

## **Alert** | Intellectual Property & Technology



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### **Supreme Court Harmonizes Circuit Courts: Willfulness Not a Prerequisite to Recovery of Defendant's Profits in Lanham Act Cases . . . But It Can't Hurt**

Resolving a long-standing circuit split with significant implications for trademark litigants, a unanimous U.S. Supreme Court last week held in *Romag Fasteners, Inc. v. Fossil, Inc.*, No. 18-1233, 2020 WL 1942012 (U.S. Apr. 23, 2020), that a plaintiff in a trademark infringement lawsuit is not required to prove that a defendant's infringement of the plaintiff's mark was willful as a precondition to an award of profits, vacating a Federal Circuit decision that had applied Second Circuit precedent.

#### **History of Profits Awards Under the Lanham Act**

Section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a), the section governing monetary recovery, provides, in relevant part:

When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, a violation under section 1125(a) or (d) of this title, or a willful violation under section 1125(c) of this title, shall have been established in any civil action under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 of this title, and subject to the

principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action.

Thus, a prevailing plaintiff in Lanham Act litigation has the ability to pursue not only a recovery of its actual damages (a legal remedy), but also an accounting of the defendant's profits (an equitable remedy). Because of the equitable nature of this second type of monetary recovery, courts have often taken varying considerations into account prior to granting a recovery of the defendant's profits, the most prevalent of which has been the willfulness factor.

Notably, and even more so after the addition of the term "willful" in reference to section 1125(c) (the Lanham Act's dilution provision), but **not** in reference to sections 1125(a) and 1125(d) (the Lanham Act's infringement and cybersquatting provisions, respectively), the focus of federal courts had been the proper interpretation of the "subject to the principles of equity" provision of section 1117(a), with some courts mandating a showing of willfulness as a prerequisite to the recovery of a defendant's profits, and other courts merely taking willfulness into consideration as part of their overall analyses.

Specifically, prior to the Supreme Court's decision last week, the Second, Eighth, Ninth, Tenth, and D.C. Circuit Courts of Appeals applied a bright line rule to the disgorgement of a defendant's profits, requiring the plaintiff to prove that the defendant's infringement was willful. *See, e.g., Merck Eprova AG v. Gnosis S.p.A.*, 760 F.3d 247, 261 (2d Cir. 2014); *Minn. Pet Breeders, Inc. v. Schell & Kampeter, Inc.*, 41 F.3d 1242, 1247 (8th Cir. 1994); *Stone Creek, Inc. v. Omnia Italian Design, Inc.*, 875 F.3d 426, 439-41 (9th Cir. 2017); *W. Diversified Servs, Inc. v. Hyundai Motor Am., Inc.*, 427 F.3d 1269, 1272-73 (10th Cir. 2005); *ALPO Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 968 (D.C. Cir. 1990).

In contrast, the Third, Fourth, Fifth, Sixth, Seventh, and Eleventh Circuit Courts of Appeals applied a plain reading of the statutory text of section 1117(a), determining that willfulness was not a precondition, but that (in the Third, Fourth, Fifth, and Sixth Circuits) it was nevertheless a factor the court should consider based on the "principles of equity" in assessing whether to allow a recovery of profits in any particular case. *See, e.g., Banjo Buddies, Inc. v. Renosky*, 399 F.3d 168, 173-75 (3d Cir. 2005); *Synergistic Int'l, LLC v. Korman*, 470 F.3d 162, 175 (4th Cir. 2006); *Quick Techs., Inc. v. Sage Group Plc*, 313 F.3d 338, 349 (5th Cir. 2002); *La Quinta Corp. v. Heartland Props. LLC*, 603 F.3d 327, 343 (6th Cir. 2010); *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 941 (7th Cir. 1989); *Burger King Corp. v. Mason*, 855 F.2d 779, 781 (11th Cir. 1988). The First Circuit generally required a showing of willfulness under most circumstances, but not where the parties were direct competitors, ultimately suggesting that a determination of willfulness was not mandatory in all situations. *See, e.g., Fishman Transducers, Inc. v. Paul*, 684 F.3d 187, 191, 196 (1st Cir. 2012).

The *Romag* Court agreed with the statutory text construction side of the split, abrogating willfulness as a precondition to an accounting of the defendant's profits under the Lanham Act.

