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Client Alert: Willfulness Not a Requirement to Disgorge Profits for Trademark Infringement

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Trademark owners often have a difficult time recovering monetary damages in a trademark infringement case. Actual damages, such as lost profits, can be speculative. However, the Supreme Court may have just made it easier for trademark owners to disgorge profits from infringers. In *Romag Fasteners Inc. v. Fossil Inc.*, the Court resolved a circuit split, unanimously holding that plaintiffs generally need not prove that a defendant's trademark infringement was willful as a precondition to seeking disgorgement of defendant's ill-gotten profits. This article discusses the profound implications of the Supreme Court's opinion for both trademark owners and accused infringers when it comes to damages in trademark infringement cases.

In the underlying litigation, Plaintiff (Romag) and Defendant (Fossil) had been business partners, whereby Romag's fasteners were used in the production of Fossil products, including handbags. The relationship soured when Romag accused Fossil of not doing enough to limit the prevalence of counterfeit fasteners in its finished products. Relying on Second Circuit precedent, and on the jury's finding that Fossil's conduct was not willful, the district court refused to award profits. The Second Circuit affirmed.

In delivering the opinion, Justice Gorsuch emphasized that the Lanham Act "exhibits considerable care with *mens rea* standards," that it speaks "often and expressly about mental states." Specifically, 15 U. S. C. §1117(a), which governs remedies for trademark violations, permits courts to award profit for "a violation under section 1125(a) or (d) of this title, or a *willful* violation under section 1125(c) of this title." (Emphasis added). The Court articulated its view that Congress took express care to require willful infringement with respect to trademark dilution (§1125(c)) and—conversely—was tellingly silent in prescribing the requisite *mens rea* for false or misleading use of trademarks. This, the Court reasoned, affirms Congress' intent that plaintiffs proceeding under §1125(a) and seeking to disgorge defendant's profits are not required to prove willfulness. The Court expressly rejected the view—previously held by the Second Circuit, and others, including the First, Ninth, Tenth, and D.C. Circuits —that willfulness was nevertheless required in light of the Lanham Act's reference to "principles of equity" in the section governing remedies.

Although the majority opinion is clear that willfulness is no longer a precondition, it is silent as to the role (if any) that willfulness should play in light of *Romag*. Justice Alito's concurring opinion, on the other hand, reminds that "willfulness is [still] a highly important consideration in awarding profits under §1117(a)." Justice Sotomayor goes further, concurring in judgment only, and accusing the majority of being "agnostic about awarding profits for both 'willful' and 'innocent' infringement," arguing instead that "the weight of authority [ ] indicates that profits were hardly, if ever, awarded for innocent infringement." All nine justices agree that the absence of willfulness is no longer an absolute bar to profits, but *Romag* does not guarantee profits either.

Ultimately, the Court's opinion places the decision to disgorge an infringer's profits in the discretion of the judge. It will be interesting to monitor the implications of *Romag* on judicial discretion in awarding profits as potentially more trademark owners seek profit awards.

Rather than the bright-line requirement of willfulness, the Third, Fourth, Fifth, Sixth, Seventh, and Eleventh Circuits have each applied a multifactor test, where willfulness is only part of the consideration. For example, the Fourth Circuit in *Synergistic International, LLC v. Korman*, 470 F.3d 162, 174 (4th Cir. 2006), adopted the following six non-exclusive factors articulated by the Third and Fifth Circuits:

> (1) whether the defendant had the intent to confuse or deceive, (2) whether sales have been diverted, (3) the adequacy of other remedies, (4) any unreasonable delay by the plaintiff in asserting his rights, (5) the public interest in making the misconduct unprofitable, and (6) whether it is a case of palming off.

The Supreme Court did not go the further step of articulating what factors, if any, a judge should consider in awarding profits. Rather the holding in *Romag* relates solely to the issue of whether willfulness is a prerequisite, which, based on the textual reading of the Lanham Act, the Court answered in the negative.

The *Romag* decision paves the way for trademark owners to more easily threaten profit disgorgement as a remedy, even in the absence of any evidence that a defendant's conduct was willful. One likely consequence is that litigations that previously may not have made financial sense are now revisited—for example, a scenario where a plaintiff has suffered minimal lost sales, and where there is limited evidence that a defendant's infringement was willful, but where the defendant profited from its infringement. And although defendants will certainly continue to challenge allegations of willfulness through motion practice, including on summary judgment, it is no longer a silver bullet for infringers to insulate their ill-gotten profits in this way. This is likely to drive up the median settlement figures for trademark cases.

The Intellectual Property (IP) group at Shumaker continues to advise companies in all areas of IP, as well as related topics. If you would like to discuss any of these issues, please give us a call.

Please do not hesitate to contact Christina Davidson Trimmer at ctrimmer@shumaker.com or 704.945.2151, or Tom BenGera at tbengera@shumaker.com or 704.945.2902, if you have any questions.

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