that Leatherman had trademark rights in the overall appearance of the PST and that the original ToolZall infringed those rights but that the infringement had not damaged Leatherman. It then found that the modified ToolZall did not infringe Leatherman's trademark rights in the PST. With respect to the advertising claims, it found Cooper guilty of passing off, false advertising, and unfair competition and assessed aggregate damages of \$50,000 on those claims. It then answered "Yes" to the following interrogatory: "Has Leatherman shown by clear and convincing evidence that by engaging in false advertising or passing off, Cooper acted with malice, or showed a reckless and outrageous indifference to a highly unreasonable risk of harm and has acted with a conscious indifference to Leatherman's rights?" **Because it answered this question in the affirmative, the jury was instructed to determine the "amount of punitive damages that should be awarded to Leatherman." The jury awarded \$4.5 million.**

After the jury returned its verdict, the District Court considered, and rejected, arguments that the punitive damages were "grossly excessive" under our decision in *BMW of North America, Inc. v. Gore* (1996). It then entered its judgment, which provided that 60% of the punitive damages would be paid to the Criminal Injuries Compensation Account of the State of Oregon. The judgment also permanently enjoined Cooper from marketing its original ToolZall in the United States or in 22 designated foreign countries.

On appeal, Cooper challenged both the District Court's injunction against copying the PST and the punitive damages award. The Court of Appeals issued two opinions. In its published opinion it set aside the injunction. It held that the overall appearance of the PST was not protected under the trademark laws because its distinguishing features, and the combination of those features, were functional. Accordingly, even though Cooper had deliberately copied the PST, it acted lawfully in doing so.

In its unpublished opinion, the Court of Appeals affirmed the punitive damages award. It first rejected Cooper's argument that the Oregon Constitution, which has been interpreted to prohibit awards of punitive damages for torts that impose liability for speech, precluded the jury's award of such damages in this case. It then reviewed the District Court's finding that the award "was

proportional and fair, given the nature of the conduct, the evidence of intentional passing off, and the size of an award necessary to create deterrence to an entity of Cooper's size" and concluded "that the award did not violate Cooper's due process rights" under the Federal Constitution. It noted that the "passing off" in this case was "very unusual" because "even assuming PST is a superior product," no superior features of the PST were perceivable in the photographs. "Any customer who bought based on what the photographs showed would have received essentially that for which he or she paid." Thus, Cooper's use of the photographs of the PST did not involve "the same sort of potential harm to Leatherman or to customers as that which may arise from traditional passing off." The Court of Appeals made clear, however, that it did not condone the passing off. "At a minimum," it observed, "the passing off gave Cooper an unfair advantage" by allowing it to use Leatherman's work product "to obtain a 'mock-up' more cheaply, easily, and quickly" than if it had waited until its own product was ready. Accordingly, the Court of Appeals concluded, "the district court did not abuse its discretion in declining to reduce the amount of punitive damages."

...Although compensatory damages and punitive damages are typically awarded at the same time by the same decisionmaker, they serve distinct purposes. The former are intended to redress the concrete loss that the plaintiff has suffered by reason of the defendant's wrongful conduct. The latter, which have been described as "quasi-criminal," operate as "private fines" intended to punish the defendant and to deter future wrongdoing. **A jury's assessment of the extent of a plaintiff's injury is essentially a factual determination, whereas its imposition of punitive damages is an expression of its moral condemnation.** *Gertz v. Robert Welch, Inc.* ("Punitive damages are not compensation for injury. Instead, they are private fines levied by civil juries to punish reprehensible conduct and to deter its future occurrence")...

Despite the broad discretion that States possess with respect to the imposition of criminal penalties and punitive damages, the Due Process Clause of the Fourteenth Amendment to the Federal Constitution imposes substantive limits on that discretion. That Clause makes the Eighth Amendment's prohibition against excessive fines and cruel and unusual punishments applicable to the States. *Furman v. Georgia*. The Due Process Clause of its own force also prohibits the States from imposing "grossly excessive" punishments on tortfeasors, *Gore*; *TXO Production Corp. v. Alliance Resources Corp.*

The Court has enforced those limits in cases involving deprivations of life (*Enmund v. Florida* - death is not "a valid penalty under the Eighth and Fourteenth Amendments for one who neither took life, attempted to take life, nor intended to take life"); *Coker v. Georgia* (sentence of death is "grossly disproportionate" and excessive punishment for the crime of rape); deprivations of liberty (*Solem v. Helm* - life imprisonment without the possibility of parole for nonviolent felonies is "significantly disproportionate"); and deprivations of property (*United States v. Bajakajian* - punitive forfeiture of \$357,144 for violating reporting requirement was "grossly disproportionate" to the gravity of the offense); *Gore* (\$2 million punitive damages award for failing to advise customers of minor pre-delivery repairs to new automobiles was "grossly excessive" and therefore unconstitutional).

In these cases, the constitutional violations were predicated on judicial determinations that the punishments were "grossly disproportionate to the gravity of...defendants' offenses." We have recognized that the relevant constitutional line is "inherently imprecise" (*Bajakajian*), rather than

one "marked by a simple mathematical formula." *Gore*. But in deciding whether that line has been crossed, we have focused on the same general criteria: the degree of the defendant's reprehensibility or culpability, the relationship between the penalty and the harm to the victim caused by the defendant's actions and the sanctions imposed in other cases for comparable misconduct. Moreover, and of greatest relevance for the issue we address today, in each of these cases we have engaged in an independent examination of the relevant criteria...

