

Supreme Court Overturns Second Circuit Precedent, Holds Willfulness Unnecessary for Award of Profits in Trademark Infringement Case

Bruce A. McDonald

On April 23, 2020, the Supreme Court held that a plaintiff need not prove that a defendant acted “willfully” in order to recover profits as an equitable remedy for trademark infringement under Section 35(a) of the Federal Trademark Act of 1946, as amended (the “Lanham Act”), 15 U.S.C. § 1117(a). *Romag Fasteners, Inc. v. Fossil, Inc.*, No. 18-1233, --- S.Ct. ----, 2020 WL 1942012 (April 23, 2020).

The plaintiff, a designer of fasteners used in handbags, brought an action against a handbag manufacturer alleging infringement of its “ROMAG” trademark. A jury found the manufacturer liable for patent and trademark infringement. After a two-day bench trial to address equitable defenses and adjustment of the amount of profits awarded by the jury, the U.S. District Court for the District of Connecticut concluded that the designer could not recover the manufacturer's profits for trademark infringement absent a finding of “willful” infringement by the manufacturer, even though the manufacturer had acted “in callous disregard” of the plaintiff’s rights. The U.S. Court of Appeals for the Federal Circuit affirmed.

The Supreme Court disagreed, holding that although a finding of willfulness is a condition to profits in an action for trademark dilution under Lanham Act Section 1125(c), 15 U.S.C. § 1125(c), there is no such requirement for infringement under Section 35(a) of the Lanham Act, 15 U.S.C. § 1125(a). “Without question, a defendant’s state of mind may have a bearing on what relief a plaintiff should receive,” the Court stated. “An innocent trademark violator often stands in very different shoes than an intentional one.” The Court noted, however, that some circuits had gone even further and held that a plaintiff can recover a defendant’s profits only after showing the defendant *willfully* infringed its trademark. The Court held that this categorical rule could not be reconciled with the statute’s plain language.

In addition to distinguishing Section 43(c) of the Lanham Act, 15 U.S.C. § 1125(c), the Supreme Court engaged in a “wider look” at the Lanham Act and found “even more reason for pause.” The Court noted that the Lanham Act “speaks often and expressly about mental states.” For example, Section 35(b) of the Lanham Act, 15 U.S.C. § 1117(b), awards treble profits or damages and awards attorney’s fees when a defendant engages in certain acts *intentionally* and with specified *knowledge*, and Section 1117(c) of the Act, 15 U.S.C. § 1117(c), increases the cap on statutory damages from \$200,000 to \$2,000,000 for certain *willful* violations.

Similarly, Section 36 of the Lanham Act, 15 U.S.C. § 1118, permits courts to order infringing goods to be destroyed if a plaintiff proves any violation of § 35(a), 15 U.S.C. § 1125(a), or a *willful* violation of Section 35(c), 15 U.S.C. § 1125(c). Additionally, the Court stated, Section 32 of the Act, 15 U.S.C. § 1114, makes certain *innocent* infringers subject only to injunctions; and elsewhere the Lanham Act specifies

mens rea standards needed to establish liability before even getting to the question of remedies. See, e.g., Lanham Act Sections 43(d)(1)(A)(i), (B)(i) (prohibiting conduct only if undertaken with “bad faith intent” and listing factors relevant to ascertaining bad faith intent).

Historically, many U.S. courts, particularly in the Second Circuit, required a trademark infringement plaintiff to prove that a defendant willfully infringed the plaintiff's mark or was willfully deceitful in order to recover the defendant's profits on its trademark infringement claim.¹ As stated in the leading treatise on U.S. trademark law:

To obtain an accounting of profits, the courts almost always require that defendant's infringement imply some connotation of "intent," or a knowing act denoting an intent, to infringe or reap the harvest of another's mark and advertising. . . [indicating that] the infringement is 'willfully calculated to exploit the advantage of an established mark.'"²

Examples of willful infringement have included the failure to follow the advice of counsel;³ the continued use of an infringing mark after learning of the trademark owner's claim;⁴ or, in the context of the Internet, the concealment of one's identity and location.⁵ U.S. courts have defined the defendant's state of mind necessary to support the award of an accounting as "ranging from deliberate and knowing to willful and fraudulent."⁶ An accounting of profits was held to be "properly denied where there is no deliberate intent

