

Client Alert

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The Circuit Split Deepens: Federal Circuit Holds Willful Infringement Required for Recovery of Trademark Infringer's Profits

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On March 31, 2016, the Federal Circuit weighed in on the circuit split regarding whether a trademark plaintiff must prove willful infringement before it may recover profits in *Romag Fasteners, Inc. v. Fossil, Inc.*, on appeal from the District of Connecticut. In the opinion, authored by Judge Dyk, the court ruled that, as a matter of law, there can be no recovery of a defendant's profits unless the plaintiff has proven willful trademark infringement.

BACKGROUND

Plaintiff—a seller of magnetic snap fasteners—entered into an agreement with defendant—a distributor of fashion accessories—whereby defendant would use plaintiff's fasteners on its products. In 2010, plaintiff discovered that certain of defendant's products contained counterfeit fasteners.

Plaintiff brought suit, alleging patent infringement, trademark infringement, false designation of origin, common law unfair competition, and violation of Connecticut's Unfair Trade Practices Act. Following a seven-day trial, a jury returned a verdict for plaintiff, finding defendant liable for both patent and trademark infringement. While the jury found that defendant acted with callous disregard for plaintiff's trademark rights, the jury nonetheless concluded that defendant's infringement was not willful. Following a further two-day bench trial to address equitable defenses and equitable adjustment of the profits award, the district court held that, because the jury had found no willful infringement, plaintiff was not entitled to an award of defendant's profits. Both parties appealed.

HISTORY OF WILLFULNESS AS A PREREQUISITE FOR RECOVERY OF INFRINGER'S PROFITS

The court first examined the history of the willfulness requirement for a profits award in a trademark infringement case, including the existing circuit split. As the court noted, before the 1999 amendments to the Lanham Act, profits were recoverable for trademark infringement subject to the application of equitable principles. The Second, Third, Tenth, and D.C. Circuits all held that these principles mandated a finding of willful infringement before a plaintiff could recover profits. By contrast, the Fifth, Sixth, Seventh, and Eleventh Circuits held that no such showing was required.

In 1999, Section 35 of the Lanham Act was amended to provide for monetary recovery for trademark dilution, which Congress had not included in the Federal Trademark Dilution Act of 1995. In contrast to the portions of Section 35 pertaining to trademark infringement, the 1999 amendment to Section 35 clearly stated that monetary recovery was available only for "a willful violation" of the Federal Trademark Dilution Act. No other amendment was made to Section 35 at that time. Following the amendment, the Fifth and Sixth Circuits maintained their position that no willfulness was required for an award of infringer's profits in trademark cases. The Third and

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Fourth Circuits also adopted this position. The First, Second, Ninth, and Tenth Circuits all required willfulness for an award of infringer's profits in a trademark case.

THE 1999 AMENDMENT DOES NOT ALTER WILLFULNESS ANALYSIS FOR TRADEMARK INFRINGEMENT

The Federal Circuit considered and rejected plaintiff's argument that the 1999 amendment to the Lanham Act had altered the willfulness calculus for trademark infringement. Examining the legislative history, the court concluded that there was no indication that Congress had intended to change the law regarding willfulness in infringement cases.

Critical to the court's holding was the fact that the Second Circuit, whose law governed this case, had reaffirmed its adherence to the willfulness requirement in 2014 in *Merck Eprova AG v. Gnosis S.p.A.*, 760 F.3d 247, 252-53 (2d Cir. 2014). The Federal Circuit concluded that the 1999 amendment to the Lanham Act left the law in the same state it had been in—that is, with a circuit split regarding the willfulness requirement for a recovery of profits in trademark case. Because the Second Circuit required willfulness, the Federal Circuit affirmed the ruling from the District of Connecticut.

CONCLUSION

Given the unsettled landscape on this issue—and unless and until the Supreme Court weighs in—trademark plaintiffs should be mindful of which side of the circuit split their circuit stands on. In areas that follow the rule in this case, trademark plaintiffs should be aware that they must plead and prove willful infringement before they can recover profits.

Please contact a member of our trademark group if you have any questions regarding this decision or any other trademark issues.

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