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Navigating TM Profits Remedy After High Court Decision

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(May 27, 2020, 6:54 PM EDT) - In trademark cases, it is common for the regional courts of appeals to put their own stamp on the rules and tests for trademark litigants.

Although the U.S. Supreme Court recently stepped in to resolve one such split in Romag Fasteners Inc. v. Fossil Inc,[1] the court declined to articulate a specific test to govern when a profit disgorgement award is proper.

As a result, trademark litigants will need to look to the case law of the lower courts to determine what factors will be most important in establishing — or contesting — a request for disgorgement of profits.

Some circuits have already established multifactor tests that are largely consistent with Romag. Others, however, will need to adopt one of those tests, develop their own, or pick and choose from the factors used in other circuits.

The Circuit Standards Before Romag

Under Section 35(a) of the Lanham Act, trademark holders who establish a false or misleading use of a trademark are:

> entitled, ... subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action.

Because actual damages are often difficult to measure and prove, the profits remedy plays an outsized role in trademark litigation.[2]

Prior to Romag, the circuit courts adopted a variety of frameworks to determine whether a profits award is appropriate. Most circuits agree that the award serves three objectives: to compensate mark holders for losses, prevent unjust enrichment, and deter future infringement.[3] And most agree that district courts retain significant discretion to fashion a profits remedy based on the circumstances of each case.[4] But beyond those core precepts, the doctrines diverge.

Several circuits adopted highly discretionary balancing tests. In 2002, the U.S. Court of Appeals for the Fifth Circuit held that courts should consider at least six factors:

> (1) whether the defendant had the intent to confuse or deceive, (2) whether sales have been diverted, (3) the adequacy of other remedies, (4) any unreasonable delay by the plaintiff in asserting his rights, (5) the public interest in making the misconduct unprofitable, and (6) whether it is a case of palming off.[5]

The U.S. Courts of Appeals for the Third, Fourth and Sixth Circuits later followed suit, adopting the same open-ended balancing test.[6] And the U.S. Court of Appeals for the Seventh Circuit adopted an even less structured standard, permitting a profits award at the discretion of the district court "under different rationales[,] including unjust enrichment, deterrence, and compensation" and "subject only to principles of equity."[7]

Prior to Romag, district courts in the Ninth, Tenth and D.C. Circuits could award profits only if they found willfulness, but they were still empowered to broadly balance the equities after making that finding. In contrast, the U.S. Courts of Appeals for the Second, Eighth, and Eleventh Circuits structured their doctrines around the rationales for a profits remedy. Prior to Romag, the U.S. Court of Appeals for the Second Circuit required the mark holder to show willfulness and actual "consumer confusion resulting from the infringement" if the remedy was designed to serve as a proxy for damages or to avoid unjust enrichment.[8]

On the other hand, if the remedy was designed to deter, a finding of willfulness, without any additional finding of consumer confusion, could justify an award.[9] But "whatever the rationale adopted," district courts were "still [required to] balance equitable factors," including:

> (1) the degree of certainty that the defendant benefited from the unlawful conduct; (2) the availability and adequacy of other remedies; (3) the role of a particular defendant in effectuating the infringement; (4) any delay by plaintiff; and (5) plaintiff's clean (or unclean) hands.[10]

The U.S. Court of Appeals for the Eighth Circuit also requires separate findings based on the relevant rationale, although it does not require a finding of actual consumer confusion to support an award of profits under the unjust-enrichment rationale.[11]

And in the U.S. Court of Appeals for the Eleventh Circuit, a profits remedy is warranted "where (1) the defendant's conduct was willful and deliberate"; where "(2) the defendant was unjustly enriched,"[12] meaning the infringers "enriched themselves by tapping the reputation and good will of the infringed";[13] or where "(3) [the remedy] is necessary to deter future conduct."[14]

Finally, the U.S. Court of Appeals for the First Circuit fashioned a unique standard that turns on whether the parties are direct competitors. If a mark holder can show some direct competition — or a "substantial degree of equivalence and substitutability" between the two relevant products — willfulness is not required.[15]

