

## Outside Counsel

# Does Lanham Act Require Willful Infringement for Profit Disgorgement?

Section 35 of the Lanham Act, 15 U.S.C. §1117(a), provides a remedy in false advertising, trademark infringement and dilution cases allowing for a plaintiff's recovery of illicit profits earned by a defendant that are attributable to its wrongful conduct. For more than two decades, Lanham Act plaintiffs in the Second Circuit have been required to make a showing that the defendant engaged in willful misconduct as a prerequisite to a disgorgement award. While this approach is consistent with that of the First, Eighth, Ninth, Tenth, and District of Columbia Circuits, no such requirement exists in the Third, Fourth, Fifth, Seventh, or Eleventh Circuits, which allow disgorgement as a remedy without requiring a threshold showing of willfulness. Rather, the defendant's intent is merely one factor in an analysis under "principles of

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equity" in those circuits. See 15 U.S.C. §1117(a).

The U.S. Supreme Court recently agreed to resolve this circuit split,

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The decision will bring welcome uniformity, ending the status quo where eligibility to recover profits under the Lanham Act depends on which court is deciding the dispute.

granting certiorari in *Romag Fasteners v. Fossil*. In the underlying action, the U.S. Court of Appeals for the Federal Circuit applied the Second Circuit's willfulness requirement to deny the plaintiff any opportunity to recover the defendants' profits on account of the plaintiff's failure to show that the defendants'

infringement of magnetic snap fasteners for handbags and other leather goods was willful. See Petition for Writ of Certiorari, *Romag Fasteners v. Fossil*, (U.S. March 22, 2019), cert. granted, (June 28, 2019) (No. 18-1233). The Supreme Court's long-anticipated resolution of this question that has divided the circuit courts of appeal has the potential to alter significantly false advertising and trademark litigation practice.

### Lanham Act's Willfulness Language

Though some courts have read a willfulness requirement into the Lanham Act for several decades, the issue came to the front in 1999 when Congress amended §35 of the Lanham Act to read:

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 arising under

this chapter, 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.

The 1999 amendment added the word "willful" in reference to a violation under §43(c) of the Lanham Act, which applies to the dilution of famous marks. At the same time, Congress did not insert "willful" into §43(a), which governs false advertising, trademark and trade dress infringement claims. The legislative history of the 1999 amendment is silent on the issue of whether Congress intended to change the standard for recovering Lanham Act defendants' ill-gotten profits. In the two decades since this amendment—and even before then—courts have wrestled with whether a plaintiff must prove a defendant's conduct was willful in order to recover its profits as damages.

### The 'Romag' Facts

Romag Fasteners is a Connecticut-based family business manufacturing patented magnetic snap fasteners. Fossil designs, markets and distributes fashion accessories, but uses foreign manufacturers to make its products. In 2010, Romag discovered Fossil products using counterfeit snaps bearing the Romag mark, and sued Fossil and

its distributors in the District of Connecticut for patent and trademark infringement. After a seven-day trial, a jury awarded Romag nearly \$6.8 million in profits, as well as approximately \$66,000 in royalties.

During a two-day bench trial on equitable defenses and remedies, the district court set aside the jury's profits award, holding

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Depending on how the Supreme Court resolves the 'Romag' case, it could increase Lanham Act litigation (should it reject willfulness as a prerequisite for disgorgement) or alter plaintiff's strategies in pursuing damages (if it requires willfulness in those jurisdictions where it currently is not mandated).

that "willfulness remains a requirement for an award of defendants' profits in this Circuit," and plaintiff had not proven willfulness. *Id.* at 9. The Federal Circuit Court of Appeals affirmed. *Romag Fasteners v. Fossil*, 817 F.3d 782 (Fed. Cir. 2016), cert. granted, 137 S. Ct. 1373 (2017). Whereas Romag may have recovered nearly \$7 million in damages in a jurisdiction that does not impose a willfulness prerequisite for awarding profits, because its case involved conduct occurring in the Second Circuit, the Federal Circuit applied Second Circuit precedent, and found that Romag

was only entitled to nominal royalty damages.

### Circuits Have Long Applied Divergent Requirements

Had Romag conducted its business in another jurisdiction, there is a possibility it would have been able to recover Fossil's profits earned through infringement given that the circuit courts of appeal are evenly split as to whether willfulness is a prerequisite for disgorging profits in Lanham Act cases, or just one factor of many to be considered.

