

# Lanham Act disgorgement just got more complicated

## Understanding the Supreme Court's decision in *Romag v. Fossil*

In *Romag v. Fossil*, the Supreme Court recently decided a circuit split over one of the Lanham Act's most potent remedies: disgorgement of the defendant's profits. Prior to this decision,<sup>1</sup> approximately half of the circuits—including the 8th Circuit—had held that showing the defendant's "willfulness" was a prerequisite to disgorgement. Under Justice Gorsuch's opinion for a unanimous Supreme Court, however, willfulness is now merely one of many "important considerations" in a court's disgorgement calculus.

In the weeks following the decision, commentators suggested that the *Romag* decision would not likely lead to an increase in disgorgement of profits.<sup>2</sup> One suggested: "Profits awards will likely continue to be limited to fairly egregious cases."<sup>3</sup> Now, six months later, is an opportune time to examine how *Romag* has affected the disgorgement landscape. The cases since *Romag* suggest that courts will give more weight to other equitable factors when making disgorgement decisions.

### Willfulness: no longer necessary, but likely still sufficient

Whether it's a claim for trademark infringement, false advertising, or unfair competition, the *Romag* decision granted courts greater latitude in disgorging lost profits. But this leeway has always been baked into the Lanham Act's actual text. The Act specifically provides that the district court may, "subject to the principles of equity," award a plaintiff the "defendant's profits."<sup>4</sup> And in assessing these damages, the district court may, "according to the circumstances of the case," treble them.<sup>5</sup>

These provisions make no reference to willfulness, which speaks to a defendant's blameworthiness. Generally speaking, willfulness is characterized by a deliberate intent to deceive and is satisfied if the defendant was aware of the effect of its conduct on the public and did not have a genuine basis to act.<sup>6</sup> Rather than seeking to punish willful conduct, the Lanham Act makes clear that the disgorgement remedy should not be used to punish: "Such sum in either of the above circumstances shall constitute compensation and *not a penalty*."<sup>7</sup>

Drawing on these plain terms—and the lack of any reference to willfulness—the Supreme Court explained that the Lanham Act's text "has *never* required a showing of willfulness to win a defendant's profits."<sup>8</sup> But the Court acknowledged that willfulness is still a critical inquiry:

*Mens rea* figured as an important consideration in awarding profits in pre-Lanham Act cases. This reflects the ordinary, transsubstantive principle<sup>9</sup> that a defendant's mental state is relevant to assigning an appropriate remedy. That principle arises not only in equity, but across many legal contexts. It's a principle reflected in the Lanham Act's text, too, which permits greater statutory damages for certain willful violations than for other violations. 15 U.S.C. §1117(c) [for counterfeiting]. And it is a principle long reflected in equity practice where district courts have often considered a defendant's mental state, among other factors, when exercising their discretion in choosing a fitting remedy. Given 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.<sup>10</sup>

In two concurrences, four justices emphasized that although willfulness is not a prerequisite, it is a highly relevant consideration, and mere negligence is typically insufficient.<sup>11</sup> Thus, although willfulness is no longer necessary, it may be sufficient—and has been in egregious cases.

### Courts affirmed by *Romag* have long applied multi-factor tests

The Supreme Court's decision focused on the text, but suggested that case law over the last two centuries also had not clearly required a showing of willfulness.<sup>12</sup> The problem with this observation, however, is that there do not appear to be any cases on record in which a court has awarded disgorgement without also finding some deliberateness on the part of the defendant.

For example, the Supreme Court cited a 6th Circuit case from 1931 in support of its observation.<sup>13</sup> Although that opinion stated the 6th Circuit "d[id] not understand upon what theory the profits should be... confined" to cases of willfulness, the 6th Circuit found the defendant had acted deliberately (albeit, under a mistaken view of the law). The other two cases consisted of a Southern District of Alabama opinion from 1883 that did not cite any authority in support of its reasoning,<sup>14</sup> and a state court opinion from the Court of Appeals of Maryland in 1870 that merely stated disgorgement might be awardable absent "*fraudulent* intent."<sup>15</sup>

It is for this reason that Justice Sotomayor remarked that the suggestion that courts of equity were "just as likely to award profits" in cases of innocence does "not reflect the weight of authority, which indicates that profits were hardly, if ever, awarded for innocent infringement."<sup>16</sup> In fact, although half of the circuits prior to *Romag* had not necessarily *required* a finding of willfulness, there do not appear to be any instances in which



