

Supreme Court Rules that Recovery of a Trademark Infringer’s Profits Does Not Require Proof of Willful Infringement

Earlier this year, the United States Supreme Court held that the Lanham Act (the statutory framework that governs federal trademark infringement and unfair competition) does not require a trademark owner to prove that a trademark infringer “willfully” infringed the owner’s trademark in order to recover the infringer’s profits.¹ The Court’s decision has important consequences for trademark owners and their competitors alike. For example, it may be prudent for businesses that rely on contract manufacturers to monitor manufactured products more closely for incorporated marks and symbols that may pose potential infringement issues. Further, there is reason now for trademarks owners to be more aggressive in enforcing their trademarks. Finally, Congress may eventually amend the Lanham Act to expressly require a showing of willful infringement in order to recover an infringer’s profits – thus, trademark owner may want to take advantage of this window of opportunity where such a showing is now not required.

Factual Background

Romag Fasteners, Inc., the trademark owner, petitioner to the Supreme Court, and the plaintiff in the underlying lawsuit, distributes menu magnetic snaps, fasteners, and closures.² The tradename ROMAG is a registered trademark with the United States Patent and Trademark Office.³ Romag utilizes a factory in China owned by a separate entity to manufacture the snaps.⁴ That factory manufactures items solely on behalf of Romag.⁵

Fossil Inc., the respondent at the Supreme Court and the defendant in the underlying lawsuit, distributes handbags and other items via its website and through retail outlets like Macy’s.⁶ Fossil, similarly, utilizes contract manufacturers located in China to manufacture the products that Fossil distributes in the United States.⁷ From 2002 through 2010, Fossil’s contract manufacturer in China utilized ROMAG snaps in the products that Fossil distributed.⁸ However, Fossil’s contract manufacturer eventually switched to a different factory – one not authorized by Romag – to supply the snaps.⁹ Fossil was unaware of the switch.¹⁰ Fossil handbags, which included the magnetic snaps manufactured by the unauthorized factory and bearing the trademark ROMAG, were subsequently sold in the United States.¹¹

Romag subsequently filed a lawsuit against Fossil, alleging trademark infringement and unfair competition, among other things.¹² A jury concluded that Fossil was liable.¹³ However, the jury concluded

¹ Romag Fasteners, Inc. v. Fossil, Inc., 590 U.S. ____ (2020) (slip opinion available at https://www.supremecourt.gov/opinions/19pdf/18-1233_5he6.pdf).

² See <http://www.romag.com> (last visited 13 March 2020).

³ Romag Fasteners, Inc. v. Fossil, Inc., 29 F. Supp. 3d 85, 91 (D. Conn. 2014).

⁴ *Id.*

⁵ *Id.*

⁶ *Id.* at 92.

⁷ *Id.*

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.* at 94.

¹² *Id.* at 90.

¹³ *Id.*

that the trademark infringement and unfair competition was not “willful.”¹⁴ Rather, the jury found that Fossil acted in “callous disregard,” a mental state falling short of willfulness.¹⁵ The jury awarded to Romag over \$6,000,000 of Fossil’s profits for trademark infringement under theories of unjust enrichment and deterrence.¹⁶

However, the District Court rescinded the disgorgement of Fossil’s profits to Romag because Romag failed to prove that Fossil’s trademark infringement was willful.¹⁷ Applying Second Circuit law, the District Court concluded that proof of willful infringement was required for the defendant’s profits to be disgorged to the plaintiff.¹⁸ The District Court noted a split amongst the Courts of Appeal in this regard.¹⁹

Romag appealed to the Federal Circuit, which affirmed the District Court’s decision to deny the disgorgement of Fossil’s profits to Romag.²⁰

The Legal Issue

Romag petitioned the Supreme Court to decide the issue of “[w]hether, under section 35 of the Lanham Act, 15 U.S.C. § 1117(a), willful infringement is a prerequisite for an award of an infringer’s profits for a violation of section 43(a), *id.* § 1125(a).”²¹ Section 1117(a), in turn, states in relevant part:

When . . . 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.²²

Section 1125(a), in turn, imposes liability upon:

[a]ny person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—

. . . is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person.²³

¹⁴ *Id.*

¹⁵ Romag Fasteners, Inc. v. Fossil, Inc., 817 F. 3d 782, 784 (Fed. Cir. 2016).