But where the parties were not direct competitors and the profits remedy serves to deter or to prevent unjust enrichment, "willfulness is required."[16] The First Circuit also preserves a role for less concrete equitable considerations related at least to the deterrence and unjust enrichment rationales.[17]

In addition, the circuit courts differed with respect to their formulations of what constitutes willfulness.[18] Several circuits instructed district courts to consider whether the infringer had the "intent to confuse or deceive."[19] Others similarly called on district courts to consider whether the infringer was "knowingly and deliberately cashing in upon the good will of [the infringed]"[20] or "inten[ding] to benefit from the goodwill or reputation of the trademark holder."[21]

And still others incorporated a degree of recklessness into their formulations. For example, to establish willfulness in the Second Circuit, a mark holder had to show "(1) that the defendant was actually aware of the infringing activity, or (2) that the defendant's actions were the result of reckless disregard ... or willful blindness."[22] Relatedly, in the First Circuit, "willfulness" was defined as "conscious awareness of wrongdoing by the defendant or at least conduct deemed objectively reckless measured against standards of reasonable behavior."[23]

The Future of the Profits Remedy

Against this backdrop, the Supreme Court heard and decided Romag. Writing on behalf of the majority, Justice Neil Gorsuch explained that the court "d[id] not doubt that a trademark defendant's mental state is a highly important consideration in determining whether an award of profits is appropriate," but that mental state is not an "inflexible precondition to recovery."[24]

The decision is sure to have ripple effects across the varying standards in the circuits for trademark profits awards. Litigators navigating those standards in the wake of Romag should continue to assess its impact and keep the following considerations in mind.

Consider the range of culpable mental states.

The Romag court unanimously agreed that something short of willfulness can support a profits award. The decision plainly favors the type of multifactor standard that prevailed in, for example, the U.S. Court of Appeals for the Fifth Circuit over more rigid frameworks. But even the Fifth Circuit may reconsider whether it made too much of the specific intent to confuse or deceive at the expense of other potentially applicable mental states.

"Callous disregard" — the mental state found in Romag — is similar to recklessness.[25] In concurrence, Justice Sonia Sotomayor canvassed the history of trademark law and explained that courts historically awarded profits for a variety of culpable mental states "including the equivalent of recklessness."[26]

Beyond recklessness, other culpable mental states discussed in the Romag briefing and at argument include gross negligence,[27] subjective recklessness[28] and knowledge.[29] Although willfulness is not a prerequisite, courts will still need to determine how much weight to give a finding that a defendant displayed one of these less culpable mental states.

It is clear, however, that the more the evidence indicates that a defendant intended to infringe, the more likely courts will be to award profits. Litigants therefore should anticipate this issue and develop arguments for why a particular mental state applies and why that mental state does or does not counsel in favor of profits.

This issue may be litigated less often in counterfeiting cases, where the Lanham Act provides an alternative remedy of statutory damages to ensure that trademark owners can receive compensation even when there is inadequate evidence of the counterfeiter's profits.[30]

Consider whether a good faith or innocent-infringement defense may apply.

Relatedly, litigants should pay attention to the possibility of a good faith or innocent-infringement defense. Although the parties and the court discussed the appropriate treatment of infringers who acted negligently or in good faith,[31] the majority was "agnostic" about awarding profits in those situations.[32]

Justice Sotomayor wrote separately to note that although she concurred in the judgment, she believed that it would be inappropriate to award profits for innocent or good faith infringement. On the other hand, there may be circumstances under which it would be equitable to disgorge a windfall earned not by the merits of a good or service, but by consumer confusion, even if it was caused accidentally. Courts will need to consider the question.

Consider substantive equitable defenses.

The court in Romag interpreted the term "principles of equity" in Title 15 of U.S. Code Section 1117(a) to mean "fundamental rules that apply ... systematically across claims and practice areas," such as the defenses of laches, estoppel, and acquiescence.[33]

The court's discussion provides additional support for accused infringers to raise these and related defenses that have their roots in equity. Indeed, courts have historically recognized that laches, acquiescence and unclean hands may bar an accounting of profits,[34] and some circuits already have explicitly incorporated the defenses into their modern-day doctrines.[35] Regardless, litigants should take care to keep the potential applicability of these defenses in mind when arguing their cases.

