

Supreme Court Holds That Willful Infringement Is Not a Prerequisite for Recovery of Infringer's Profits in Trademark Infringement Suits

April 27, 2020

Last week the Supreme Court resolved a longstanding circuit split as to whether a trademark infringer must be shown to have acted willfully before it can be required to disgorge its profits. Relying largely on a plain reading of the Lanham Act, the Court held in *Romag Fasteners, Inc. v. Fossil, Inc.*,¹ that although an infringer's mental state is highly important in determining whether to award profits, willfulness is not a precondition to such an award. This holding is potentially helpful to trademark owners by removing willfulness as an absolute requirement for the recovery of profits. But it remains to be seen whether *Romag* will have much of an impact since profits were rarely, if ever, awarded for innocent infringement in the past.²

Background

Romag Fasteners, Inc. produces magnetic snaps, fasteners and closures for use in various leather products under the ROMAG trademark. In 2002, Romag and Fossil, Inc. entered into an agreement under which Fossil's Chinese manufacturer would acquire Romag's patented fasteners from Romag's sole Chinese licensee for

If you have any questions concerning this memorandum, please reach out to your regular firm contact or the following authors.

NEW YORK

Daniel Ilan
+1 212 225 2415
dilan@cgsh.com

David Herrington
+1 212 225 2266
dherrington@cgsh.com

Arminda Bepko
+1 212 225 2517
abepko@cgsh.com

Michelle Butler
+1 212 225 2662
mibutler@cgsh.com

¹ No. 18-1233, 2020 WL 1942012 (U.S. Apr. 23, 2020).

² *Id.* at *5.



use in Fossil’s leather goods. Despite this arrangement, Romag discovered in 2010 that Fossil’s Chinese manufacturer was purchasing counterfeit fasteners bearing the ROMAG trademark from an unauthorized manufacturer and incorporating them into Fossil’s products.

In 2010, Romag sued Fossil and certain retailers of Fossil products for patent and trademark infringement. Finding that Fossil had infringed both Romag’s trademark and patent rights but that neither violation was willful, a jury recommended an award of approximately \$6.8 million in trademark profits. However, the U.S. District Court for the District of Connecticut struck this award, holding that the jury’s finding that Fossil evidenced “callous disregard” of Romag’s trademark rights, but that its infringement was not “willful,” was insufficient to allow for an award of defendant’s profits under governing precedent.³ The United States Court of Appeals for the Federal Circuit, applying the precedent of the Second Circuit, upheld the district court’s ruling based on the principle that a finding of willfulness is a prerequisite to an award of a trademark infringer’s profits.⁴

The Court’s Ruling

The Supreme Court vacated the judgment of the Federal Circuit, holding that a plaintiff is not required to show that trademark infringement was willful in order to receive an award of defendant’s profits.⁵ Delivering the opinion of the Court, Justice Gorsuch found that a plain reading of the Lanham Act does not require willfulness. While the Act expressly requires willfulness for a profits award in trademark dilution suits, it has no such language in the same provision relating to trademark infringement suits.⁶ Gorsuch noted that this absence is even more telling when looking to the broader text of the Act, which “speaks often and expressly about mental states,” including by

requiring treble profits or damages and permitting an award of attorney’s fees when a defendant engages in certain acts intentionally and with specified knowledge, increasing the cap on statutory damages and allowing courts to order that infringing items be destroyed for certain willful violations and enforcing only injunctive remedies against certain innocent infringers.⁷ The Court observed that Congress could have inserted the same sort of language here as it had throughout the Act (including in other portions of the very provision at issue) in detailing the applicable *mens rea* standards, had there been an intent to impose a particular *mens rea* requirement on an award of profits for trademark infringement suits.⁸

The Court was not persuaded by Fossil’s pointing to language in the Act that subjects an award of profits to the principles of equity. Fossil argued that such a requirement was so universally applied in equity courts over the course of history that it has become a principle of equity.⁹ In addition to noting that the case law is not uniform, the Court expressed skepticism that Congress intended to obliquely impose a willfulness requirement in one provision through principles of equity (which typically comprise broad, transsubstantive principles rather than focused, prescriptive rules), while expressly setting forth *mens rea* requirements in other provisions.¹⁰

In vacating the Federal Circuit’s decision and remanding the case, the Court emphasized that it does not question or seek to overturn pre- or post-Lanham Act case law holding that an infringer’s state of mind is an important consideration in determining available relief, noting that “an innocent trademark violator often stands in very different shoes than an intentional one.”¹¹ However, the Court declined to make willfulness an “inflexible precondition” for an award of a trademark infringer’s profits.¹² The Court merely answered the narrow question of whether willfulness is

³ *Romag Fasteners, Inc., v. Fossil, Inc.*, 29 F.Supp.3d 85 (D.Conn. 2014).

