Insights: Alerts

The Supreme Court Abrogates Willfulness as a Bright-Line Prerequisite for Accountings of Profits Under the Lanham Act

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For years, the federal courts of appeals have been split on an issue of critical importance to litigants under the Lanham Act, namely, whether a prevailing plaintiff seeking an accounting of the defendant's profits under Section 35(a) of the Act must prove willful misconduct by the defendant as a prerequisite for that remedy. In *Romag Fasteners, Inc. v. Fossil, Inc.*, No. 18-1233, 2020 WL 1942012 (U.S. Apr. 23, 2020), the Supreme Court resolved that split in favor of plaintiffs, holding that a categorical rule requiring such a showing could not be reconciled with the statute's express text and was also inconsistent with the equitable nature of the remedy. As the most consequential interpretation of the Lanham Act from the Court in years, the opinion could give plaintiffs increased leverage in pursuing monetary relief under the Act.

The Differing Rules Governing Awards of Actual Damages and Accountings of Profits

A prevailing plaintiff in an action brought under the Lanham Act can pursue several types of monetary relief, but the two most important are the *legal* remedy of the plaintiff's actual damages and the *equitable* remedy of an accounting of the defendant's profits. Although courts and litigants alike often confuse and conflate the two, they are distinguishable and subject to differing rules that merit careful consideration. For example, although a prevailing plaintiff may receive an award of its actual damages upon a showing of liability, proving the quantum of those damages can be difficult, especially if the plaintiff cannot introduce evidence of a material amount of confusion or deception caused by the defendant's conduct.

In contrast, the mechanics of an accounting of a defendant's profits generally work in favor of a prevailing plaintiff. Under Section 35(a)'s express terms, such a plaintiff must prove the defendant's "sales only." At that point, the defendant has the opportunity to apportion the revenues from those sales between lawful and unlawful sources, as well as to demonstrate permissible deduction from them. If it fails to carry its burden of proof with respect to both those showings, it risks an accounting of the entirety of its sales. *See generally WMS Gaming Inc. v. WPC Prods. Ltd.*, 542 F.3d 601 (7th Cir. 2008). A possible accounting of its profits therefore can present a greater concern to a defendant accused of having violated the Lanham Act than the risk of an award of the plaintiff's actual damages.

Nevertheless, because an accounting is an equitable remedy, courts have rarely granted it as a matter of course, but instead have conditioned it on a variety of considerations. The most common of these is the willfulness of the defendant's unlawful conduct, which, as set forth below, historically has received varying degrees of weight, depending on the circuit in which the issue is addressed.

The Historical Split in the Circuits

Although judicial disagreement over the prerequisites for accountings is long-standing, three relatively recent

opinions from three different circuits demonstrate the scope of that disagreement and the variety of approaches historically taken by federal courts in addressing the role of willfulness in the accounting inquiry.

For example, the Second Circuit held that willfulness is a bright-line prerequisite for an accounting, and it therefore denied that remedy to a plaintiff unable to make that showing. *See Pillar Dynasty LLC v. New York & Co.*, 933 F.3d 202, 212-14 (2d Cir. 2019). That outcome was consistent with the traditional rule in other circuits, which also have required showings of willfulness for accountings. *See, e.g., Fifty-Six Hope Road Music, Ltd. v. A.V.E.L.A., Inc.*, 778 F.3d 1059, 1073-74 (9th Cir. 2015); *W. Diversified Servs., Inc. v. Hyundai Motor Am., Inc.*, 427 F.3d 1269, 12-72-73 (10th Cir. 2005); *Minn. Pet Breeders, Inc. v. Schell & Kampeter, Inc.*, 41 F.3d 1242, 1247 (8th Cir. 1994); *ALPO Pet Foods, Inc. v. Ralston Purina Co.,* 913 F.2d 958, 968 (D.C. Cir. 1990).

In contrast, the Fifth Circuit reiterated its test for an accounting, under which willfulness is only one of six nonexclusive 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.

Retractable Techs., Inc. v. Becton Dickinson & Co., 919 F.3d 869, 876 (5th Cir. 2019) (quoting *Pebble Beach Co. v. Tour 18 I Ltd.*, 155 F.3d 526, 554 (5th Cir. 1998), *abrogated on other grounds by TrafFix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23 (2001)). This multifactored test is consistent with those historically applied by Third, Fourth, and Sixth Circuits. *See La Quinta Corp. v. Heartland Props. LLC*, 603 F.3d 327, 334 (6th Cir. 2010); *Synergistic Int'l, LLC v. Korman*, 470 F.3d 162, 175 (4th Cir. 2006); *Banjo Buddies, Inc. v. Renosky*, 399 F.3d 168, 165 (3d Cir. 2005).

