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High Court TM Profit Ruling May Not Wreak Havoc On 3rd Circ.

By **Gregory Williams and Dominique Carroll** (May 7, 2020, 6:17 PM EDT)

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When the disgorgement of an infringer's profits is a reasonably probable remedy in a trademark infringement action, it can be significant in its potential amount and powerful in its effect on settlement negotiations and trial.

Recently, in Romag Fasteners Inc. v. Fossil Group Inc., the U.S. Supreme Court held unanimously that a plaintiff may win an award of an infringer's profits without a showing of willful trademark infringement.[1]

Although the recent ruling in Romag Fasteners may be considered a game changer in some circuits — as it vacated a U.S. Court of Appeals for the Federal Circuit ruling and resolved a long-running split among the various circuits — it remains to be seen whether it will (1) open the gates to a flood of meritless trademark infringement litigation across the country and/or (2) significantly increase the frequency of the awarding of disgorgement of the infringer's profits to prevailing plaintiffs in trademark infringement litigation.[2]

While the Supreme Court's recent ruling in Romag Fasteners is noteworthy, more than 15 years of precedent in the U.S. Court of Appeals for the Third Circuit suggests that Romag Fasteners likely will not lead to a flood of meritless trademark infringement litigation or a significant increase in the frequency of the awarding of the infringers' profits to prevailing plaintiffs in trademark infringement litigation in the Third Circuit.[3]

Some Historical Perspective Around the Country Prior to Romag Fasteners Ruling

As Justice Neil Gorsuch aptly stated in Romag Fasteners, "[w]hen it comes to remedies for trademark infringement, the Lanham Act authorizes many."[4] For example, prior to its amendment in 1999, Section 35 of the Lanham Act provided:

> When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, or a violation under section 43(a) [Title 15 of U.S. Code Section 1125(a)], shall have been established ... the plaintiff shall be entitled, ... 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.

Applying that statutory language, several circuit courts, such as the U.S. Courts of Appeals for the Second, Eighth, Tenth, D.C. and Federal Circuits, required a plaintiff to show willfulness or bad faith in order to receive an award of profits.[5] Conversely, other circuits such as the U.S. Courts of Appeals for the Seventh and Eleventh Circuits did not require proof of willfulness as a prerequisite to disgorging ill-gotten profits.[6]

In a different manner, the U.S. Court of Appeals for the First Circuit applied a four part formula to determine whether monetary damages were warranted under Title 15 of U.S. Code Section 1117.

Specifically, in the First Circuit, a plaintiff seeking an accounting of defendant's profits was required to show (1) actual damages; and (2)"that the products directly compete, such that defendant's profits would have gone to plaintiff if there was no violation."[7]

Moreover, "the general rule of competition [was] loosened if the defendant acted fraudulently or palmed off inferior goods, such that actual harm [was] presumed" and "where defendant's inequitable conduct warrant[ed] bypassing the usual rule of actual harm, damages [could] be assessed on an unjust enrichment or deterrence theory."[8] Thus, "actual damages, direct competition, and culpable behavior by the plaintiff" were "factors … relevant to an award of damages or an accounting of profits" in the First Circuit.[9]

In January 1999, the Third Circuit ruled that a plaintiff must show willful "intent to infringe or a deliberate disregard of a mark holder's rights" to secure an award of profits.[10] A few months after SecuraComm Consulting Inc. v. Securacom Inc., an amendment to Section 35 of the Lanham Act replaced "or a violation under section 43(a)" with "a violation under section 43(a) [Title 15 of U.S. Code Section 1125(a)], or a willful violation under section 43(c) [15 U.S.C. § 1125(c)]."[11]

Title 15 of U.S. Code Section 1125(a) established a cause of action for the false or misleading use of trademarks, and Section 1125(c) created a cause of action for trademark dilution.