Because the jury's award of punitive damages does not constitute a finding of "fact," appellate review of the District Court's determination that an award is consistent with due process does not implicate...Seventh Amendment concerns...Our decisions in *Gasperini* and *Hetzel v. Prince William County*¹, both of which concerned compensatory damages, are not to the contrary.

It might be argued that the deterrent function of punitive damages suggests that the amount of such damages awarded is indeed a "fact" found by the jury and that, as a result, the Seventh Amendment is implicated in appellate review of that award. Some scholars, for example, assert that punitive damages should be used to compensate for the underdeterrence of unlawful behavior that will result from a defendant's evasion of liability...

However attractive such an approach to punitive damages might be as an abstract policy matter, it is clear that juries do not normally engage in such a finely tuned exercise of deterrence calibration when awarding punitive damages. After all, deterrence is not the only purpose served by punitive damages. And there is no dispute that, in this case, deterrence was but one of four concerns the jury was instructed to consider when setting the amount of punitive damages. Moreover, it is not at all obvious that even the deterrent function of punitive damages can be served only by economically "optimal deterrence." "Citizens and legislators may rightly insist that they are willing to tolerate some loss in economic efficiency in order to deter what they consider morally offensive conduct, albeit cost-beneficial morally offensive conduct; efficiency is just one consideration among many." Differences in the institutional competence of trial judges and appellate judges are consistent with our conclusion. **In *Gore*, we instructed courts evaluating a punitive damages award's consistency with due process to consider three criteria: (1) the degree or reprehensibility of the defendant's misconduct, (2) the disparity between the harm (or potential harm) suffered by the plaintiff and the punitive damages award, and (3) the difference between the punitive damages awarded by the jury and the civil penalties authorized or imposed in comparable cases.** Only with respect to the first *Gore* inquiry do the district courts have a somewhat superior vantage over courts of appeals, and even then the advantage exists primarily with respect to issues turning on witness credibility and demeanor. Trial courts and appellate courts seem equally capable of analyzing the second factor. And the third *Gore* criterion, which calls for a broad legal comparison, seems more suited to the expertise of appellate courts. Considerations of institutional competence therefore fail to tip the balance in favor of deferential appellate review.

It is possible that the standard of review applied by the Court of Appeals will affect the result of the *Gore* analysis in only a relatively small number of cases. Nonetheless, it does seem likely that in this case a thorough, independent review of the District Court's rejection of petitioner's

¹ Case 7A-1 on this website.

due process objections to the punitive damages award might well have led the Court of Appeals to reach a different result. Indeed, our own consideration of each of the three *Gore* factors reveals a series of questionable conclusions by the District Court that may not survive de novo review...

The de novo standard should [have governed the Court of Appeals' decision.] **Because the Court of Appeals applied a less demanding standard in this case, we vacate the judgment and remand the case for further proceedings consistent with this opinion.** It is so ordered.

The Court of Appeals' standard was whether the Trial Court "abused its discretion in failing to reduce punitive damages." The Supreme Court, however, determined that the Court of Appeals should have reviewed the facts "de novo," meaning "anew." In other words, it was the job of the Court of Appeals to make its own analysis independent of what the Trial Court had done.

CONCURRENCE: Thomas...**I continue to believe that the Constitution does not constrain the size of punitive damages awards.** See *BMW v. Gore* (Scalia, J., joined by Thomas, J., dissenting). For this reason, given the opportunity, I would vote to overrule *BMW*. This case, however, does not present such an opportunity. The only issue before us today is what standard should be used to review a trial court's ruling on a *BMW* challenge. Because I agree with the Court's resolution of that issue, I join the opinion of the Court.

CONCURRENCE: Scalia...**I was (and remain) of the view that excessive punitive damages do not violate the Due Process Clause;** but the Court held otherwise. *BMW of North America, Inc. v. Gore* (Scalia, J., dissenting). And I was of the view that we should review for abuse of discretion (rather than de novo) fact-bound constitutional issues which, in their resistance to meaningful generalization, resemble the question of excessiveness of punitive damages-namely, whether there exists reasonable suspicion for a stop and probable cause for a search; but the Court held otherwise. *Ornelas v. United States* (1996) (Scalia, J., dissenting). Finally, in a case in which I joined a dissent that made it unnecessary for me to reach the issue, the Court categorically stated that "the question whether a fine is constitutionally excessive calls for...de novo review." *United States v. Bajakajian*. Given these precedents, I agree that de novo review of the question of excessive punitive damages best accords with our jurisprudence. Accordingly, I concur in the judgment of the Court.

DISSENT: Ginsburg...In *Gasperini v. Center for Humanities, Inc.* we held that appellate review of a federal trial court's refusal to set aside a jury verdict as excessive is reconcilable with the Seventh Amendment if "appellate control is limited to review for 'abuse of discretion.'" *Gasperini* was a diversity action in which the defendant had challenged a compensatory damages award as excessive under New York law. The reasoning of that case applies as well to an action challenging a punitive damages award as excessive under the Constitution. I would hold, therefore, that the proper standard of appellate oversight is not de novo review, as the Court today concludes, but review for abuse of discretion...**One million dollars' worth of pain and suffering does not exist as a "fact" in the world any more or less than one million dollars' worth of moral outrage...**