Finally, an Eleventh Circuit opinion suggested that willfulness might be a prerequisite only if the plaintiff pursued that theory under one of three available rationales: "An accounting of a defendant's profits is appropriate where: (1) the defendant's conduct was willful and deliberate, (2) the defendant was unjustly enriched, or (3) it is necessary to deter future conduct." *PlayNation Play Sys., Inc. v. Velex Corp.*, 924 F.3d 1159, 1170 (11th Cir. 2019). In recognizing at least some circumstances under which an accounting is appropriate even in the absence of willful misconduct by the defendant, the court applied a rule consistent with that in the First and Seventh Circuits. *See Tamko Roofing Prods., Inc. v. Ideal Roofing Co.*, 282 F.3d 23, 36 (1st Cir. 2002); *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 940 (7th Cir. 1989).

The Supreme Court's Opinion in *Romag Fasteners*

The split in the circuits concerning the proper role of willfulness in the accounting inquiry described above led the Supreme Court to review the issue in *Romag Fasteners*, a case brought by a manufacturer of magnetic snap fasteners, which accused the defendant of manufacturing handbags with fasteners bearing imitations of the plaintiff's mark. Following trial on the plaintiff's claims, an advisory jury recommended an accounting of $90,759 of the defendant's profits under an unjust enrichment theory and $6,704,046.00 of the defendant's profits under a deterrence theory. In its recommendation, the jury found that, although the lead defendant had acted with "callous disregard" of the plaintiff's rights, it had not acted willfully. Based solely on the second of these findings, the Federal Circuit held in an application of Second Circuit law that the plaintiff was not entitled to an accounting.

After twice agreeing to review the question presented by the plaintiff's petition for a writ of certiorari—"[w]hether, under section 35 of the Lanham Act, 15 U.S.C. § 1117(a), willful infringement is a prerequisite for an award of an infringer's profits"—the Supreme Court finally answered that question in the negative. It cited several bases for its

holding.

The Court first quoted the express text of Section 35(a), which provides in relevant part that:

> When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, a violation under section [43(a)] or [43(d)] of this title, or a willful violation under section [43(c)] of this title, shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, . . . and 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.

15 U.S.C. § 1117(a) (2018). Referencing the express requirement of willfulness for monetary relief in an action for likely dilution under Section 43(c) of the Act, the Court noted that "[the plaintiff] alleged and proved a violation of [Section 43(a)], a provision establishing a cause of action for the false or misleading use of trademarks. And in cases like that, the statutory language has *never* required a showing of willfulness to win a defendant's profits." 2020 WL 1942012, at *2. It further observed that it did not "usually read into statutes words that aren't there. It's a temptation we are doubly careful to avoid when Congress has (as here) included the term in question elsewhere in the very same statutory provision." Id. That was not the defendants' only problem from a statutory interpretation perspective, however. Instead, the Court held, "[t]he Lanham Act speaks often and expressly about mental states," which it concluded made "[t]he absence of any such standard in the provision before us . . . seem[] all the more telling." *Id.*

The Court was equally unsympathetic to the defendant's argument that the traditional practice of courts of equity requiring showings of willfulness rose "to the level of a 'principle of equity' the Lanham Act carries forward." Id. at *3. The Court rejected that "curious suggestion" because "it would require us to assume that Congress intended to incorporate a willfulness requirement here obliquely while it prescribed *mens rea* conditions expressly elsewhere throughout the Lanham Act" and because "[t]he phrase 'principles of equity' doesn't readily bring to mind a substantive rule about *mens rea* from a discrete domain like trademark law." *Id.* Of equal significance, the Court questioned the premise of the argument itself, concluding 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." *Id.*

In the final analysis, the Court held, "the most we can say with certainty is this. *Mens rea* figured as an important consideration in awarding profits in pre-Lanham Act cases. This reflects the ordinary, transsubstantive principle that a defendant's mental state is relevant to assigning an appropriate remedy." *Id.* at *4. Thus, "[g]iven these traditional principles, we do not doubt that a trademark defendant's mental state is a highly important consideration in determining whether an award of profits is appropriate. But acknowledging that much is a far cry from insisting on the inflexible precondition to recovery [the defendant] advances." *Id.* Although it might be true that "stouter restraints on profits awards are needed to deter 'baseless' trademark suits," it was up to Congress to enact those restraints. *Id.*

Conclusion

The Supreme Court's rejection of willfulness as a bright-line prerequisite for an accounting of profits under the Lanham Act is unlikely to dispose of that consideration altogether. On the contrary, the degree of a defendant's willfulness likely will continue to inform the accounting inquiry, perhaps in a manner consistent with its role in the multifactored tests applied by the Third, Fourth, Fifth, and Sixth Circuits. As the Court observed on this point, "we do

not doubt that a trademark defendant's mental state is a highly important consideration in determining whether an award of profits is appropriate." *Id.*

Nevertheless, the opinion promises to work a sea change in jurisdictions such as the Second, Eighth, Ninth, Tenth, and District of Columbia Circuits, in which the inherent difficulty of proving actual damages and the frequent unavailability of the accounting remedy historically have favored defendants. Potential defendants therefore should expect the risk of facing lawsuits in those circuits to increase in the opinion's wake, including suits brought by contingency-fee counsel willing to roll the dice on a monetary judgment.

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