Do not neglect the question of attribution.

The Supreme Court's decision in Romag did not address the question of whether a mark holder may recover only those profits attributable to the infringement.[36] Before the district court, Fossil cited to pre-Lanham Act Supreme Court precedent stating that a trademark holder "is not entitled to profits demonstrably not attributable to the unlawful use of his mark,"[37] but the district court "read [that statement] narrowly to apply to ... cases where plaintiffs and defendants are direct competitors and the plaintiff suffered from a diversion of sales due to the infringement."[38]

In other words, the Romag district court ruled that even if the parties are not direct competitors, a mark owner may recover profits that are not attributable to the infringement if the remedy serves to deter or to avoid unjust enrichment.[39] Litigators can expect further debate on this issue, particularly now that no circuit can preclude relief solely because the accused infringer did not act willfully.

In sum, Romag will not fundamentally alter trademark law. In all of the circuits, the infringer's mental state played a central — if not outcome-determinative — role in profits analyses. And the Supreme Court made clear in Romag that an infringer's mental state remains "a highly important consideration in determining whether an award of profits is appropriate."[40]

Now, however, the lower courts will need to decide how to evaluate an application for a profits award. Given the economics involved in bringing trademark cases, there is no doubt that parties and judges will be debating Romag's effect on that question for years to come.

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[1] Romag Fasteners, Inc. v. Fossil, Inc., 140 S. Ct. 1492 (2020).

[2] See, e.g., George Basch Co. v. Blue Coral, Inc., 968 F.2d 1532, 1539 (2d Cir. 1992).

[3] See, e.g., Safeway Transit LLC v. Disc. Party Bus, Inc., 954 F.3d 1171, 1178 (8th Cir. 2020); 4 Pillar Dynasty LLC v. New York & Co., Inc., 933 F.3d 202, 212 (2d Cir. 2019); Marshak v. Treadwell, 595 F.3d 478, 495 (3d Cir. 2009). Note, however, that there is some dissensus among the circuits. Some courts have relied on only two theories: unjust enrichment and deterrence. See, e.g., W. Diversified Servs., Inc. v. Hyundai Motor Am., Inc., 427 F.3d 1269, 1272 (10th Cir. 2005). Others have suggested that additional theories could justify a profits award. See, e.g., Roulo v. Russ Berrie & Co., 886 F.2d 931, 941 (7th Cir. 1989) ("Profits are awarded under different rationales including unjust enrichment, deterrence, and compensation."). And the D.C. Circuit has held that "deterrence alone cannot justify . . . an award." ALPO Petfoods, Inc. v. Ralston Purina Co., 913 F.2d 958, 969 (D.C. Cir. 1990).

[4] See, e.g., 4 Pillar Dynasty, 933 F.3d at 214–15; Synergistic Int'l, LLC v. Korman, 470 F.3d 162, 176 (4th Cir. 2006); W. Diversified Servs., 427 F.3d at 1273; Roulo, 886 F.2d at 941.

[5] Quick Techs., Inc. v. Sage Grp. PLC, 313 F.3d 338, 349 (5th Cir. 2002); see also Retractable Techs., Inc. v. Becton Dickinson & Co., 919 F.3d 869, 881–84 (5th Cir. 2019); Am. Rice, Inc. v. Producers Rice Mill, Inc., 518 F.3d 321, 338 (5th Cir. 2008).

[6] See Banjo Buddies, Inc. v. Renosky, 399 F.3d 168, 175, 178 (3d Cir. 2005); Synergistic Int'l, 470 F.3d at 175; Exclaim Mktg., LLC v. DirecTV, LLC, 674 F. App'x 250, 257–58 (4th Cir. 2016); Laukus v. Rio Brands, Inc., 391 F. App'x 416, 424 (6th Cir. 2010).

[7] Roulo, 886 F.2d at 941; see also Basketball Mktg. Co. v. Upscale Entm't & Mktg. Grp., 227 F. App'x 492, 493 (6th Cir. 2007); S.C. Johnson & Son, Inc. v. Nutraceutical Corp., No. 11-cv-861, 2017 WL 10676732, at *4 (E.D. Wis. Feb. 21, 2017).

