Blog Post

Cert. Roundup:

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- **ABA (as amicus) Asks the Supreme Court to Adopt a Flexible Rule for Recapture of Profits in Trademark Cases**
- **Intellectual Property Owners Association (as amicus) Argues That a Willfulness Requirement Is Consistent with the Statute and Principles of Equity**

The American Bar Association (ABA) filed an amicus brief with the Supreme Court in support of the petitioner in *Romag Fasteners, Inc. v. Fossil, Inc.*, No. 18-1233. The ABA's brief urges the Court to interpret Section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a), as not requiring proof of willfulness in determining whether to award recapture of a trademark infringer's profits, but allowing willfulness to be considered among other equitable factors. The ABA asserts that such interpretation is supported by the statutory text of § 1117(a) and public policy.

The Intellectual Property Owners Association (IPO) also filed an amicus brief in *Romag Fasteners, Inc. v. Fossil, Inc.* The American Intellectual Property Law Association, International Trademark Association, and the Intellectual Property Law Association of Chicago, just like the ABA, all encourage the Supreme Court to take a flexible approach to profit awards. The IPO departs from those amici and urges the Supreme Court to require willfulness to award recapture of profits. The IPO argues that the plain

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language and legislative history of § 1117(a) makes clear that willfulness is a prerequisite to recover profits for a violation of § 1125(a) and that a willfulness requirement is necessary to balance the equities in disgorgement of a defendant's profits and to prevent a potential windfall judgment to the plaintiff.

ABA: The Text of Lanham Act Does Not Require Willfulness

The ABA argues that nothing in § 1117(a) requires proof of willful infringement to award a trademark infringer's profits and that such a judicially created prerequisite conflicts with § 1117(a)'s plain language and its purpose. Indeed, the ABA maintains, the only place § 1117(a) mentions willfulness (or any similar concept) comes in a clause covering trademark dilution claims under § 1125(c), not infringement claims. Relying on this textual difference, the ABA concludes that when Congress wants to require willfulness, it knows how to do so. To further support its conclusion, the ABA provides a plethora of examples of other places throughout the Lanham Act where willfulness is required, *i.e.*, §§ 1117(c)(2), 1118, and 1125(c)(5)(B).

The ABA also argues that interpreting the "principles of equity" clause of § 1117(a) to require willfulness contradicts its plain meaning and the precedent. The ABA contends that, by its own terms § 1117(a) gives courts broad discretion to award profits "subject to the principles of equity." However, the ABA explains, in circuits requiring willfulness, courts lose much of their equitable discretion and must focus on willfulness as a threshold issue without the ability to consider how other facts may impact the equities. In those circuits, the ABA explains, only after finding willfulness may the court proceed to the broader equitable analysis demanded by the statute. However, the ABA continues, if the court finds no willfulness, that finding alone terminates the analysis before all other equities have even been considered. The ABA contends that this approach is contrary to what § 1117(a) says and it defies the well-established principle that equity should not be reduced to a rigid formula.

The ABA further argues that respondents' approach urging a more restrictive reading of the "principles of equity" clause requiring willfulness rests on an incorrect historical premise. The ABA explains that while it is true that many pre-Lanham Act decisions denied a profits award because the infringement was not willful, those decisions were based on the specific facts before the courts, *i.e.*, factor analysis, as still required by the Lanham Act. Additionally, the ABA argues, the pre-Lanham Act's decisions by the Supreme Court refute respondents' restrictive view of common law, where for instance in *Mishawaka Rubber & Woolen Manufacturing Co. v. S.S. Kresge Co.*, 316 U.S. 203, 207 (1942), the Court remanded the case for re-assessment of profits even though the infringement was not willful. Lastly, the ABA contends § 1117(a)'s legislative history does not support inferring a willfulness prerequisite from the "principles of equity" clause. The ABA concludes the best reading of § 1117(a)'s "principles of equity" clause is the most straightforward one: it refers to traditional and flexible equitable principles, not rigid bright-line rules.

ABA: Public Policy Considerations

The ABA also argues that a rigid willfulness prerequisite conflicts with how trademark law usually operates. The ABA explains that most trademark issues warrant flexible, case-by-case consideration. What is more, the ABA argues, the theme of flexibility permeates the Lanham Act. According to the ABA, the most obvious example of that is the Act's flexible and holistic test for the likelihood of confusion, which is determined based on a multifactor balancing test. Indeed, the ABA argues, absent congressional action, the Lanham Act eschews rigid rules in favor of flexibility and discretion for courts across many substantive issues, including trademark remedies.

