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How Available Are Lost Profits as a Remedy for Trademark Infringement?



The issue of whether a trademark owner that successfully proves infringement may recover the infringer's profits without showing that the infringer acted "willfully" has long divided courts. The issue is important because actual damages are often much harder to prove in trademark cases than in copyright or patent cases. Moreover, the Trademark Act lacks the statutory damages provisions of copyright law or the reasonable royalty provision of patent law. Accordingly, the uncertainty of whether some form of monetary relief exists at the end of prolonged and expensive trademark infringement litigation renders it difficult for clients to make educated and informed business decisions about their litigation strategy. Experience shows that the difficulty of proving actual damages is a disincentive to pursuing trademark cases beyond a motion for preliminary injunctive relief and, in some cases, at all.

In *Romag Fasteners, Inc. v. Fossil, Inc.*, No. 18-1233 (April 23, 2020), the U.S. Supreme Court held that willful infringement is *not* a prerequisite to an award of profits for trademark infringement. The Court had granted certiorari on June 28, 2019 and heard oral argument on Jan. 14, 2020. Justice Gorsuch delivered the opinion for a unanimous Court, which resolved a sharp six-to-six split among the circuits over the importance of willfulness. Some courts had held willfulness to be a bright-line prerequisite to an award of profits; other courts had ruled that willfulness was just one factor in a broader analysis.

The Third, Fourth, Fifth, Sixth, Seventh, and Eleventh Circuits did not require willfulness. *See, e.g., Banjo Buddies v. Renosky*, 399 F.3d 168, 171 (3d Cir. 2005); *Synergistic Int'l v. Korman*, 470 F.3d 162, 175 (4th Cir. 2006); *Quick Techs. v. Sage Grp. PLC*, 313 F.3d 338, 349 (5th Cir. 2002); *Laukus v. Rio Brands*, 391 F. App'x 416, 424 (6th Cir. 2010); *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 941 (7th Cir. 1989); and *Optimum Techs. v. Home Depot U.S.A.*, 217 F. App'x 899, 902 (11th Cir. 2007). In the Second, Eighth, Ninth, Tenth, and District of Columbia Circuits, on the other hand, a showing of willfulness was a prerequisite for awarding a defendant's profits. *See, e.g., Merck Eprova AG v. Gnosis S.p.A.*, 760 F.3d 247, 261 (2d Cir. 2014); *Minn. Pet Breeders v. Schell & Kampeter*, 41 F.3d 1242, 1247 (8th Cir. 1994); *Stone Creek v. Omnia Italian Design*, 875 F.3d 426, 441 (9th Cir. 2017); *W. Diversified Servs. v. Hyundai Motor Am.*, 427 F.3d 1269, 1273 (10th Cir. 2005); and *ALPO Petfoods v. Ralston Purina Co.*, 913 F.2d 958, 968 (D.C. Cir. 1990). In the First Circuit, a showing of willfulness was "usually" required unless the plaintiff and defendant are direct competitors. *Fishman Transducers v. Paul*, 684 F.3d 187, 191 (1st Cir. 2012).

The backstory began with an agreement between the parties allowing Fossil to use Romag's magnetic snap fasteners in Fossil products such as watches and wallets. Romag then became aware that factories in China making products for Fossil were using counterfeit Romag fasteners. Romag sued Fossil under Section 43(a) of the Trademark Act, 15 U.S.C. §1125(a), alleging trademark infringement and that Fossil falsely represented that its fasteners came from Romag. A jury agreed, found that Fossil had acted "in callous disregard" of Romag's rights but that Fossil had not acted willfully, and awarded Romag \$6.7 million of Fossil profits. The district court denied Romag the profits awarded by the jury, however, because a plaintiff seeking an award of profits must prove that the defendant's violation was willful under Second Circuit law. Fossil had also asserted patent claims; therefore, the appeal was to the U.S. Court of Appeals for Federal Circuit. That Court applied the law of the Second Circuit to the trademark issues and affirmed the district court.

The U.S. Supreme Court disagreed. Central to the case is an interpretation of the applicable statutory provisions. The

damages provision of the Trademark Act states that "subject to the principles of equity," a trademark-infringement plaintiff may recover "(1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action." 15 U.S.C. §1117(a). Important is the distinction that, although Section 1117(a) requires "a willful violation" (a phrase added by Congress in a 1999 amendment) for a plaintiff to receive any of the listed remedies for a violation of Section 1125(c) (trademark dilution), Section 1117(a) does not use "willful" in reference to violations of Section 1125(a) (trademark infringement). Romag argued that the statute should be interpreted to include a bright-line requirement of willfulness for both trademark infringement and dilution, while Fossil argued that the absence of the word "willful" in the relevant statutory provision requires that willfulness be just one factor in the broader inquiry for awarding defendant's profits in infringement cases.

The Court explained that a showing of willfulness is a precondition to a profits award for a claim for trademark dilution, but that "Romag alleged and proved a violation of §1125(a), a provision establishing a cause of action for the false or misleading use of trademarks. And in cases like that, the statutory language has never required a showing of willfulness to win a defendant's profits." Furthermore, the Court noted, the Trademark Act frequently mentions mental states in several of its provisions; therefore, the absence of such a precondition in Section 1125(a) "seems all the more telling." Although still an important consideration in awarding profits under Section 1117(a), willfulness is not an absolute precondition. Finally, the Court acknowledged the many policy arguments made by both parties and amici but pointed out that reconciling such policy goals is the responsibility of policymakers (i.e., Congress).

Key Takeaways:

The decision in *Romag* increases the value of trademarks and of trademark protection. An infringer's profits are often the most viable method for quantifying damages for trademark infringement. In addition, the decision will undoubtedly have a significant impact on trademark infringement litigation, enhancing the monetary remedies available to trademark owners and encouraging them to enforce their rights.



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