Because of the 1999 amendment, the Third Circuit abandoned its prior bright-line rule and held that willfulness "is an important equitable factor but not a prerequisite to ... an award" of profits.[12] The Third Circuit in Banjo Buddies Inc. v. Renosky adopted a six-factor framework for determining whether to disgorge an infringer's profits, which was promulgated by the U.S. Court of Appeals for the Fifth Circuit.[13]

Specifically, since the Banjo Buddies decision, the Third Circuit has been weighing the following factors in determining whether to disgorge the infringer's profits in trademark infringement litigation:

> (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 plaintiff in asserting his rights, (5) the public interest in making the misconduct unprofitable, and (6) whether it is a case of palming off.[14]

A Closer Look at Why Banjo Buddies Did Not Lead to a Flood of Profit Awards and a Prediction about the Effect of Romag Fasteners

The Lanham Act provides two alternatives for calculating damages: (1) an award, subject to principles of equity, based on evidence of the defendant's sales and profits[15] or (2) statutory damages of between $1,000 and $2 million per counterfeit mark for each type of good or service offered for sale or distributed, as the court considers just.[16]

Despite the potential award of profits, "a bare showing of gross sales is not sufficient to fashion an equitable award without some anchor in the record to support a reasonable estimation of actual profits."[17]

Thus, a district court seeking to

> calculate damages under the Lanham Act on the basis of the defendant's actual profits … must ground its estimate in the record — e.g., business records, credible witness testimony, expert testimony, or industry data — in order to pass muster as a reasonable estimate and an appropriate exercise of discretion.[18]

If a district court "lacks a sound basis for extrapolating actual profits, it abuses its discretion by resorting to guesswork," and it should turn to an award of statutory damages.[19]

Covertech Fabricating Inc. v. TVM Building Products Inc., is instructive as the Third Circuit vacated a judgment of $4 million, including ill-gained trademark infringement profits, because the district court's "record was insufficient to approximate actual damages," and there was no evidence of defendant's actual sales of infringing products.[20]

Notably, in the Third Circuit, the plaintiff bears the "burden of proving that [disgorgement] is warranted" and "showing the sales for which it seeks disgorgement occurred because of the alleged false advertising."[21] Moreover, "[w]hether to award an accounting of profits to the plaintiff is a decision that lies within the Court's discretion."[22]

Thus, principles of equity, and district courts' adherence to the same, did not lead to a flood of the award of profits to plaintiffs in trademark infringement actions in the Third Circuit since the Banjo Buddies decision.

If Banjo Buddies serves as a guide, the U.S. Supreme Court's recent ruling in Romag Fasteners, in similar fashion, is unlikely to lead to a flood of awards of profits to plaintiffs in trademark infringement actions in the Third Circuit. This is especially so given that the district courts' decisions to award profits remain subject to the equities of each case at the discretion of the court as well as to appellate review for abuse of discretion.

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[1] Romag Fasteners, Inc. v. Fossil Group, Inc. , No. 18-233, 590 U.S. ___ (2020).

[2] Id.

[3] See, e.g., Covertech Fabricating, Inc. v. TVM Bldg. Prods., Inc. , 855 F.3d 163, 177 (3d Cir. 2017) (vacating a $4,054,319 award of profits in light of insufficient trial record to approximate actual damages); Callaway Golf Co. v. Slazenger , 384 F. Supp. 2d 735, 740 (D. Del. 2005) (explaining that "[i]f the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may … enter judgment for such sum as the court shall find to be just, according to the circumstances of the case." (alteration in original)) (citing 15 U.S.C. § 1117(a)); Bracco Diagnostics, Inc. v. Amersham Health, Inc. , 627 F. Supp. 2d 384, 484 (D. N.J. 2009) (determining that "[i]n weighing . . . [the] relevant factors for determining whether disgorgement is appropriate, the Court here finds an award of disgorgement inequitable.").

[4] Romag Fasteners, supra note 1, slip op. at 1.

[5] See, e.g., The George Basch Co. v. Blue Coral, Inc. , 968 F.2d 1532, 1534 (2d Cir. 1992) (holding that "in order to justify an award of profits, a plaintiff must establish that the defendant engaged in willful deception"); Minn. Pet Breeders, Inc. v. Schell & Kampeter, Inc. , 41 F.3d 1242, 1247 (8th Cir. 1994); Bishop v. Equinox Int'l Corp. , 154 F.3d 1220, 1223 (10th Cir. 1998); ALPO Petfoods, Inc. v. Ralston Purina Co. , 913 F.2d 958, 968 (D.C. Cir. 1990); Bandag, Inc. v. Al Bolser's Tire Stores, Inc. , 750 F.2d 903, 919 (Fed. Cir. 1984) ("An accounting *** may be denied at the discretion of the district court where there has been no showing of fraud ***." (citations omitted)).

