Three Takeaways from Supreme Court Ruling that Trademark Infringer's Profits May Be Awarded Without a Showing of 'Willful' Infringement

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PRACTICES Intellectual Property, Trademark and Advertising

Yesterday, in *Romag Fasteners, Inc. v. Fossil, Inc.*, the U.S. Supreme Court unanimously held that a plaintiff in a trademark infringement suit is not required to show that the infringing defendant acted "willfully" to avail itself of the Lanham Act's disgorgement remedy. Because actual damages are often difficult to prove in trademark infringement actions, this decision is a significant development in trademark law as it expands the number of cases in which a jury may award a defendant's profits to a prevailing plaintiff.

However, the case leaves unsettled whether disgorgement may now be available for "innocent" infringement, and the concurrences by Justice's Alito and Sotomayor both caution that a finding of willfulness or some other enhanced mental state should remain an important consideration before awarding a defendant's profits.

Romag arises under the federal Lanham Act, which establishes various remedies for the infringement of trademarks. The question before the Court in this case was whether a plaintiff must demonstrate "willfulness" by the infringing defendant in order to secure the defendant's profits (disgorgement) pursuant to Section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a). Section 1117(a) provides that if a plaintiff establishes liability for a violation of the Lanham Act, "the plaintiff shall be entitled . . . 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." Courts have widely held that if a plaintiff establishes liability, they will be able to recover their actual damages. However, the difficulty in determining actual damages in trademark infringement matters frequently leads plaintiffs to seek damages pursuant to Section 1117(a)'s disgorgement remedy.

The U.S. Circuit Courts of Appeal were split over whether a showing that the defendant acted "willfully" is required for a plaintiff to recover the defendant's profits. Several circuits (including the influential Second and Federal Circuits) have interpreted the phrase "subject to the principles of equity" to require a finding that the defendant acted willfully before a plaintiff is entitled to disgorgement, and some circuits have ruled that the fact-finder (often a jury) may consider several factors, often including willfulness, in determining whether "principles of equity" allow for disgorgement.

Romag was on appeal from a decision of the Federal Circuit after a jury trial in the District of Connecticut, and was initially brought by Romag after it discovered that Fossil was using counterfeit Romag fasteners on certain leather handbags. The trial court rejected Romag's request for an award of Fossil's profits because the jury found that Fossil had acted in "callous disregard" of Romag's rights, but not "willfully." The Federal Circuit affirmed this decision.

The Supreme Court reviewed the language of Section 1117(a) and noted that it does not explicitly require a finding of "willfulness." The Court also reviewed several other sections of the Lanham Act, and noted that they each explicitly required a specified mental state: "Section 1117(b) requires

courts to treble profits or damages and award attorney's fees when a defendant engages in certain acts *intentionally* and with specified *knowledge*. Section 1117(c) increases the cap on statutory damages from $200,000 to $2,000,000 for certain willful violations. Section 1118 permits courts to order the infringing items be destroyed if a plaintiff proves any violation of §1125(a) or a willful violation of §1125(c). . . ."

Based on its review of these provisions, the Court found that "[w]ithout doubt, the Lanham Act exhibits considerable care with *mens rea* standards." Accordingly, "the absence of any such standard in [Section 1117(a)]" compelled the Court's finding that willfulness is not required to invoke the disgorgement remedy in Section 1117(a). The Court rejected Fossil's arguments that Section 1117(a)'s reference to "principles of equity" required willfulness, both as a textual matter and in the historical context of trademark law.

The Court concluded that while an infringer's mental state "is a highly important consideration in determining whether an award of profits is appropriate," they found that the statute simply does not require the rigid precondition of "willfulness" to invoke that remedy. Justice Alito's concurrence stressed that willfulness should remain "a highly important consideration in awarding profits under §1117(a)." In a similar vein, Justice Sotomayor's concurrence added that while "willfulness" may not be required, profits should not be awarded in cases of "innocent infringement."

Three Takeaways:

1. The Decision is Pro-Brand Owner. *Romag* will open the door for more brand owners to enforce their trademark rights and may discourage infringement. Pre-*Romag*, the inability to prove actual damages has been a stumbling block for many plaintiffs (and potential plaintiffs) who were faced with the costs of litigation and little chance of a substantial monetary award. The increased availability of disgorgement will allow more brand owners to pursue their claims in court, and may prove to be a powerful tool in settlement negotiations.

2. The Factors Courts Will Consider in Awarding Profits Remains Unsettled. As the concurring opinions make clear, *Romag* does not settle which, if any, factors should be considered in determining whether a disgorgement award is "equitable." It is likely that, in many cases, willfulness and/or intent will be one of the factors. There will certainly be future litigation regarding the proper factors to consider, particularly in the Circuits that have previously applied a bright-line willfulness rule. Factors that are likely to be considered include, (i) intent to deceive; (ii) proof of diversion of sales; (iii) evidence of actual confusion; (iv) the relative adequacy of the plaintiff's losses remedy and difficulty of proof; (v) plaintiff's urgency in enforcement; (vi) relative size/sales of the parties; and (vii) any other equitable factor that may be present.

3. It Is Unclear Whether *Romag* Will Lead to an Increase in Trademark Litigation. While plaintiffs may feel emboldened to enforce their trademark rights, there is also reason to believe that pre-litigation settlements will be more likely because defendants will face more risk in proceeding to litigation. On the other hand, litigation funding may become more available to potential plaintiffs as the potential for large monetary awards fits their funding model. Ultimately, the standard that will replace the bright-line willfulness test remains to be seen, so it may be too early to tell whether *Romag* will meaningfully increase the proportion of plaintiffs who are awarded defendant's profits.