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Should the Law Treat Profit Awards Differently in Trademark Infringement and Dilution Cases?

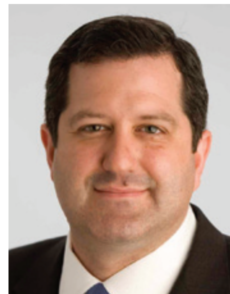
In "Romag Fasteners v. Fossil Group," the Supreme Court stressed that bad faith remains an important factor in determining whether to award profits in infringement cases, and willfulness remains a requirement in dilution cases. It is clear that there are theoretical reasons to explain why willfulness is treated as a threshold requirement in one and not the other.

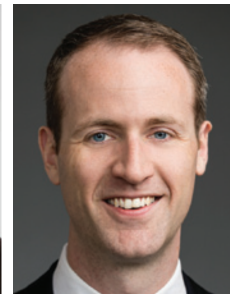
BY **HOWARD HOGAN, CONNOR SULLIVAN, AND SHERI PAN**

In *Romag Fasteners v. Fossil Group*, the U.S. Supreme Court resolved a long-standing circuit split in holding that a trademark infringement plaintiff is not required to show that the defendant acted willfully in order to receive an award disgorging the defendant's profits. The court reasoned that while the Lanham Act requires plaintiffs to show that a violation was "willful" to disgorge profits from trademark dilution claims, "the statutory language has never required a showing of willfulness to win a defendant's profits" for trademark infringement claims. Because Congress did not impose a willfulness requirement for an award of profits in infringement cases, the court refused to create one.

In the decision, however, the court did not discuss the reasons why Congress might have created this disparate treatment. The Lanham Act creates several types of remedies to effectuate different purposes, including monetary damages, disgorgement, costs, fees and injunctive relief. Which remedy fits a particular violation depends on the circumstances: the nature and consequences of the infraction, the role of the violator and the goals the Lanham Act attempts to advance.

Although neither the court's decision nor statutory history provides an explicit basis for the difference (or demonstrates that Congress consciously chose to create a different test), there are logical reasons why Congress might have provided different remedies. An infringement claim is designed to redress consumer confusion. Dilution, in contrast, is designed to protect against long-term effects on the trademark itself. These differences may very well provide an alternate justification for the distinction drawn in the *Romag* case.


Howard Hogan


Connor Sullivan

Sheri Pan

Trademark Infringement: A Dual Injury to Mark Owners and Consumers

A defendant is liable for trademark infringement where it uses a mark in a manner that is likely to cause consumer confusion. Infringement can injure mark owners by reducing their profits or creating the need for corrective advertising. And infringement can also harm consumers by creating confusion as to the source of a product or service. In either case, the injury exists irrespective of the infringer's intent, as the Supreme Court has noted in the parallel context of false advertising claims under the Lanham Act.

Infringement claims are designed to protect the interests of both trademark owners and consumers.

Given those twin goals, an award of profits may deter conduct that harms both groups. An award of the defendant's profits may also serve as a proxy for sales that the plaintiff would have achieved if it were not for the consumer confusion caused by the defendant's infringement. In fact, some courts had held that profits should only be awarded if the parties were in direct competition. Critically, infringement claims are typically brought to address confusion when it is immediate and ongoing, when courts and litigants have the best chance at accurately quantifying its effects.

Trademark Dilution: A Gradual and Ongoing Harm

Trademark dilution poses a different kind of injury. Dilution erodes the strength and significance of a mark by weakening a mark's distinctiveness, including the associations and reputation connected with the mark. The harm from trademark erosion is long term and incremental—a gradual whittling away.

For these reasons, the natural remedy for dilution is often injunctive relief rather than monetary damages. Dilution claims may be brought prospectively, designed to protect against harm that is unfolding slowly. Harm to the strength of a mark may be difficult to convert into dollars. And because dilution was expressly designed for situations where the parties' products do not compete and there may be no confusion, the defendant's sales may not offer the same kind of efficient proxy for the trademark owner's injury. The long-term effect, moreover, will be more acutely felt by the mark owner rather than the general public.

The U.S. Supreme Court building in Washington, D.C./photo by Diego Radzinschi

The Role of Intent

The role of intent in the conduct that gives rise to these cases may also explain why a profits award may only be appropriate in intentional dilution cases. Although an infringement defendant's intent may help a court decide the threshold question of whether confusion is likely, even unintentional confusion can cause wrongful sales. Courts have long connected profit awards in infringement cases to unjust enrichment. But in common law, unjust enrichment did not require a showing of intent, only circumstances that would make it "unjust" for the defendant to retain a benefit without compensation. Similarly, there may be infringement cases where courts would find it "unjust" to allow a defendant to retain a windfall if the plaintiff can prove that the defendant's profits were caused by confusion and not competitive advantage.

Where the conduct at issue is dilution, however, there is less justification for requiring defendants to disgorge their profits where their conduct was unintentional. It is harder to imagine how unintentional dilution could cause the defendant to reap an unjust windfall. Where the products or services at issue are dissimilar and there is no confusion, it is improbable that the defendant's profits reflect diverted sales. Where the diluter acts in bad faith, however, disgorgement may serve other legislative goals, including deterrence.

It remains to be seen how *Romag* might affect future trademark actions. The Supreme Court stressed that bad faith remains an important factor in determining whether to award profits in infringement cases, and willfulness remains a requirement in dilution cases. What is clear, however, is that there are theoretical reasons to explain why willfulness is treated as a threshold requirement in one and not the other. Those distinctions will be important in future debates over whether and how Congress should respond to *Romag*.

Howard Hogan *is a partner at Gibson, Dunn & Crutcher, where he chairs the firm's fashion, retail, and consumer products practice group. Connor Sullivan and Sheri Pan are litigation associates with Gibson Dunn.*

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