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PERSPECTIVE

Case will address split over trademark infringement remedies

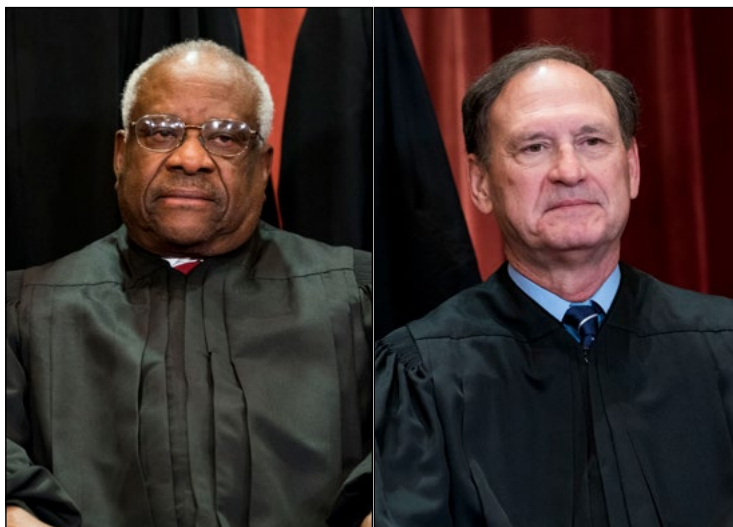
By Ben Wagner
and Katherine Harihar

The U.S. Supreme Court granted certiorari in *Romag Fasteners, Inc. v. Fossil Inc.*, 18-1233, to resolve a circuit split regarding Lanham Act remedies for trademark infringement. The specific issue in *Romag* is “[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), 15 U.S.C. § 1125(a).”

Background

Romag Fasteners sells magnetic snap fasteners for use in handbags and other goods, marking the fasteners with the trademark “ROMAG.” Fossil is a designer of consumer fashion accessories, including handbags and small leather goods. Under a 2002 agreement between Fossil and Romag, Fossil agreed to use Romag’s branded fasteners in Fossil’s handbags. In turn, Fossil required its manufacturers to use Romag’s fasteners. This arrangement worked until 2008, when employees from Romag’s only authorized manufacturer formed their own manufacturing company and a Fossil supplier began purchasing counterfeit fasteners from them.

Romag sued Fossil for patent and trademark infringement, with the jury returning verdicts in Romag’s favor on both. Relevant here, the jury



New York Times News Service

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made an advisory award of \$90,759.36 of Fossil’s profits for trademark infringement under an unjust enrichment theory and \$6,704,046.00 of Fossil’s profits for trademark infringement under a deterrence theory, and determined that one percent of Fossil’s profits were attributable to its infringement of the ROMAG mark. The jury found that Fossil’s trademark infringement was not willful, while still determining as part of its deterrence-based award that Fossil had acted with “callous disregard” for Romag’s trademark rights. The lower court ultimately declined to disgorge

Fossil’s profits for trademark infringement, finding the lack of willfulness decisive.

The appellate process took some time to get here. In a first round of appeals to the Supreme Court, the U.S. Court of Appeals for the Federal Circuit affirmed the lower court, interpreting 2nd Circuit law as still requiring willfulness to disgorge a trademark infringer’s profits (at least in the absence of unjust enrichment). The Supreme Court then addressed issues of patent law, which were subsequently the focus of remand and the second appeal. Upon resolution of all patent and trademark issues,

Romag appealed again to the Supreme Court. Romag’s petition for certiorari was granted this summer.

Current Split

The issue splitting the circuits is whether willfulness is required in order to recover a trademark infringer’s profits under Section 35 of the Lanham Act, 15 U.S.C. Section 1117(a). The question is how to apply the statute’s provision for disgorgement of an infringer’s profits “subject to the principles of equity.”

By the 1990s, the 6th, 7th and 11th Circuits had rejected a willfulness requirement in favor of a more general “equitable considerations” requirement, while the 2nd, 3rd, 8th, 9th and D.C. Circuits required willfulness. Standards of willfulness ranged from non-accidental infringement to infringement deliberately trading off a senior user’s trademark.

