

Insights: Alerts

Supreme Court to Address Long-Standing Circuit Split Regarding Accountings of Defendants' Profits Under the Lanham Act

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Section 35 of the Lanham Act affords a prevailing plaintiff the opportunity to recover several types of monetary relief. These include awards of the plaintiff's own actual damages, statutory damages, the possibility of attorneys' fees, and the taxable costs ordinarily awardable to all prevailing parties under federal lawsuits. They also include the equitable remedy of an accounting of the defendant's profits.

Although the rules governing the recovery of the other categories of relief are fairly well settled, the same is not true of accountings. Specifically, the issue of whether a prevailing plaintiff must demonstrate that a defendant's conduct is willful before ordering an accounting has split the regional circuits in several respects. Those splits, which have long permitted forum shopping by plaintiffs, can be broken down in the following manner:

Circuit	Willfulness Required?	Representative Citation
First	No.	<i>See Tamko Roofing Prods., Inc. v. Ideal Roofing Co.</i> , 282 F.3d 23 (1st Cir. 2002).
Second	Yes.	<i>See Merck Eprova AG v. Gnosis SpA</i> , 760 F.3d 247 (2d Cir. 2014).
Third	No, although it is a relevant consideration.	<i>See Banjo Buddies, Inc. v. Renosky</i> , 399 F.3d 168 (3d Cir. 2005).
Fourth	No, although it is a relevant consideration.	<i>See Synergistic Int'l, LLC v. Korman</i> , 470 F.3d 162 (4th Cir. 2006).
Fifth	No, although it is a relevant consideration.	<i>See Pebble Beach Co. v. Tour 18 Ltd.</i> , 155 F.3d 526 (5th Cir. 1998).

Sixth	No, although it is a relevant consideration.	<i>See La Quinta Corp. v. Heartland Props. LLC</i> , 603 F.3d 327 (6th Cir. 2010).
Seventh	No.	<i>See Roulo v. Russ Berrie & Co.</i> , 886 F.2d 931 (7th Cir. 1989).
Eighth	Yes.	<i>See Masters v. UHC of Del., Inc.</i> , 631 F.3d 464 (8th Cir. 2011).
Ninth	Yes.	<i>See Stone Creek, Inc. v. Omnia Italian Design, Inc.</i> , 875 F.3d 426 (9th Cir. 2017).
Tenth	Yes.	<i>See W. Diversified Servs., Inc. v. Hyundai Motor Am., Inc.</i> , 427 F.3d 1269 (10th Cir. 2005).
Eleventh	No.	<i>See Burger King Corp. v. Mason</i> , 855 F.2d 779 (11th Cir. 1988).
D.C.	Yes.	<i>See ALPO Pet Foods, Inc. v. Ralston Purina Co.</i> , 913 F.2d 958 (D.C. Cir. 1990).

The irreconcilable nature of these outcomes has led the Supreme Court to grant a writ of certiorari on the following question presented: “Whether, 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 for a violation of section 43(a), *id.* § 1125(a).”

The case producing the writ arises from an application of Second Circuit law by the Federal Circuit. *See Romag Fasteners, Inc. v. Fossil, Inc.*, 817 F.3d 782 (Fed. Cir. 2016), *cert. granted, judgment vacated*, 137 S. Ct. 1373 (2017), *judgment reinstated in relevant part*, 686 F. App’x 889 (Fed. Cir. 2017), *cert. granted*, No. 18-1233, 2019 WL 1317084 (U.S. June 28, 2019). In that case, the plaintiff, a designer of magnetic snap fasteners used in handbags and other accessories successfully prosecuted a trademark infringement action against the producer of handbags incorporating fasteners bearing the plaintiff’s mark. The plaintiff did not, however, prove to the district court’s satisfaction that the defendant had acted willfully, and that failure led the district court and the appellate court to deny the plaintiff an accounting of the defendant’s profits.

In doing so, the Federal Circuit rejected the plaintiff’s argument that a circa-1999 amendment to Section 35(a) of the Lanham Act, which added the following italicized language to the statute, mandated the contrary result:

When a violation of [Section 32 of the Act] . . . , a violation under [Sections 43(a) or 43(d)], or a willful violation under [Section 43(c)] shall have been established . . . , the plaintiff shall be

entitled . . . subject to the principles of equity, to recover [the] defendant's profits

Some courts, most notably the Third, Fourth, and Fifth Circuits, have concluded that the 1999 amendment made showings of willful misconduct necessary only for accountings arising from violations of Section 43(c) (the federal dilution statute) and not from conventional findings of infringement, unfair competition, and cybersquatting under Sections 32, 43(a), and 43(c), respectively. In *Romag Fasteners*, however, the Federal Circuit declined to accord the amendment such an effect, holding instead that “[w]hile the Second Circuit has not directly addressed the 1999 amendment, we see nothing in the 1999 amendment that permits us to declare that the governing Second Circuit precedent is no longer good law.” 817 F.3d at 789 (footnote omitted).

The stakes associated with the Supreme Court's review of the question presented in *Romag Fasteners* are high for plaintiffs and defendants alike. The legal remedy of an award of the plaintiff's own actual damages is generally available only if the plaintiff can demonstrate actual confusion (or, at least before some New York federal district courts, an intent by the defendant to cause that confusion). Moreover, the strict causation requirement applicable in the calculation of actual damages means that an accounting may be the only credible claim for monetary relief available to many plaintiffs. Finally, because of the pro-plaintiff methodology governing accountings themselves, the number emerging from an accounting can represent a material return on the investment necessary to prosecute an infringement action through a favorable verdict. See, e.g., *adidas Am., Inc. v. Payless Shoesource, Inc.*, No. CV 01-1655-KI, 2008 WL 4279812, at *13 (D. Or. Sept. 12, 2008) (accounting of \$19.7 million); see also *Texas Tech Univ. v. Spiegelberg*, 461 F. Supp. 2d 510, 525 (N.D. Tex. 2006) (accounting of \$2,870,975.82); *In re Bhalla*, 573 B.R. 265, 283 (Bankr. M.D. Fla. 2017) (accounting of \$2,145,234.22). The Court's resolution of the current circuit split—which could consist of a holding that willfulness either performs a gatekeeping function, is merely one factor for consideration, or is irrelevant if disgorgement of a defendant's profits is justified for other reasons—therefore promises to play a significant role in trademark and unfair competition litigation for years to come.

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