ABA: Willfulness Remains a Relevant Factor

Finally, the ABA explains that willfulness is still relevant to an assessment of whether to award profits. Indeed, the ABA claims that every circuit agrees that the infringer's intent is at least relevant to evaluate a potential profit award under § 1117(a). However, the ABA explains, courts in some parts of the country have authority to consider that intent alongside the other equities, while other courts do not. As set forth above, the ABA argues that the willfulness rule limits judges' discretion to fashion appropriate equitable relief because they cannot reach the equitable analysis but for a finding of willfulness, which, consequently, limits court's remedial authority. The ABA points out that this restriction on judicial discretion can prove unfortunate as a profit award is sometimes the only predictable way to compensate a trademark owner.

The ABA also argues that a rigid willfulness prerequisite also comes with few (if any) overriding benefits. The ABA explains, the principal benefit of a bright-line rule is "clarity and predictability;" however, if the bright-line rule depends, like here, on first deciding a fact-intensive question like willfulness, the benefit of it becomes more elusive. On the other hand, the ABA contends, courts' broad discretion to deny (or reduce) profit awards for equitable reasons, whether or not the infringement was willful, mitigates the need for the bright line rule. Accordingly, the ABA concludes, the flexible standard adopted by several circuits will give courts all the tools they need to reach the appropriate result in the cases before them.

IPO: A Willfulness Requirement Is Consistent with the Statutory Interpretation of § 1117(a)

According to the IPO, the remedies provision of 15 U.S.C. § 1117(a), when properly interpreted, provides that a court can only award defendant's profits when there has been a showing of willfulness. The IPO explains that although the current version of the statute requires a "willful violation" for recovery under the § 1125(c) dilution provisions, prior to the amendments in 1999, § 1117(a) did not explicitly recite a "willfulness" requirement. Rather, § 1117(a) did not address dilution and instead recited that a plaintiff's award shall simply be "subject to the principles of equity."

The IPO explains that in applying the pre-1999 statute, courts of appeals in several, but not all, circuits required a showing of willfulness as a prerequisite for an award of a defendant's profits in cases involving § 1125(a). However, the IPO further explains, following the 1999 amendment, some courts used the inclusion of "willful" for dilution claims as evidence that willfulness is not required for an accounting of profits in infringement claims. For instance, the IPO illustrates, in *Banjo Buddies, Inc. v. Renosky*, 399 F.3d 168, 174–75 (3rd Cir. 2005), the Third Circuit held that the addition of the word "willful" in 1999 to § 1117(a) "indicates that Congress intended to condition monetary awards for § 43(c) violations, but not § 43(a) violations, on a showing of willfulness." The Third Circuit concluded that, "[b]y adding this word to the statute in 1999, but limiting it to § 43(c) violations, Congress effectively superseded the willfulness requirement as applied to § 43(a)." Such conclusion is wrong, according to the IPO. The IPO explains that although statutory construction principles may sometimes require that the expression of one term implies the exclusion of others, such a canon assumes that the language was written and considered at the same time and here the dilution language was added decades after the original language. Therefore, the IPO concludes, this rule of statutory construction should not be applied.

The IPO also contends the legislative history supports the conclusion that Congress did not intend to abrogate any willfulness requirement with its 1999 amendment, but rather only intended to "correct the mistaken omissions" from the Lanham Act when the Dilution Act was passed. The IPO further argues that the legislative history reflects no intent or discussion concerning the meaning of “violation” as it relates to infringement claims under §1125(a), even though a split existed on the issue prior to the 1999 amendment. Accordingly, the IPO concludes that the 1999 amendment should be considered in the context of the entire statutory scheme, which requires willfulness as a prerequisite for an award of profits following the amendment.

IPO: A Willfulness Requirement Is Consistent with “the Principles of Equity”

The IPO also argues that a willfulness requirement is consistent with the principles of equity. The IPO claims that these equitable considerations are grounded in the common law, which required willfulness for an accounting. The IPO explains that requiring a finding of willfulness is necessary to avoid the conceivably draconian impact that a profits remedy might have in some cases. Furthermore, the IPO contends, requiring proof of willfulness is appropriate given the punitive nature of the profits remedy and the possible windfall to the plaintiff. Otherwise, the IPO submits, such an award could lead to inequity, particularly when a plaintiff seeks profits when there are no actual damages.

Lastly, the IPO argues that permitting the disgorgement of a defendant’s profits only upon a showing of bad faith or willfulness also discourages vexatious trademark litigation. The IPO explains that, by bringing a trademark infringement suit threatening a defendant with having to turn over all of its profits, a less than scrupulous trademark owner could extract settlement payments well in excess of any harm actually suffered. Conversely, according to the IPO, requiring a showing of willfulness or bad faith by accused infringers will eliminate this unwarranted settlement leverage without harming the legitimate value of trademark rights. Based on the foregoing, the IPO concludes willfulness is a prerequisite for recovering a defendant’s profits for a violation of § 1125(a).

We will continue to follow this matter through the Supreme Court’s decision.