¹⁶ Romag Fasteners, Inc. v. Fossil, Inc., 29 F. Supp. 3d 85, 90 (D. Conn. 2014).

¹⁷ *Id.* at 107.

¹⁸ *Id.*

¹⁹ *Id.* at 108.

²⁰ Romag Fasteners, 817 F.3d at 783 (Fed. Cir. 2016).

²¹ Petition for a Writ of Certiorari, Romag Fasteners, Inc. v. Fossil, Inc., 590 U.S. ____ (2020) (No. 18–1233).

²² 15 U.S.C. § 1117(a) (emphasis added).

²³ 15 U.S.C. § 1125(a).

Romag and the Argument for “No”

Romag argued that a trademark owner should not be required to prove that the infringer willfully infringed the trademark in order to recover the infringer’s profits.

First, Romag contended that § 1117(a) does not explicitly require that the violation under § 1125(a) be willful for the plaintiff to recover the defendant’s profits.²⁴ Rather, the plain language of the statute only requires a recovery of the defendant’s profits “subject to the principles of equity.”²⁵ That is in contrast to the plain language of the statute that *does* require “a willful violation” to recover the defendant’s profits when the violation is under section 1125(c), which covers dilution of trademarks, rather than section 1125(a), which covers trademark infringement and unfair competition. Romag noted further that other provisions of the Lanham Act explicitly require the plaintiff to prove that the infringer acted willfully in order to receive various forms of relief, including recovery of damages and disgorgement of the infringer’s profits arising from infringement of a registered trademark under 1114(1)(b).²⁶ Romag’s argument boiled down to the notion that if Congress intended to include willfulness as a requirement to receive disgorgement of the defendant’s profits, then Congress would have included that word in the statute, as Congress did in other places.²⁷

Second, Romag argued that imposing a willfulness requirement would undermine the statute’s explicit requirement that disgorgement of the defendant’s profits are “subject to the principles of equity.”²⁸ The Lanham Act’s explicit requirement of making disgorgement of the defendant’s profits “subject to the principles of equity” gives the courts an ability to fashion remedies that fit the particular state of mind of the defendant in any given case.²⁹ Romag noted that the Supreme Court has resisted attempts to apply strict boundaries to equitable principles in the context of other intellectual property cases.³⁰

Third, Romag made a practical argument for not requiring that the plaintiff be required to prove that the infringement was willful in order to recover the defendant’s profits.³¹ More specifically, Romag contended that requiring a showing of willfulness would preclude the plaintiff from receiving any meaningful compensation in many cases, and would serve to insulate brand owners like Fossil that rely on foreign contract manufacturers to manufacture the goods that the brand owner distributes from the actions of the contract manufacturers.³² Although the relevant statute also allows for recovery of the plaintiff’s damages and limited statutory damages, Romag argued that it is very difficult to prove the plaintiff’s damages arising from the defendant’s infringement and that the statutory damages are paltry compared to the cost of the lawsuit required to recover them.³³

²⁴ Brief for the Petitioner at 3-4, 20, Romag Fasteners, Inc. v. Fossil, Inc., 590 U.S. ____ (2020) (No. 18–1233).

²⁵ *Id.*

²⁶ *Id.* at 6.

²⁷ *Id.* at 20-27.

²⁸ *Id.* 29-33.

²⁹ *Id.* at 32-33.

³⁰ *Id.* at 30-32.

³¹ *Id.* at 19.

³² *Id.* at 19, 47-48.

³³ *Id.* pp. 44-46.

Fossil and the Argument for “Yes”

In contrast, Fossil argued that a plaintiff must demonstrate that the defendant willfully infringed the trademark before receiving disgorgement of the defendant’s profits.