[6] See, e.g., Pebble Beach Co. v. Tour 181 I Ltd. , 155 F.3d 526, 554 (5th Cir. 1998); Wynn Oil Co. v. Am. Way Service Corp. , 943 F.2d 595, 607 (6th Cir. 1991) ("there is no express requirement that … the infringer willfully infringe … to justify an award of profits" (citation omitted)); Roulo v. Russ Berrie & Co., Inc. , 886 F.2d 931, 941 (7th Cir. 1989) (same); Adray v. Ardy-Mart, Inc. , 76 F.3d 984, 991 (9th Cir. 1995) (determining that "[a]n instruction that willful infringement is a prerequisite to an award of defendant's profits may be error in some circumstances (as when plaintiff seeks the defendant's profits as a measure of his own damage)"); Burger King Corp. v. Mason , 855 F.2d 779, 783 (11th Cir. 1988) ("Nor is an award of profits based on either unjust enrichment or deterrence dependent upon a higher showing of culpability on the part of the defendant, who is purposely using the trademark.").

[7] Aktiebolaget Electrolux v. Armatron Intern., Inc. , 999 F.2d 1, 5 (1st Cir. 1993).

[8] Id.

[9] Id.

[10] See SecuraComm Consulting, Inc. v. Securacom, Inc., 166 F.3d 182, 187 (3d Cir. 1999), superseded by statute on other grounds as stated in Banjo Buddies, Inc. v. Renosky, 399 F.3d 168, 173-76 (3d Cir. 2005).

[11] See Pub. L. No. 106-43, § 3(b), 113 Stat. 219 (Aug. 5, 1999).

[12] Banjo Buddies, 399 F.3d at 171.

[13] Id. at 175.

[14] Id. (quoting Quick Technologies, Inc. v. Sage Group PLC, 313 F.3d 338, 347–48 (5th Cir. 2002)).

[15] See 15 U.S.C. § 1117(a).

[16] Id. at § 1117(c).

[17] Covertech, 855 F.3d at 177.

[18] Id.

[19] Id. (citing 15 U.S.C. § 1117(c)).

[20] Id. at 176-77.

[21] Bracco Diagnostics, 627 F. Supp. 2d at 484; see also CPC Props., Inc. v. Dominic, Inc., No. 12-4405, 2013 WL 5567584, at *5 (E.D. Pa. Oct. 9, 2013).

[22] Merisant Co. v. McNeil Nutritionals, LLC, 515 F. Supp. 2d 509, 529 (E.D. Pa. 2007) (citing 15 U.S.C. § 1117(a)); Acxiom Corp. v. Axiom, Inc., 27 F. Supp. 2d 478, 506 (D. Del. 1998) ("The court … does not automatically award profits but only grants them in light of equitable considerations." (citing 15 U.S.C. § 1117(a)); SurgiQuest v. Lexion Medical, Inc., No. 14-382-GMS, 2018 WL 2247216, at *9 (D. Del. May 16, 2018) ("The Lanham Act permits disgorgement of the defendant's profits where it does not result in a double recovery to the plaintiff." (citing 15 U.S.C. § 1117(a)); Keurig, Inc. v. Strum Foods, Inc., No. 10-841-SLR-MPT, 2013 WL 633574, at *2 (D. Del. Feb. 19, 2013) (holding that "it is plaintiff's burden to prove … that equity supports a disgorgement of defendant's profits" and if equity supports the award of profits, "after plaintiff proves defendant's sales," [the] "defendant bears the burden of proving how much, if any, of its profits were not derived from its unlawful conduct."); Gavrieli Brands LLC v. Soto Massini (USA) Corp., No. 18-462 (MN), 2020 WL 1443215, at *9 (D. Del. Mar. 24, 2020) (declining to enhance damages above proofs at trial despite finding of willful infringement as "[e]nhanced damages are not … used to penalize or otherwise punish [d]efendants.").