IP Alert | Circuit Split Resolved: Supreme Court Rules Willful Infringement is Not Required to Award Profits in Trademark Cases

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In a unanimous decision, the U.S. Supreme Court recently ruled that a party asserting trademark infringement does not need to show willful infringement in order to obtain an award of profits. The decision resolves a long-standing circuit split and makes it easier to obtain an award of lost profits in trademark infringement lawsuits. However, the April 23, 2020 ruling in Romag Fasteners, Inc. v. Fossil, Inc. also raises new questions for trademark infringement litigants.

The Case

Romag sells magnetic fasteners for handbags, wallets, and other leather goods. Years ago, Fossil and Romag signed an agreement for Fossil to use Romag fasteners in its products. But Romag later learned that factories Fossil hired in China to make its products were using counterfeit Romag fasteners. Fossil subsequently sued Romag and others for trademark infringement.

The jury found for Romag on trademark and patent infringement. However, the jury also found that the infringement was not willful. Although Fossil had infringed in "callous disregard" of Romag's trademark rights, the mental-state culpability was on Fossil's Chinese suppliers, not Fossil itself.[i] Nonetheless, the jury awarded Romag $6.7 million of Fossil's profits to deter infringement after finding that 1% of Fossil's profits were attributable to the trademark infringement.[ii] However, the district court held as a matter of law that Romag could not recover Fossil's profits for trademark infringement because the jury found no willfulness.[iii]

On appeal, the Federal Circuit affirmed, and refused to allow the award of Fossil's profits because the jury did not find that Fossil's actions were willful, merely that Fossil acted with "callous disregard" for Romag's trademark rights.[iv]

The Supreme Court's Resolution of the Circuit Split

The Supreme Court disagreed, and unanimously vacated the Federal Circuit's decision. Justice Neil Gorsuch wrote the opinion for the Court. Justice Samuel Alito (joined by Justices Stephen Breyer and Elena Kagan) and Justice Sonia Sotomayor wrote concurring opinions. A copy of the Court's opinion can be found here.

In the Court's unanimous opinion, Justice Gorsuch cautioned against reading words into

the Lanham Act, particularly where the word "willfulness" appears elsewhere in the Act. He stated that the authors of the Lanham Act have not been shy in discussing mental states nor in explicitly authorizing remedies for trademark infringement. For example, 15 U.S.C. § 1117(a) expressly states that willfulness is required to recover defendant's profits for trademark dilution violations under §1125(c). The word "willfulness", however, is not listed as a requirement for violations arising under §1125(a). Justice Gorsuch also looked to other sections of the Lanham Act, which "speaks often and expressly about mental states" and "specifies certain mens rea standards" through express language. Thus, Justice Gorsuch surmised that if Congress wanted to make willfulness a requirement for an award of an infringer's profits, Congress would have explicitly said so.

Next, Justice Gorsuch addressed Fossil's argument that the statute's language awarding profits "subject to the principles of equity" required a showing of willfulness under long-standing practices by courts of equity. Although the Court noted that this was a "curious suggestion," the Court rejected the argument for several reasons. First, Fossil's argument would require the Court to assume that Congress took steps to expressly address mental states and mens rea throughout the Lanham Act, while obliquely incorporating a willfulness requirement here without such express terms. Second, the "principles of equity" standard refers to "transsubstantive guidance on broad and fundamental questions about matters like parties, modes of proof, defenses, and remedies," not "a narrow rule about a profits remedy within trademark law." Finally, after the Court looked to pre-Lanham Act authorities, the only conclusion that the Court could draw "with certainty" was that mens rea "figured as an important consideration in awarding profits in pre-Lanham Act case," which aligns with the ordinary transsubstantive guidance the Court just discussed.

In Justice Alito's short concurring opinion (joined by Justices Breyer and Kagan), he specifically address the question presented. Justice Alito agreed that while an infringer's willfulness is a "highly important consideration" in determining whether profits should be awarded in a trademark infringement action, willfulness is not "an absolute precondition" for such an award.

In her opinion concurring in only the judgment, Justice Sotomayor agreed that willfulness should not be a requirement for awarding profits in a trademark infringement action. However, she emphasized that in practice, courts of equity took a wide variety of culpable mental states into consideration and rarely awarded profits for innocent infringement, despite that majority's suggestion to the contrary.

Impact for Trademark Litigants

The unanimous ruling resolves the long-standing circuit split: willfulness is no longer an absolute precondition for profits disgorgement under § 1117(a). Accordingly, it will now be easier for trademark infringement plaintiffs to obtain an award of lost profits.

But the decision raises questions moving forward. For example, Justice Alito's three-justice concurrence relies solely on the fact that "relevant authorities, particularly pre-Lanham Act case law," control. By contrast, the majority admits that "[f]rom the record the parties have put before us, it's far from clear whether trademark law historically required a showing of willfulness before allowing a profits remedy." It is not entirely clear whether the majority simply confined its historical assessment to the "record," while Justice Alito did not, or if the justices truly have different interpretations of pre-Lanham Act case law.

Moreover, while a central theme of the majority opinion is that an "oblique" reference to "principles of equity" should not swallow the lack of an express willfulness requirement for profits disgorgement, Justice Alito's concurrence relies solely on the "relevant authorities, particularly pre-Lanham Act case law." Justice Alito seems to want little or nothing to do with the majority's statutory construction argument that significantly limits the reach of "principles of equity," and Justice Sotomayor's concurrence emphasizes principles of equity. We are left to wonder, then, whether these justices might apply express or implied principles of equity to other laws and statutes (e.g., disgorgement of profits for design patent infringement under 35 U.S.C. § 289) in a way that is inconsistent with the "express-language-of-the-statute" approach of the majority.

Further, while proof of willfulness is not required to disgorge profits, it is unclear what type of mental state may be enough to award profits and how much of an impact a defendant's mental state will have on the analysis.

The majority states that "[m]ens rea figured as an important consideration in awarding profits in pre-Lanham Act cases" and later that "a trademark defendant's mental state is a highly important consideration" for § 1117(a). Justice Alito's concurrence states the proposition more broadly, namely that willfulness (not just mens rea) "is a highly important consideration in awarding profits under § 1117(a)."

However, Justice Sotomayor's concurrence goes further to suggest that the inclusion of "principles of equity" in the statute may mean that an alleged infringer's establishment of an innocent or good-faith mens rea must necessarily bar profits disgorgement. This is flipping the question presented on its head.

Finally, it is not clear whether this is altering the current burdens of proof associated with willfulness. To make matters more complicated, the precise standard for the burden of proof for willfulness in trademark infringement cases varies between circuits (i.e., in some circuits it is preponderance of evidence, while in others it is clear and convincing evidence). These questions will need to be resolved in future cases.

For more information about the content in this alert or if you have questions about the business and legal implications of the Court's decision, please contact a Banner Witcoff attorney.

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

[ii] Romag Fasteners, Inc. v. Fossil, Inc., 29 F. Sup. 3d 85, 107 (D. Conn. 2014).

[iii] Id. at 111.

[iv] Romag Fasteners, Inc. v. Fossil, Inc., 817 F.3d 782 (Fed. Cir. 2016).

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