First, Fossil contended that the statutory phrase “subject to the principles of equity” in § 1117(a) incorporates a requirement that the plaintiff prove that the defendant infringed willfully in order to receive disgorgement of the defendant’s profits.³⁴ Fossil stated that when Congress enacted the Lanham Act, Congress was aware of the common law requirement that the plaintiff prove willfulness and, therefore, incorporated that requirement by reference to “the principles of equity.”³⁵ Further, Fossil argued that courts interpreted a 1905 statutory predecessor to the Lanham Act as also requiring such a showing of willfulness, and Congress chose not to depart from that interpretation when enacting the Lanham Act.³⁶

Second, Fossil contended that the statute’s explicit requirement of willfulness for disgorgement of the defendant’s profits for a violation under section 1125(c), i.e., for trademark dilution, does not suggest that any showing of willfulness is *not* required for disgorgement of profits arising from trademark infringement under section 1125(a).³⁷ The provision related to trademark dilution was added by Congress after the Lanham Act was enacted and, therefore, should have no bearing on the issue of what Congress intended when enacting the Lanham Act.³⁸

Third, Fossil contended that not imposing a willfulness requirement in order to receive disgorgement of the defendant’s profits will incentivize plaintiffs to delay enforcing their trademarks in order to increase the amount of profits that would be disgorged, and would result in extortion-like behavior due to the increase in the amount of money at issue.³⁹

The Supreme Court’s Decision and Analysis

The Supreme Court, without dissent, sided with Romag and vacated the Federal Circuit’s decision affirming the District Court’s denial of an award of Fossil’s profits to Romag.⁴⁰

The Supreme Court began with the recognition that § 1117(a) does not explicitly make proving willfulness a prerequisite to an award of profits for a cause of action under § 1125(a) but does so for a cause of action under § 1125(c).⁴¹ The Court followed up by stating: “[T]his Court [does not] usually read into statutes words that aren’t there. It’s a temptation we are doubly careful to avoid when Congress has (as here) included the term in question elsewhere in the very same statutory provision.”⁴² The Court

³⁴ Brief for Respondents at 15-16, *Romag Fasteners, Inc. v. Fossil, Inc.*, 590 U.S. ____ (2020) (No. 18–1233).

³⁵ *Id.* at 17-18.

³⁶ *Id.* at 18-19.

³⁷ *Id.* at 24-25.

³⁸ *Id.*

³⁹ *Id.* at 49-50.

⁴⁰ *Romag Fasteners, Inc. v. Fossil, Inc.*, slip opinion at 7, 590 U.S. ____ (2020).

⁴¹ *Id.* at 4.

⁴² *Id.* at 3.

further noted that the Lanham imposes a variety of mental state requirements at other places.⁴³ “The absence of any such standard in the provision before us, thus, seems all the more telling.”⁴⁴

The Court rejected Fossil’s argument that the statute incorporates a willfulness requirement to recover the defendant’s profits via the phrase “subject to the principles of equity.”⁴⁵ The Court determined that “it’s far from clear whether trademark law historically required a showing of willfulness before allowing a profits remedy.”⁴⁶ Some court cases before the Lanham Act imposed such a willfulness requirement, while other court cases rejected such a rule.⁴⁷

However, the Court determined that the defendant’s mental state should be a factor – although not a prerequisite – in the determination of whether the defendant’s profits should be awarded to the plaintiff.⁴⁸ “[A] trademark defendant’s mental state is a highly important consideration in determining whether an award of profits is appropriate.”⁴⁹

Impact

The Court’s decision will have an impact throughout the business community.

Monitoring and Clearance - First, there could be a greater emphasis for businesses like Fossil that rely upon contract manufacturers to monitor incorporated marks and symbols for potential trademark issues. Because willfulness is not a hard prerequisite to the recovery of profits, the question of whether the business did enough to monitor its contract manufacturers could be an open issue.

More Aggressive Enforcement - Second, trademark owners could become more aggressive in enforcement. There is greater incentive for businesses accused of infringement to settle to avoid litigation and the possibility of having to disgorge profits. Thus, trademark owners have more incentive to enforce their trademarks.

Potential Limited Window of Opportunity - Third, there may be a limited time window for trademark owners to recover the infringer’s profits without a showing of willful infringement. There are policy reasons that support requiring proof of willful infringement in order to recover the defendant’s profits. Influential businesses and trade groups will certainly lobby Congress to pass legislation to expressly require a showing of willful infringement.

⁴³ *Id.*

⁴⁴ *Id.* at 4.

⁴⁵ *Id.* at 7.

⁴⁶ *Id.* at 5.

⁴⁷ *Id.* at 5-6.

⁴⁸ *Id.* at 7.

⁴⁹ *Id.*