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Practical Implications of Supreme Court's *Romag v. Fossil* Decision: Avoiding Forfeiture of Hard-Earned Profits in Trademark Infringement Lawsuits

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In *Romag Fasteners, Inc. v. Fossil Group, Inc., et al.*,ⁱ the U.S. Supreme Court recently clarified a longstanding split among the Circuit Courts, in holding that the Lanham Act does not require a finding of intentional or willful trademark infringement for an award of profits to plaintiff.

Background

Romag Fasteners Inc. ("Romag") sells magnetic clips for purses and wallets under its registered trademark, ROMAG. Fossil Inc. ("Fossil") is a fashion accessory company that designs, markets, and sells, among other things, small leather goods.

Fossil and Romag entered into an agreement that permitted Fossil to use Romag's magnetic fasteners on its handbags and other products. After Romag realized that the Chinese factories Fossil hired to make its products were using counterfeit Romag fasteners, Romag sued Fossil for trademark infringementⁱⁱ alleging that Fossil failed to safeguard against this practice.

Fossil was found liable for trademark infringement and although the jury found that Fossil acted in "callous disregard" of Romag's trademark rights, it did not find that Fossil acted willfully. As a result, the district court determined that Romag was not entitled to an award of Fossil's profits.ⁱⁱⁱ After a series of motions and appellate review, Romag then filed its petition for certiorari to the Supreme Court.

History Among the Circuit Courts

U.S. Circuit Courts have long been split on the issue of whether a showing of willful trademark infringement is a prerequisite for a successful plaintiff to recover an infringer's ill-gotten profits as a measure of damages under §1117(a) of the Lanham Act. Romag argued that the forfeiture of an infringer's profits did not require a showing of willfulness under the Lanham Act, a position adopted by the Third, Fourth, Fifth, Sixth, Seventh, and Eleventh Circuits. Conversely, the First, Second, Eighth, Ninth, Tenth, and Federal Circuits required a finding of intent before awarding profits.

Arguments to the Court

Romag posed three main arguments to the court: (1) willfulness is not required based upon the plain statutory language of §1117(a) and the structure of the Lanham Act; (2) an application of "principles of equity" as used in §1117(a) does not justify a willfulness requirement since, under the Lanham Act, district courts are entitled to exercise broad equitable discretion to tailor a just remedy; and (3) requiring willfulness conflicts with the dual purpose of the Lanham Act, i.e. protecting consumers from deception and preserving a mark holder's investment in goodwill.

Fossil argued that: (1) the language subjecting an award of profits to "the principles of equity" required a finding of willfulness as a prerequisite to an award of profits since equity courts historically required such a showing prior to imposing a forfeiture of profits;^{iv} and

(2) strict restraints on profits awards are necessary to deter frivolous trademark claims.

Supreme Court Decision

In a unanimous decision^v, the Supreme Court held a trademark owner can recover profits made by an infringer without the need to prove that the trademark infringer acted willfully.^{vi}

The court focused on the Lanham Act's "language, structure, and history" and cautioned against "reading words into a statute" particularly in light of the legislature's deliberate placement of mental states throughout the statute. Specifically, the Court explained that §1117(a) requires a showing of willfulness as a condition to awarding profits for trademark dilution, but never required such a showing for a similar award for trademark infringement.

Additionally, the Court concluded that, because the Lanham Act unambiguously "exhibits considerable care with *mens rea*," the absence of any willfulness language in the provision at issue compels a finding that intentional infringement is not required for the award of profits.^{vii}

The court rejected Fossil's argument reasoning that "principles of equity" refers to "fundamental rules" that are broadly applicable rather than intended to narrowly cover a particular remedy. The Court also challenged the premise of Fossil's argument and questioned whether in fact equity courts categorically preconditioned an award of profits on willfulness.

Takeaways and Practical Considerations

Successful trademark infringement claimants may recover profits, sometimes the most lucrative remedy available, without having to prove that the infringement was intentional.

As a result,^{viii} there may be a spike in trademark litigation, particularly in jurisdictions where a showing of willfulness was previously required. Even plaintiffs suffering from minimal damages, who previously had little incentive to proceed with litigation, are now able to use the threat of disgorgement of profits in order to achieve larger settlements.