### **Supreme Court's *Romag Fasteners v. Fossil* Opinion**

Years ago, Romag, a manufacturer of magnetic snap fasteners for use in leather goods, entered into an agreement with Fossil, permitting Fossil to use Romag's fasteners in handbags and other fashion accessories designed, marketed, and distributed by Fossil. Romag later discovered that certain factories manufacturing Fossil's products were using counterfeit Romag fasteners and, unable to resolve its dispute with Fossil amicably, Romag sued.

A jury found Fossil's actions to have been "in callous disregard" of Romag's rights, but nonetheless rejected Romag's allegation that Fossil's actions were willful, awarding Romag \$6.7 million as a measure

of Fossil's profits. After the trial, the district court rejected the disgorgement of profits based on controlling Second Circuit precedent, which required a showing of willfulness as a prerequisite to such a recovery. On appeal, the Federal Circuit, applying Second Circuit law, upheld the district court's holding.

Justice Gorsuch, writing for a unanimous Court and vacating the Federal Circuit's decision, clarified that a "categorical rule" mandating that a plaintiff prove the defendant's willfulness to be eligible for an accounting of the defendant's profits could not be "reconciled with the statute's plain language." The Court aligned with the explicit statutory language of the Lanham Act, noting that certain provisions of the Act include references to willfulness while others conspicuously do not and that the "Lanham Act speaks often and expressly about mental states," such that the absence of the term "willful" from the provision at issue spoke volumes.

The Court also rejected Fossil's argument that proper interpretation of the "principles of equity" phrase in section 1117(a) includes a willfulness requirement based on past precedent, stating that the phrase "doesn't readily bring to mind a substantive rule about *mens rea* from a discrete domain like trademark law" and that it instead "more naturally suggests fundamental rules that apply more systematically across claims and practice areas." Consequently, because the Court does not "read into statutes words that aren't there," particularly when the term in question appears elsewhere in the "very same statutory provision," it repealed the bright line willfulness rule previously applied by some courts. That said, the Court expressly specified that "a trademark defendant's mental state is a highly important consideration in determining whether an award of profits is appropriate."

Justice Alito issued a concurring opinion, in which Justices Breyer and Kagan joined, reinforcing that "willfulness is a highly important consideration in awarding profits under § 1117(a), but not an absolute precondition." In a second concurring opinion, Justice Sotomayor (who joined only in the Court's judgment) addressed the issue of innocent trademark infringement, noting that a grant of profits in the context of innocent infringement would not be "consistent with longstanding equitable principles which, after all, seek to deprive only wrongdoers of their gains from misconduct" and thus would run contrary to the "principles of equity" referenced in section 1117(a).

### Practice Takeaways

The Supreme Court's *Romag* opinion may have little impact in the courts already evaluating willfulness as a consideration in determining whether an award of profits is appropriate and doing so within their broad discretion, but will transform the assessment in circuits previously applying a strict "willfulness" rule, which include two of the most popular venues for trademark litigation – the Second and Ninth Circuits. Although the willfulness consideration remains an important one in the accounting of profits analysis, the Supreme Court's decision makes it easier for plaintiffs to recover profits in those jurisdictions, which may increase the number of trademark lawsuits initiated in those circuits. But whether the possibility of a substantial profits award will embolden plaintiffs either to file lawsuits when they otherwise may not have or to become more stubborn in settlement negotiations remains to be seen.

This decision also appears to follow an emerging textualism trend in intellectual property cases, with the Court relying on strict statutory construction while indicating that policy decisions are best left to Congress. As Justice Gorsuch explained, "the place for reconciling competing and incommensurable policy goals like these is before policymakers. This Court's limited role is to read and apply the law those policymakers have ordained . . ." See also *Fourth Estate Public Benefit Corp. v. Wall-Street.com, LLC*, 139 S. Ct. 881, 892 (2019) ("True, the statutory scheme has not worked as Congress likely envisioned. . . . Unfortunate as the current administrative lag may be, that factor does not allow us to revise § 411(a)'s congressionally composed text.").

Overall, the *Romag* decision harmonizes an issue of significance across the circuits, potentially eliminating forum shopping and providing predictability to all litigants. The decision also extends to all Lanham Act cases rather than just trademark cases, including those addressing false advertising and other unfair competition claims.

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