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Supreme Court's new profits awards standard unlikely to affect trademark litigation strategy

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In *Romag Fasteners Inc. v. Fossil Inc.*, No. 18-1233, 2020 WL 1942012 (U.S. Apr. 23, 2020), the U.S. Supreme Court held that, in a trademark infringement suit, a finding of willful infringement is not a prerequisite to an award of the infringer's profits, pursuant to Section 35(a) of the Lanham Act, 15 U.S.C.A. § 1117(a).

Rather, the high court determined that, in accordance with the plain language of the Lanham Act, courts should make their decision on a profits award in accordance with the principles of equity, which will necessarily include the defendant's intent but will likely also include many other factors, such as reputational harm to the plaintiff.

The *Romag* decision theoretically makes it easier for plaintiffs to obtain a monetary award upon proving the defendant's infringement.

But as a practical matter, the most likely monetary exposure for an infringing defendant remains limited to the cost of defense of the lawsuit coupled with the potential expense associated with rebranding and perhaps pulling back product and advertising already in market.

THE LITIGATION

In *Romag*, after a jury trial, the plaintiff obtained a verdict of trademark infringement against defendant Fossil as the result of Fossil's incorporation of counterfeit Romag fasteners in its handbags.

The jury found that Fossil had acted "in callous disregard" of Romag's rights. However, the jury declined to find the infringement "willful" as the district court defined that term.

Absent a jury finding of willful infringement, the district court denied Romag's request for an award of Fossil's profits, ruling that an award of defendant's profits is available under the Lanham Act only upon a finding of "willful infringement."

The U.S. Court of Appeals for the Federal Circuit, applying 2nd Circuit law, affirmed, in accordance with the 2nd Circuit's established precedent requiring a willfulness finding as a precondition for a profits award.

Courts in the 8th, 9th, 10th, and District of Columbia circuits similarly require a willfulness finding before awarding defendants' profits in trademark infringement suits.

By contrast, courts in the 3rd, 4th, 5th, 6th, 7th, and 11th circuits have articulated no such requirement. Rather, these courts consider willfulness along with other equitable factors in determining whether an award of an infringer's profits is justified.

The Supreme Court granted certiorari in *Romag* to resolve this circuit split.

THE SUPREME COURT'S DECISION

In reaching its decision, the high court predictably examined the plain language of the Lanham Act and immediately found no willfulness requirement in the provision governing a profits award in an infringement action.

> Profits awards will likely continue to be limited to fairly egregious cases.

Rather, Section 35(a) states that "the plaintiff shall be entitled ... subject to the principles of equity, to recover defendant's profits." The statute by its plain meaning does not precondition a profits award against a defendant on any particular state of mind.

Writing for the court, Justice Neil Gorsuch noted that the court usually does not "read into statutes words that aren't there."

The court went on to note that, in other sections of the Lanham Act, Congress has carefully specified the requisite mental states for other damages awards.

Under Section 35(b) of the Lanham Act, 15 U.S.C.A. § 1117(b), for example, a court may treble an award of actual damages for use of a counterfeit mark where a defendant acts intentionally and with knowledge.

Likewise, under Section 35(c) of the act, 15 U.S.C.A. § 1117(c), a court may treble a statutory damages award for counterfeiting where the defendant's use of the counterfeit mark was willful.

Because Congress included intent requirements for some types of monetary awards in the Lanham Act, the court reasoned that the omission of a requirement for willful infringement from Section 35(a) was clearly deliberate.

And while it's possible that policy considerations may counsel in favor of a willfulness requirement for a profits award, this policy aspect was clearly the purview of Congress and not the court.

In closing, the court noted that, in trademark cases as in other cases, district courts may certainly look to a defendant's mental state when exercising their discretion in choosing an appropriate equitable remedy, such as a profits award.

But by no means is a particular mental state of the defendant required for a profits award under the Lanham Act. The defendant's intent may simply be a consideration.

PRACTICAL EFFECTS

In the aftermath of *Romag*, should the trademark community expect a flood of judicial decisions awarding an infringing defendant's profits to a plaintiff? Probably not, as the defendant's mental state will still certainly play a role in the courts' equitable deliberations. Profits awards will likely continue to be limited to fairly egregious cases.

Will the removal of the willfulness requirement significantly change the calculus for an accused infringer deciding whether to litigate or settle at the outset of a case? As a practical matter, it shouldn't — at least in cases that don't involve clear counterfeiting. This is because only a tiny percentage of trademark cases go to trial.

In fact, almost all settle even before discovery is completed. For example, in 2019, 4,379 trademark cases were filed in federal courts in the United States, according to a study conducted by Lex Machina Inc.

In that same year, only 62 trademark cases were resolved after or during trial, with the plaintiff prevailing in 39 of the 62 cases, according to the study.

These data suggest that fewer than 1% of trademark cases filed each year results in a decision in the plaintiff's favor, which means that the percentage of filed cases resulting in a profits award is likely significantly below 1%.

In almost every typical trademark case, the "real world" monetary exposure for defendants is limited to the cost of defending the action and the cost associated with a potential rebrand. And to be sure, these costs can be formidable.

But it is the specter of these real costs and not just the theoretical possibility of a profits award that should continue to drive defendants' litigation and settlement strategies, along with other practical considerations and competitive marketplace realities.

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