¹ *Road Dawgs Motorcycle Club of the United States, Inc. v. "Cuse" Road Dawgs, Inc.*, 679 F.Supp.2d 259, 293 (S.D.N.Y. 2009)("[I]n order to recover the defendant's profits, the plaintiff must demonstrate the defendant's bad faith or willful deception"); *Nike, Inc. v. Top Brand Co.*, 00 150 Civ. 8179(KMW), 2005 WL 1654859 at *10 (S.D.N.Y. July 13, 2005) ("[t]he standard for willfulness is whether the defendant had knowledge that [his] conduct represented infringement or perhaps recklessly disregarded the possibility."); *Tanning Research Lab., Inc. v. Worldwide Imp. & Exp. Corp.*, 803 F. Supp. 606, 610 (E.D.N.Y.1992), quoting *Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 590 (7th Cir.1989) ("[w]illful blindness is knowledge itself"); *Int'l Star Class Yacht Racing Ass'n v. Tommy Hilfiger*, 80 F.3d 749, 753-54 (2d Cir.1996); *Phillip Morris USA Inc. v. Marlboro Express*, 03-CV-1161 (CPS), 2005 WL 2076921 at *6 (E.D.N.Y. Aug. 26, 2005); *Malletier v. Whenu.Com, Inc.*, 05 Civ. 1325(LAK), 2007 WL 257717 at *4 (S.D.N.Y. Jan. 26, 2007); *Tiffany (NJ) v. Luban*, 282 F.Supp.2d 123, 124 (S.D.N.Y.2003); *Fallaci v. The New Gazette Literary Corp.*, 568 F.Supp. 1172, 1173 (S.D.N.Y.1983).

² 5 McCarthy on Trademarks and unfair Competition § 30.62 (4th ed.)(quoting *Bandag, Inc. v. Al Bolsher's Tire Stores, inc.*, 750 F.2d 903, 921 (Fed. Cir. 1984)).

³ *Int'l Star Class Yacht Racing Ass'n v. Tommy Hilfiger, U.S.A., Inc.*, 80 F.3d 749, 753-54 (2d Cir. 1369) (2d Cir. 1996).

⁴ *Id.*

⁵ See Intellectual Property Protection and Courts Amendment Act of 2004, Pub. L. No.108-482, 118 Stat. 3912, amending Lanham Act Section 35(e), 15 U.S.C. § 1117(e) (Dec. 23, 2004), to create a presumption of willful infringement where the violator provided false contact information to a domain name registrar in connection with the violation.

⁶ 5 McCarthy on Trademarks and unfair Competition § 30.62 (4th ed.).

to cause confusion⁷ or 'willful' infringement in the sense of a 'deliberate intent to deceive.'⁸ Another court stated that "the 'willfulness' needed for an accounting of profits is satisfied by evidence that the junior user knowingly sought to benefit from the senior user's good will or that its acts were 'surrounded by an aura of indifference to plaintiff's rights.'⁹ In general it was acknowledged that "[k]nowing or willful infringement consists of more than the accidental encroachment on another's rights. It involves an intent to infringe or a deliberate disregard of a mark holder's rights."¹⁰ "To put it bluntly," in the words of the leading commentator, "courts are not willing to grant an accounting of profits unless the judge 'gets mad' at the defendant."¹¹

In cases where there is no direct competition between the parties, U.S. courts have traditionally denied to award an accounting of profits *altogether*.¹² Although the Second Circuit recognized that the absence of competition does not preclude an accounting where the defendant's willful infringement demonstrates a need to deter future infringement,¹³ courts have been reluctant to allow an award of profits solely for deterrent effect.¹⁴

The requirement of willfulness to support an accounting of profits was examined by the U.S. courts in the wake of a 1999 amendment to the Lanham Act that specifically introduced the word "willful" into the criteria for determining whether an accounting of profits is available for federal trademark dilution. As pointed out by the Supreme Court in *Romag*, it is only with respect to claims for federal trademark dilution that the element

⁷ *Id.* (citing *Nalpack, Ltd. v. Corning Glass Works*, 784 F.2d 752 (6th Cir. 1986)(holding that knowing use in the belief that there is no confusion is not bad faith)).

⁸ *Id.* (citing *Lindy Pen Co. v. Bic Pen Corp.*, 982 F.2d 1400 (9th Cir. 1993)(refusal to award profits held appropriate where "[plaintiff] Lindy's trademark was weak and [defendant] Bic's infringement was unintentional")).

⁹ *Id.* (citing *Ambrit, Inc. v. Kraft, Inc.*, 6 USPQ2d 1235 (M.D.Fla. 1988)(finding willfulness)).

¹⁰ *Id.* (emphasis added)(quoting *SecuraComm Consulting, Inc. v. Securacom, Inc.*, 166 F.3d 182, 187 (3d Cir. 1999)(reversing award of profits and attorney fees for failure of proof that infringement was willful; while the old management of defendant's company knew of plaintiff's senior use, the court refused to impute this knowledge to the new management of defendant)).

¹¹ *Id.*

¹² 5 McCarthy on Trademarks and Unfair Competition § 30:64 (4th ed.).

¹³ *W. E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656 (2d Cir. 1970).