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district courts in those jurisdictions disgorged profits without finding some degree of intent. My research has not identified a case in which profits were awarded absent some degree of willfulness that justified the court's decision. The 5th Circuit, a circuit that did not expressly require willfulness pre-*Romag*, itself admitted that its own "independent research [did not] reveal any cases from this circuit where an accounting of profits has been awarded without a finding of willfulness."<sup>17</sup>

Although several circuits did not require willfulness prior to *Romag*, they adopted multi-factor tests with factors that in some ways bear on willfulness:

- The degree of certainty that the defendant benefited from the unlawful conduct/whether sales have been diverted.
- Availability and adequacy of other remedies.
- The role of the defendant in effectuating the infringement/false advertising.<sup>18</sup>
- The public interest in making the misconduct unprofitable/detering future conduct.
- Whether there is palming off (i.e., counterfeiting).
- Plaintiff's laches.
- Plaintiff's unclean hands.<sup>19</sup>

In rejecting the willfulness prerequisite, the *Romag* opinion implicitly affirms this multi-factor approach. Thus, litigants can likely expect that the above-listed factors will be relevant in disgorgement analyses nationwide post-*Romag*.

### Recent cases citing *Romag* demonstrate increased reliance on holistic considerations

In the six months since the opinion in *Romag*, very few cases have substantively discussed the decision. Only one circuit court has addressed the holding as of this writing: the 9th Circuit, which had previously required a showing of willfulness.<sup>20</sup> The 9th Circuit remanded "to the district court to decide whether disgorgement of profits is *appropriate in the circumstances of this case*."<sup>21</sup> This broad characterization of the test demonstrates the wide latitude district courts will likely have in making disgorgement determinations in the future.

The Southern District of New York has also discussed *Romag* in the intervening months, holding that in addition to willfulness, courts should consider: "(1) the degree of certainty that the defendant benefited from the unlawful conduct;

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(2) availability and adequacy of other remedies; (3) the role of a particular defendant in effectuating the infringement; (4) plaintiff's laches; and (5) plaintiff's unclean hands."<sup>22</sup> In applying these factors in the context of a default, the district court did not explicitly mention the defendants' willfulness, reasoning:

The complaint alleges that Hendrix and GRCU benefitted from their improper use of plaintiffs' trademarks and that Hendrix and GRCU are directly responsible for the infringement. Plaintiffs have not delayed in enforcing their rights nor is there any evidence that plaintiffs have unclean hands. Further, we conclude that an award of profits is necessary to deter others from trademark infringement in the future. Accordingly, plaintiffs have shown an entitlement to an award of profits under 15 U.S.C. §1117(a).<sup>23</sup>

Both of these decisions suggest a trend away from emphasizing willfulness in the disgorgement analysis, and a trend toward giving equal weight to all relevant equitable considerations. Thus, *Romag* may have caused a shift in how courts approach disgorgement. Thus, decreased reliance on willfulness could actually increase the likelihood of disgorgement. But reduced focus on willfulness may also work to lower this risk. Indeed, some pre-*Romag* cases denied disgorgement remedies despite a showing of willfulness.<sup>24</sup> If willfulness is no longer the primary litmus test, this precedent may gain greater prominence, and even willful defendants may be able to avoid disgorgement if all of the other facts and circumstances weigh in favor of denying such relief.

The key insight for practitioners is to give greater attention to all the factors courts have considered in the disgorgement analysis—and perhaps the same attention as given to willfulness. Although willfulness remains a “highly important consideration,”<sup>25</sup> these additional factors will likely be given greater weight in this post-*Romag* world and should not be overlooked. ▲