[8] 4 Pillar Dynasty, 933 F.3d at 212.

[9] Id. at 212, 214.

[10] Id. at 214.

[11] Safeway Transit, 954 F.3d at 1178–81, 1178 n.5.

[12] PlayNation Play Sys., Inc. v. Velex Corp., 924 F.3d 1159, 1170 (11th Cir. 2019),

[13] Optimum Techs., Inc. v. Home Depot U.S.A., Inc., 217 F. App'x 899, 902 (11th Cir. 2007) (alteration adopted and internal quotation marks omitted).

[14] PlayNation, 924 F.3d at 1170.

[15] Fishman Transducers, Inc. v. Paul, 684 F.3d 187, 196 (1st Cir. 2012); see also id. at 191.

[16] Tamko Roofing Prods., Inc. v. Ideal Roofing Co., 282 F.3d 23, 36 n.11 (1st Cir. 2002); see also Aktiebolaget Electrolux v. Armatron Int'l, Inc., 999 F.2d 1, 6 (1st Cir. 1993).

[17] See generally Tamko Roofing, 282 F.3d at 37–38.

[18] See, e.g., W. Diversified Servs., 427 F.3d at 1274 (contrasting the Tenth Circuit's willfulness formulation with the "more lenient approaches" taken by other courts).

[19] Quick Techs., Inc., 313 F.3d at 349 & n.9; see also, e.g., Banjo Buddies, Inc., 399 F.3d at 175; Laukus, 391 F. App'x at 424.

[20] PlayNation, 924 F.3d at 1170 (internal quotation marks omitted).

[21] Klein-Becker, 711 F.3d at 1162 (internal quotation marks omitted); see also ALPO Petfoods, 913 F.2d at 966 ("'[W]illfulness' and 'bad faith' require a connection between a defendant's awareness of its competitors and its actions at those competitors' expense.").

[22] 4 Pillar Dynasty, 933 F.3d at 209–10.

[23] Fishman Transducers, 684 F.3d at 191 (internal quotation marks omitted).

[24] Romag, 140 S. Ct. at 1497.

[25] Arg. Tr. 11, Romag, 140 S. Ct. 1492.

[26] Romag, 140 S. Ct. at 1498 (Sotomayor, J., concurring in the judgment).

[27] Pet'r's Br. at 4, Romag, 140 S. Ct. 1492.

[28] Arg. Tr. 57, Romag, 140 S. Ct. 1492.

[29] Id. at 39–41.

[30] See 15 U.S.C. §1117(c).

[31] See, e.g., Arg. Tr. 6–7, 53–54, 56–57, Romag, 140 S. Ct. 1492.

[32] Romag, 140 S. Ct. at 1498 (Sotomayor, J., concurring in the judgment).

[33] Id. at 1496 (majority).

[34] See, e.g., Manhattan Med. Co. v. Wood, 108 U.S. 218, 225 (1883) ("[H]e who seeks equity must present himself in court with clean hands. If his case discloses fraud or deception or misrepresentation on his part, relief there will be denied."); La Republique Francaise v. Schultz, 102 F. 153, 156 (2d Cir. 1900) ("[I]t is established in trade-mark cases, in accordance with the general principles of equity, that when acquiescence of long standing, and inexcusable laches in seeking redress, have been shown, the complainant is not entitled to an accounting, nor to a decree for gains and profits." (citation and internal quotation marks omitted)).

[35] See, e.g., 4 Pillar Dynasty, 933 F.3d at 214.

[36] See, e.g., Arg. Tr. 27, Romag, 140 S. Ct. 1492.

[37] Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co., 316 U.S. 203, 206 (1942).

[38] Romag Fasteners, Inc. v. Fossil, Inc., 979 F. Supp. 2d 264, 278 (D. Conn. 2013).

[39] Id. at 278–80; cf. Optimum Techs., 217 F. App'x at 903.

[40] Romag, 140 S. Ct. at 1497.