¹⁴ 5 McCarthy on Trademarks and Unfair Competition § 30:64 (4th ed.)(citing *ALPO Petfoods v. Ralston Purina Co.*, 913 F.2d 958 (D.C. Cir. 1990), costs/fees proceeding, on remand, 778 F. Supp. 555 (D.D.C. 1991), *amended*, 1991 U.S. Dist. LEXIS 17326 (D.D.C. Dec. 3, 1991), *aff'd in part and rev'd in part, remanded*, 997 F.2d 949 (D.C. Cir. 1993)(holding that the theory of deterring unfair business conduct by itself cannot justify an award of the defendant's profits).

of willfulness is mentioned in the Lanham Act. Lanham Act.¹⁵ In other words, it is statutorily established that in a case of federal trademark *dilution*, a showing of willfulness is a prerequisite to recovery of lost profits. The issue was set to rest in *Romag* on the grounds that there is no similar language referring to willfulness with reference to a violation of Lanham Act Sections 32(1)(infringement), 43(a) (unfair competition) or 43(d)(cybersquatting), 15 U.S.C. §§ 1114(1), 1125(a) or 1125(d).

In *Romag*, the Supreme Court overruled the cases cited above, and held that the express use of the term “willful” with respect to dilution, but not with respect to infringement, unfair competition or cybersquatting, mandates a “plain language” interpretation that requires no showing of willfulness prior to granting defendant's profits for trademark infringement, unfair competition or cybersquatting. The holding in *Romag* overturns the Second Circuit holdings that the “plain language interpretation” was in conflict with precedent decided prior to the 1999 amendment.¹⁶

Prior to 1999, it was established in the Second Circuit that a finding of willfulness was required to recover lost profits for trademark infringement or unfair competition. The seminal case was *George Basch Co., Inc. v. Blue Coral Inc.*, 968 F.2d 1532 (2d Cir.1992), holding that “a finding of defendant's willful deceptiveness is a prerequisite for awarding profits.” *Basch*, 968 F.2d at 1537.

Prior to the 2008 holding in *Pedinol Pharmacal, Inc. v. Rising Pharms., Inc.*, 570 F.Supp.2d 498, 506 (E.D.N.Y.2008), the continuing viability of the willfulness requirement set forth in *Basch* was an “open question.”¹⁷ Courts in the Second Circuit had reached different conclusions as to whether the *Basch* requirement of willfulness survived the 1999 amendment.¹⁸ In *Pedinol Pharmacal*, the U.S. District Court for the Southern District of New York resolved that issue, stating, “This court finds more

¹⁵ Section 35(a), 15 U.S.C. § 1117(a), as amended in 1999, states that “a *willful* violation” of the anti-dilution provision, Lanham Act Section 43(c), 15 U.S.C. § 1125(c), entitles the prevailing party to a monetary recovery.

¹⁶ *Pedinol Pharmacal, Inc. v. Rising Pharmaceuticals, Inc.*, *supra*.

¹⁷ 570 F. Supp. 2d at 502 (citing *Imig, Inc. v. Electrolux Home Care Prods., Ltd.*, 2008 WL 905898 *19-20 (E.D.N.Y.2008) (noting requirement of finding willfulness prior to award of defendant's profits)); *accord, Merchant Media, LLC v. H.S.M. Internat'l.*, 2006 WL 3479022 *11 (S.D.N.Y.2006); *Pfizer, Inc. v. Y2K Shipping & Trading, Inc.*, 2004 WL 896952 *9 (S.D.N.Y.2004).

¹⁸ *Compare Malletier v. Dooney & Bourke, Inc.*, 500 F.Supp.2d 276, 280-81 (S.D.N.Y.2007) (willfulness remains a requirement); *and Life Services Supplements, Inc. v. Natural Organics, Inc.*, 2007 WL 4437168 *5-6 (S.D.N.Y.2007) (same) *with Cartier v. Aaron Faber, Inc.*, 512 F.Supp.2d 165, 173 (S.D.N.Y.2007) (willfulness no longer required after 1999 amendment) *and Nike, Inc. v. Top Brand Co.*, 2005 WL 1654859 *35-36 (S.D.N.Y.2005) (same); *see also Koon Chun Hing Kee Soy & Sauce Factory, Ltd. v. Star Mark Management, Inc.*, 2007 WL 74304 *12 n. 17 (E.D.N.Y.2007) (noting, but not deciding, question of viability of *Basch*).

convincing those cases holding that willfulness remains a requirement for the recovery of a defendant's profits."¹⁹

In summary, the Supreme Court in *Romag* has overturned a long line of Second Circuit precedents and established that willfulness is not a condition to an award of profits under Section 35(a) of the Lanham Act, 17 U.S.C. § 1117(a).

¹⁹ 570 F. Supp. 2d at 502. The court explained:

First, and most importantly, when [the Lanham Act] was amended to provide for recovery of a defendant's profits for a willful violation [of the dilution provision], no changes were made regarding the [other] recovery provisions. * * * The 1999 amendment addressed, and added only the recovery available where a plaintiff proves a violation of [the dilution provision]. As to the statute's [other] provisions for recovery, no change was made. There is no reason to believe that Congress intended to change existing law with respect to [the other provision].

Id. (citing *Malletier*, 500 F.Supp.2d at 281; *Life Services Supplements, Inc.*, 2007 WL 4437168 *4; and *MasterCard Internat'l. v. First Nat'l. Bank of Omaha, Inc.*, 2004 WL 326708 *11 (S.D.N.Y.2004)).