⁴ *Romag Fasteners, Inc., v. Fossil, Inc.*, 817 F.3d 782 (Fed. Cir. 2016).

⁵ *Romag*, 2020 WL 1942012 at *1.

⁶ *Id.* at *2.

⁷ *Id.*

⁸ *Id.*

⁹ *Id.* at *3.

¹⁰ *Romag*, 2020 WL 1942012 at *3.

¹¹ *Id.* at *1.

¹² *Id.* at *4.

required, concluding that “the most we can say with certainty is that *mens rea* figured as an important consideration in awarding profits in pre-Lanham Act cases” and that a defendant’s mental state may remain a highly important consideration in the awards determination.¹³ By contrast, Justice Sotomayor criticized the majority for being “agnostic about awarding profits for both ‘willful’ and innocent infringers” and in her concurrence urged a standard that would preclude an award of profits against an innocent infringer.¹⁴

Finally, the Court rebuffed Fossil’s argument that the willfulness requirement is needed to deter baseless trademark infringement lawsuits seeking a windfall and Romag’s rebuttal that the opposite interpretation of the law would “promote greater respect for trademarks in the modern global economy,” explaining that such policy considerations were for Congress to assess and to incorporate into the statute if it wished.¹⁵

Implications of Romag

— Circuit Split Resolved but Practical Impact of the Ruling Uncertain.

- In trademark infringement suits, the defendant’s profits are often easier to prove than the actual damages suffered by the trademark owner. In general, to recover actual damages a plaintiff would need to establish that it lost sales as a result of the defendant’s infringement. A defendant’s sales, and the profits it earned as a result, are typically easier to ascertain and the amounts may be substantial. Against this background, *Romag* is significant because it resolves a circuit split and reverses longstanding precedent in several circuits, including the Second Circuit, that had required proof of willfulness before profits could be awarded.
- However, it is not clear that the *Romag* decision will have much of an impact on

damage awards in the future. Even in those circuits that did not require willfulness, the defendant’s mental state was a key consideration in the decision whether or not to award profits. In practice, as Sotomayor’s concurrence emphasizes, profits were rarely, if ever, awarded for innocent infringement in the past (though, as noted, the Court’s holding does not expressly eliminate the possibility of such an outcome).

- Fossil and certain *amici* voiced concerns that *Romag* will usher in a wave of baseless trademark infringement claims or result in massive windfalls to plaintiffs suing innocent infringers. But the Court’s acknowledgement that a defendant’s mental state remains a highly important consideration provides clear guidance to courts that an award of profits will likely not be justified unless a defendant has acted with improper intent.
 - *Romag*’s effects will likely be most strongly felt in cases on the margins where, as in this case, principles of equity may support an award of profits but a strict willfulness requirement would prevent such an award. *Romag* leaves open the possibility of disgorgement where the defendant’s intent does not rise to willfulness but does reflect some level of wrongful conduct or intent such as “callous disregard” for the plaintiff’s rights.
- #### **— Comparison with Disgorgement Remedies for Design Patent and Copyright Infringement.**
- While disgorgement of a defendant’s profits is not a remedy in utility patent suits, as a result of an amendment in the Patent Act of 1946, it is available in copyright infringement suits (to the extent not duplicative of the actual damages awarded)¹⁶ and design patent suits.¹⁷ The statutes governing copyrights and design patents do not provide that disgorgement

¹³ *Id.*

¹⁴ *Id.* at *5.

¹⁵ *Romag*, 2020 WL 1942012 at *4.

¹⁶ 17 U.S.C. § 504(b).

¹⁷ 35 U.S.C. § 289.

awards are subject to principles of equity and accordingly an infringer's mental state is not a consideration for such an award.

— **Preserving Discretion of the Courts.**

- The *Romag* decision underscores the importance of preserving courts' flexibility and discretion in awarding remedies in Lanham Act cases (absent explicit language in the statute). While imposing a willfulness requirement would have created a simpler standard for courts to apply, it also would have detracted from the statutory mandate to fashion relief based on equitable principles, which calls for courts to exercise their discretion in crafting an appropriate remedy.
- The Court's decision in *Romag* is reminiscent of its earlier decisions in *Octane Fitness, LLC v. Icon Health and Fitness, Inc.*¹⁸ and *Halo Electronics, Inc. v. Pulse Electronics Inc.*¹⁹, in which the Court declined to impose requirements not found in the statute or to adopt strict rules for awards of attorney's fees and enhanced damages, respectively, in patent cases, instead favoring a case-by-case analysis of the totality of the circumstances. *Romag* may therefore be viewed as the latest in a string of cases in which the Court has signaled hesitation about restricting lower courts' discretion to consider broader equities under the particular circumstances of a case.

...

CLEARY GOTTLIB

¹⁸ 572 US 545 (2014).

¹⁹ 136 S. Ct. 1923 (2016).