A 1999 amendment to the Lanham Act shook up the split still further, by expressly adding a willfulness requirement to federal trademark dilution claims. Courts such as the 3rd and 5th Circuits found this selective addition of willfulness for dilution claims implied that willfulness was not a requirement for profit disgorgement under federal trademark infringement. All circuits have now weighed in on the issue of whether willfulness is required in order to recover a trademark infringer’s

profits, and the issue is fairly evenly split.

The current *Romag* decision involves the Federal Circuit's application of the regional law of the 2nd Circuit, in which the Federal Circuit declined to infer in the 1999 amendment a "negative pregnant" that superseded the long-standing 2nd Circuit standard requiring willfulness for profit disgorgement.

Possible Outcomes and Issues for Analysis

The Supreme Court has no shortage of options, including: (1) confirm a willfulness requirement; (2) confirm such requirement and articulate a broad or narrow standard for satisfying the requirement; (3) adopt a lower culpability requirement; or (4) adopt a standard along the lines of the multi-factored equitable standards of the Third Circuit and others, with willfulness or culpability as a factor to consider.

Prior to joining the Supreme Court, and before the 1999 amendment, both Justices Clarence Thomas and Samuel Alito weighed in on the issue and agreed with the bright-line willfulness requirement, which could influence their positions this time around. Agreeing with their previous positions would align with those circuits that view the 1999 amendment as silent on the issue of profit disgorgement for federal trademark infringement in light of the lack of legislative history discussing the pre-existing circuit split or Congress' intent to change the law for federal trademark infringement.

The benefits to such bright-line rules include predictability

and ease of appellate oversight, both important themes often on the minds of the highest court in the land. And reserving profit disgorgement for defendants deliberately trading off the senior user's trademark has the added benefit of comporting with the traditional roots of trademark infringement in the common law of passing off.

Meanwhile, *Romag*'s certiorari briefing urges the Supreme Court to lean in on its more recent trend of rejecting "hard-and-fast rules" in intellectual property decisions and confirming "inherently flexible" equitable doctrines. Courts applying a multi-factored deterrence test and rejecting a willfulness requirement enjoy such flexibility.

Reverse confusion provides a poignant example of the practical considerations that will be affected by the Supreme Court's resolution of this issue. The willfulness requirement translates to a categorical bar on profit disgorgement for reverse confusion, or so a number of district courts have opined. But all reverse confusion is not equal. To be sure, not all innocent large junior users flooding the market, unaware of a smaller senior user, act culpably. Senior users may have unregistered marks that did not show up on a trademark clearance search. But other large junior users may have neglected to engage in any clearance search, ignored the results in light of the small size of the senior user, or dilatorily modified their infringement after a cease and desist letter — all culpable conduct which a court in equity may wish to deter. Reverse

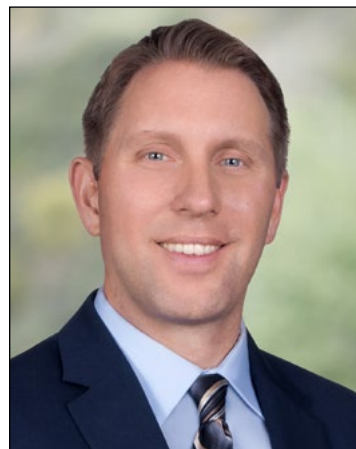
confusion is only one of the many types of more recent substantive theories of infringement liability that expands the law of federal trademark infringement well beyond its "passing off" origins. Disgorging profits short of intentionally trading off a mark matches the breadth of infringement remedies to the breadth of modern infringement liability.

The multi-actor problem in the *Romag* case provides another example. Fossil's handbags used buckles that were outright counterfeits. Yet the jury found that the infringement was not willful, attributing

culpability to Fossil's Chinese manufacturer, but not to Fossil itself. The jury recommended profits to deter Fossil, perhaps recognizing Fossil's culpability in failing to adequately monitor its supply chain. But such culpability would go unchecked in the face of a high willfulness requirement.

While the competing interests and policy considerations make the upcoming result uncertain, one thing is for certain — the Supreme Court's resolution of this profit disgorgement issue will substantially redefine the balance of powers in trademark infringement suits. ■

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