Courts finding a willfulness requirement in §43(a) of the Lanham Act, including the Second Circuit, do so by considering the equitable principles underlying infringement claims, rather than a strict read of the statutory language. For example, the Second Circuit last addressed this issue in 1992, in *George Basch Co., v. Blue Coral*, holding that the willfulness requirement "limit[s] what may be an undue windfall to the plaintiff, and prevent[s] the potentially inequitable treatment of an 'innocent' or 'good faith' infringer." *George Basch Co. v. Blue Coral*, 968 F.2d 1532, 1540 (2d Cir. 1992). The Federal Circuit in *Romag* relied on *George Basch* in its decision, even though it predates the 1999 amendment, noting that the decision remains good law and the Federal Circuit saw no reason not to follow it. See *Romag Fasteners v. Fossil*, No. 2018-2417 (Fed. Cir. Feb.

5, 2019). The Ninth Circuit recently held that “willfulness remains a prerequisite for awarding a defendant’s profits,” relying on the Federal Circuit’s analysis of the 1999 amendment in *Romag. Stone Creek v. Omnia Italian Design*, 875 F.3d 426, 441 (9th Cir. 2017), cert. denied, 138 S. Ct. 1984 (2018).

In contrast, those courts that do not impose a willfulness requirement emphasize that the post-1999 amendment “plain language of §1117(a)” does not contain a “bright-line” rule imposing a willfulness requirement. Those courts instead view willfulness as “an important factor which must be considered when determining whether an account of profits is appropriate.” *Quick Tech. v. Sage Grp. PLC*, 313 F.3d 338, 349 (5th Cir. 2002). For example, the Seventh Circuit recognizes that, “[o]ther than general equitable considerations, there is no express requirement that ... the infringer wilfully [*sic*] infringe the trade dress to justify an award of profits.” *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 941 (7th Cir. 1989). The Sixth Circuit has more explicitly held that willfulness is “not required,” and is only “one element that courts may consider in weighing the equities.” *Laukus v. Rio Brands*, 391 F. App’x 416, 424 (6th Cir. 2010). In these courts, proof of willfulness is not dispensed with entirely, but is merely one factor that a court considers in determining whether

disgorgement is appropriate. See, e.g., *Synergistic Int’l v. Korman*, 470 F.3d 162, 175 (4th Cir. 2006).

### Impact of the Expected Decision in ‘Romag’

Given that Congress added the “willful” language to §35 of the Lanham Act two decades ago, the circuit courts’ divergent approaches to analyzing disgorgement of profits has not gone unnoticed by academics and practice commentaries. It has been the topic of numerous law review articles and leading treatises, including *Gilson on Trademarks*, *McCarthy on Trademarks and Unfair Competition*, and *Kane on Trademark Law*. 3 Anne Gilson LaLonde, *Gilson on Trademarks* §14.03(6)(c) (i) (2018); 5 J. Thomas McCarthy, *McCarthy on Trademarks & Unfair Competition* §30.62 (5th ed. 2018); Siegrun D. Kane, *Kane on Trademark Law* §17:3.1 (6th ed. 2013). Practitioners and litigants alike will welcome a resolution to this unsettled area of trademark law.

Whether or not a Lanham Act plaintiff must make a threshold showing of willfulness before recovering profits substantially impacts the availability of a disgorgement remedy. As the Supreme Court recently suggested in the copyright context, there is a meaningful difference between an element being “an important factor” in an analysis versus “the controlling one.” *Kirtsaeng v. John Wiley & Sons*, 136 S.

Ct. 1979, 1988 (2016). The distinction between treating willfulness of false advertising or infringement as an important versus a dispositive element can change the outcome of a case. For example, the Third Circuit affirmed an award of profits where infringement was not willful but “all of the other ... factors support[ed] an award.” *Banjo Buddies v. Renosky*, 399 F.3d 168, 175 (3d Cir. 2005). That outcome simply would not be possible, for example, in the Second Circuit.

Depending on how the Supreme Court resolves the *Romag* case, it could increase Lanham Act litigation (should it reject willfulness as a prerequisite for disgorgement) or alter plaintiff’s strategies in pursuing damages (if it requires willfulness in those jurisdictions where it currently is not mandated). Either way, the decision will bring welcome uniformity, ending the status quo where eligibility to recover profits under the Lanham Act depends on which court is deciding the dispute.