

ALERT

U.S. Supreme Court Rules Willfulness not Required for Trademark Profits

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In a case that more closely aligns trademark law jurisprudence with other areas of intellectual property law, the U.S. Supreme Court recently held that a plaintiff need not establish that an infringer acted willfully to recover the infringer's profits. The Supreme Court's unanimous decision in *Romag Fasteners, Inc., v. Fossil, Inc.*, 590 U.S. __ (2020), resolves a six-six circuit split regarding whether section 1117(a) of the Lanham Act requires a showing of willful infringement as a prerequisite for an award of the infringer's profits for a violation of section 1125(a). Parties involved in disputes over improper profits should pay close attention to this decision and monitor how lower courts implement the holding.

This marked the second time the Court has considered the propriety of damages in this case. The dispute began in 2010 after Romag Fasteners, Inc. (Romag), a company that sells magnetic fasteners, discovered that certain handbags being sold by Fossil, Inc. (Fossil), a company that sells a wide range of fashion accessories, were using counterfeit snaps bearing the Romag mark. Romag brought suit in Connecticut district court, asserting trademark and patent infringement against Fossil. A jury awarded Romag a reasonable royalty based on patent damages and \$6.8 million for trademark profits, but the district court later reduced the patent royalty and held that because the trademark infringement was not willful, the award of Fossil's profits was improper. The Federal Circuit, applying Second Circuit precedent, affirmed these holdings. The Supreme Court granted *certiorari* and remanded the case because the reduction of the patent award was improper under the Court's recent decision in *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC*, 137 S. Ct. 954 (2017). On remand, the original patent award was reinstated, but the district court and the Federal Circuit maintained their position that an award of profits was improper due to a lack of willfulness, and Romag petitioned for *certiorari* once again.

In its petition, Romag highlighted the need for the Court to bring clarity to the prerequisites a plaintiff must demonstrate to recover an infringer's profits under section 1125(a). Section 1117(a) of the Lanham Act states:

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

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title, or a willful violation under section 1125(c) of this title, shall have been established . . . , 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.

15 U.S.C. § 1117(a). Six federal circuits have interpreted this language to require willfulness, while the remainder have said that willfulness is merely a factor to consider.

Congressional amendments over the years have failed to clarify the standard for recovering an infringer's profits and only contributed to the confusion. In 1996, the Lanham Act only allowed monetary recovery under section 1125(a), which encompassed trademark infringement and false advertising. Congress amended the Act to include a cause of action for trademark dilution under section 1125(c) for monetary relief if dilution was "willfully intended." Yet, Congress failed to amend section 1117(a) to allow for monetary remedies for dilution. Thus, in 1999 and 2002, Congress amended section 1117(a) to allow monetary relief for "a violation under section 1125(a) or (d) of this title, or a willful violation under section 1125(c) of this title."

Romag argued that by providing for monetary relief under sections 1125(a) or (d) for infringement and cybersquatting, but only including the term "willful" in connection with the dilution section in 1125(c), Congress demonstrated its intent not to require willfulness for violations of sections 1125(a) or (d). Fossil argued that because section 1117(a) includes language that profits are "subject to the principles of equity," the statute requires willfulness to entitle a plaintiff to any such award. Several amici were filed by groups including the American Bar Association and four intellectual property associations. Only one brief, filed by the Intellectual Property Owners Association, argued that the statutory text requires willfulness before a party can recover profits, while the other four advocated for a more flexible approach.

Both parties also put forth competing policy considerations. Romag argued that not requiring willfulness in awarding profits for infringement or cybersquatting supports the Lanham Act's goals of protecting mark holders' investments and shielding the public from deceptive practices. Further, Romag contended that "defendant manufacturers will have little incentive to monitor their supply chains to prevent trademark infringement." In response, Fossil argued that by not requiring willfulness, "opportunistic litigants [will have] a powerful tool to extort windfall settlements."

In the Court's decision, Justice Neil Gorsuch rejected both of Fossil's arguments. The Court conducted a textual analysis of the statute focusing on its language, structure, and history. In dismissing Fossil's textual argument, the Court felt that importing a willfulness requirement into the language of section 1117(a) would require an assumption "that Congress intended to incorporate a willfulness requirement here obliquely while it prescribed *mens rea* conditions expressly elsewhere throughout the Lanham Act." The Court then discussed the historical context of trademark law and found it to be ambiguous. Thus, Fossil's argument rested on an appeal to policy, which the Court denied because "the place for reconciling competing and incommensurable policy goals like these is before policymakers."

Justice Alito's concurring opinion, which was joined by Justices Stephen Breyer and Elena Kagan, emphasized that willfulness "is a highly important consideration in awarding profits" but "not an absolute precondition." Justice Sonia Sotomayor concurred in the judgment but wrote separately to express her view that an award of profits for innocent or good faith infringement would be inconsistent with the "principles of equity" references in section 1117(a).

Now the dispute will go back to the Federal Circuit to be decided in light of the Court's decision.

The Court's decision undoubtedly will impact future trademark litigation in several ways. First, the decision should bring some clarity to the requirements lower courts must apply when analyzing awards of profits for trademark infringement or cybersquatting. Recovering profits from trademark infringers has historically been more difficult than in the patent and copyright context and this decision, at a minimum, lowers the bar for recovery of profits. Accordingly, manufacturers may need to be more attentive in preventing trademark infringement along their supply chains. Additionally, it is also possible that some litigants will attempt to use the decision to extort

windfall settlements, as Fossil warned. However, the Court explicitly acknowledged that willfulness remains “a highly important consideration in determining whether an award of profits is appropriate.” Thus, while the decision will require courts to apply a more critical analysis to the question of whether an award of profits is appropriate, it remains to be seen whether this case will result in a substantive, or merely procedural, shift in how willfulness is applied.