It is now more critical than ever for clients to conduct thorough due diligence at the outset and carry out extensive trademark clearance searches prior to adopting new marks or brands, in order to avoid liability resulting from unintentional infringement. Moreover, since the infringer's state of mind remains a "highly important consideration," clients should obtain a clearance opinion from counsel prior to using a mark to help establish good faith in the event of an innocent violation. Similarly, after clearing a potential mark, it is important for clients to register their marks with the U.S. Patent and Trademark Office to provide the public with constructive notice and eliminate the defense of "good-faith" adoption and use.

Finally, the COVID-19 pandemic has forced many to shelter-in-place and has stressed supply chains. As a result, society has increased its reliance on unfamiliar online suppliers which has provided a prime opportunity for infringing activity like counterfeiting.^{ix} In that way, this decision is well-timed and should prove beneficial for clients seeking to protect their marks and customers.

Conclusion

As a matter of best practice, would-be mark holders should be proactive about performing due diligence at the outset of brand development and marketing. Rather than waiting for a cease-and-desist letter, clients should do everything they can to avoid even inadvertent infringement and establish a record of good faith. The alternative could be costly litigation resulting in the disgorgement of profits. Simply put, undertaking a comprehensive investigation prior to adopting a new brand is the best way to avoid a dispute and a potential forfeiture of profits. ♦

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ⁱ *Romag Fasteners, Inc. v. Fossil Group, Inc., FKA Fossil, Inc., et al.*, 590 U.S. ____ (2020).

ⁱⁱ Romag also sued Fossil for patent infringement. The jury found Fossil liable for patent infringement and awarded Romag a royalty for same.

ⁱⁱⁱ See *Romag Fasteners, Inc. v. Fossil, Inc.*, 29 F. Supp. 3d 85 (D. Conn. 2014), *aff'd*, 817 F.3d 782 (Fed. Cir. 2016), *cert. granted, judgment vacated*, 137 S. Ct. 1373 (2017), and *vacated in part*, 686 F. App'x 889 (Fed. Cir. 2017).

^{iv} The Court notes that equity courts have never required proof of willfulness as a precondition for an award of profits in the context of patent infringement.

^v Justice Gorsuch authored the majority opinion. Justice Alito, joined by Justice Breyer and Justice Kagan, issued a short concurrence. Justice Sotomayor concurred independently.

^{vi} The Court's decision does not modify the willfulness element required for a plaintiff to obtain an award of profits in a trademark dilution suit initiated pursuant to the §1125(c) of the Lanham Act.

^{vii} See, e.g., §1117(b) requires the award of treble damages and attorney's fees associated with a defendant's intentional acts "with specified knowledge;" §1117(c) increases the cap on statutory damages for certain "willful violations;" §1118 permits courts to destroy infringing items if a plaintiff proves a "willful violation" of §1125(c); and §1114 makes certain "innocent violations" subject only to injunctions.

^{viii} Together with a recent Second Circuit decision that held §35 of the Lanham Act permits a prevailing trademark claimant to recoup reasonable attorney's fees incurred in "exceptional cases." *Sleep's LLC v. Select Comfort Wholesale Corp.*, 909 F.3d 519, 529-31 (2d Cir. 2018) (adopting the test set forth by the Supreme Court in *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 572 U.S. 545 (2014) for "exceptional cases" under the attorney's fees provision of the Patent Act).

^{ix} See Bridget Small, *Scammers offer facemasks but don't deliver*, FEDERAL TRADE COMMISSION CONSUMER INFORMATION BLOG, April 30, 2020, <https://www.consumer.ftc.gov/blog/2020/04/scammers-offer-facemasks-dont-deliver>; Laura Urquizu, *Counterfeiting is a Billion Dollar Problem. Covid-19 has made it far worse*, FAST COMPANY, May 4, 2020, <https://www.fastcompany.com/90500123/counterfeiting-is-a-billion-dollar-problem-covid-19-has-made-it-far-worse>.