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## Notes

- <sup>1</sup> *Romag Fasteners, Inc v. Fossil, Inc.*, 140 S. Ct. 1492 (2020).
- <sup>2</sup> E.g., 7 Westlaw Journal Intellectual Property 02 (5/6/2020).
- <sup>3</sup> *Id.*
- <sup>4</sup> 15 U.S.C. §1117(a).
- <sup>5</sup> *Id.*
- <sup>6</sup> *Grasshopper House, LLC v. Clean & Sober Media LLC*, 394 F. Supp. 3d 1073, 1108 (C.D. Cal. 2019) (collecting cases). Gross negligence does not rise to his level. *Id.* at 1110. Rather, willfulness is akin to bad faith, and a genuine belief that the conduct at issue does not violate the Lanham Act is insufficient. *Lindy Pen Co. v. Bic Pen Corp.*, 982 F.2d 1400, 1406 (9th Cir. 1993), abrogated on other grounds by *SunEarth, Inc. v. Sun Earth Solar Power Co.*, 839 F.3d 1179 (9th Cir. 2016).
- <sup>7</sup> *Id.* (emphasis added).
- <sup>8</sup> 140 S. Ct. at 1495 (emphasis in original).
- <sup>9</sup> “The term ‘trans-substantive’ refers to doctrine that, in form and manner of application, does not vary from one substantive context to the next.” David Marcus, *Trans-Substantivity and the Processes of American Law*, 2013 BYU L.Rev. 1191, 1191 (2013).
- <sup>10</sup> 140 S. Ct. at 1497 (citations omitted).
- <sup>11</sup> See *id.* (Alito, Breyer, and Kagan, JJ., concurring); *id.* at 1498 (Sotomayor, J., concurring). For examples of willfulness, see 31 A.L.R. Fed. 3d Art. 13 (2020).
- <sup>12</sup> See *id.* at 1496.
- <sup>13</sup> See *id.* (citing *Lawrence-Williams Co. v. Societe Enfants Gombault Et Cie*, 52 F.2d 774, 778 (6th Cir. 1931)).
- <sup>14</sup> See *id.* (citing *Oakes v. Tonsmierre*, 49 F. 447, 453 (C.C.S.D. Ala. 1883)).
- <sup>15</sup> See *id.* (citing *Stonebraker v. Stonebraker*, 33 Md. 252, 268 (1870)).
- <sup>16</sup> *Id.* at 1498.
- <sup>17</sup> *Seatrax v. Sonbeck Int'l*, 200 F.3d 358, 372 n.9 (5th Cir. 2000) (holding that disgorgement was not appropriate because the jury did not find willfulness).
- <sup>18</sup> Note that although *Romag* was solely a trademark infringement case, at least one court has applied the holding to false advertising claims as well. See *LegalForce RAPC Worldwide, P.C. v. DeMassa*, No. 18-CV-00043-MMC, 2020 WL 4747909, at \*4 n.9 (N.D. Cal. 8/17/2020).
- <sup>19</sup> See, e.g., *George Basch Co., Inc. v. Blue Coral, Inc.*, 968 F.2d 1532, 1540 (2d Cir. 1992); *Banjo Buddies, Inc. v. Remosky*, 399 F.3d 168, 175 (3d Cir. 2005); *Synergistic Int'l, LLC v. Korman*, 470 F.3d 162, 175 (4th Cir. 2006); *Quick Techs., Inc. v. Sage Grp. PLC*, 313 F.3d 338, 348-49 (5th Cir. 2002); *Laukus v. Rio Brands, Inc.*, 391 F. App'x 416, 424 (6th Cir. 2010) (unpublished); *Optimum Techs., Inc. v. Home Depot U.S.A., Inc.*, 217 F. App'x 899, 902 (11th Cir. 2007) (unpublished).
- <sup>20</sup> *Monster Energy Co. v. Integrated Supply Network, LLC*, No. 19-55760, 2020 WL 4207590, at \*2 (9th Cir. 7/22/2020) (unpublished).
- <sup>21</sup> *Id.* (emphasis added).
- <sup>22</sup> See *Experience Hendrix, L.L.C. v. Pitsicalis*, No. 17CV1927PAEGWG, 2020 WL 3564485, at \*6 (S.D.N.Y. 7/1/2020), report and recommendation adopted, 2020 WL 4261818 (S.D.N.Y. 7/24/2020) (citing *George Bash*, 968 F.2d at 1539-40).
- <sup>23</sup> *Id.* (citation omitted).
- <sup>24</sup> See, e.g., *Texas Pig Stands, Inc. v. Hard Rock Cafe Int'l*, 951 F.2d 684, 687 (5th Cir. 1992) (affirming a denial of a profits award because the defendant's intentional use of the plaintiff's marks on sandwiches “was done not as an attempt to profit from the mark but rather in simple disregard of plaintiff's rights”).
- <sup>25</sup> 140 S. Ct. at 1497.