No. 18-1233

In the

Supreme Court of the United States

ROMAG FASTENERS, INC.,

Petitioner,

v.

FOSSIL, INC., FOSSIL STORES I, INC., MACY'S, INC., AND MACY'S RETAIL HOLDINGS, INC.,

Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

Brief of the American Intellectual Property Law Association as *Amicus Curiae* in Support of Neither Party

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QUESTIONS 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).

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STATEMENT OF INTEREST

The American Intellectual Property Law Association ("AIPLA"),[1] which files this brief with the written consent of both parties, is a national bar association of approximately 12,000 members engaged in private and corporate practice, government service, and academia. AIPLA's members represent a diverse spectrum of individuals, companies, and institutions involved directly or indirectly in the practice of patent, trademark, copyright, and unfair competition law, as well as other fields of law affecting intellectual property. Our members represent both owners and users of intellectual property. AIPLA's mission includes providing courts with objective analyses to promote an intellectual property system that stimulates and rewards invention, creativity, and investment while accommodating the public's interest in healthy competition, reasonable costs, and basic fairness.

[1] In accordance with Supreme Court Rule 37.6, AIPLA states that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than AIPLA and its counsel. Specifically, after reasonable investigation, AIPLA believes that: (i) no member of its Board or Amicus Committee who voted to file this brief, or any attorney in the law firm or corporation of such a member, represents a party to the litigation in this matter; (ii) no representative of any party to this litigation participated in the authorship of this brief; and (iii) no one other than AIPLA, or its members who authored this brief and their law firms or employers, made a monetary contribution to the preparation or submission of this brief.

Petitioner filed a consent to the filing of amicus briefs on August 12, 2019. Respondent filed a corresponding consent on August 19, 2019.

AIPLA has no stake in any of the parties to this litigation or in the result of this case. AIPLA's only interest is in seeking correct and consistent interpretation of the law as it relates to intellectual property issues.

SUMMARY OF ARGUMENT

The Lanham Act provides for an accounting, or disgorgement, of the defendant's profits, subject to the principles of equity, as one possible remedy for violating the Act. Congress has required a showing of the defendant's willfulness for such relief under other types of Lanham Act claims, but not for the Section 43(a) claim at issue in this case. Requiring willfulness for an accounting of defendant's profits violates the statute's direction that the availability of such a remedy rests on the equities of each case. The equitable principles underlying the accounting remedy do not necessarily require willfulness, and courts should be free to grant that remedy based on the facts and circumstances of each case. Willfulness is and should remain an important equitable factor in determining appropriate remedies for violations of the Act, but it is not a threshold requirement for an accounting in cases arising from alleged violations of Section 43(a).

ARGUMENT

I. PROOF OF WILLFULNESS SHOULD NOT BE A PREREQUISITE TO AN ACCOUNTING OF PROFITS UNDER SECTION 35(a) OF THE LANHAM ACT[2]

A. Adding A Categorical Willfulness Requirement Is Antithetical to The Statute's Mandate that Principles of Equity are to Govern

Section 35(a) of the Lanham Act provides that a plaintiff that successfully proves a violation of Section 43(a) "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." 15 U.S.C. § 1117(a). On its face, the law does not require a plaintiff to prove willfulness by the infringer as a prerequisite for an accounting.[3] Instead,

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[2] AIPLA expresses no position as to whether an accounting is appropriate in this case. The district court should address that issue on remand based on guidance from this Court.

[3] The equitable remedy of an accounting of a defendant's profits is separate and distinct from the legal remedy of an award of the plaintiff's actual damages. *Reebok Int'l, Ltd. v. Marnatech Enters.*, 970 F.2d 552, 559 (9th Cir. 1992) ("An accounting of profits under [Section 35(a)] is not synonymous with an award of monetary damages . . . ."). Nevertheless, confusion can (and often does) arise when imprecise language conflates the two forms of monetary relief. *See, e.g.*, *Pogrebnoy v. Russian Newspaper Distrib., Inc.*, 289 F. Supp. 3d 1061, 1072 (C.D. Cal. 2017) (declining to order accounting in light of plaintiff's failure to adduce "sufficient evidence of Defendants' sales to support an award of Defendants' profits even if an award of such damages [sic] were otherwise

the law provides that a plaintiff may recover, as one of the remedies under the Lanham Act, an accounting "subject to the principles of equity."

Adding an extra-statutory willfulness requirement for any possible accounting is antithetical to having courts apply principles of equity based on the facts and circumstances of each case. The nature of equity requires flexibility to address the facts of each matter. *See Holland v. Florida*, 560 U.S. 631, 650 (2010) ("The 'flexibility' inherent in 'equitable procedure' enables courts 'to meet new situations [that] demand equitable intervention, and to accord all the relief necessary to correct ... particular injustices.'"); *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1992) ("The essence of equity jurisdiction has been the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it." (citation omitted)); *Brown v. Bd. of Educ. of Topeka, Kan.*, 349 U.S. 294, 300 (1955) ("Traditionally, equity has been characterized by a practical flexibility in shaping its remedies and by a facility for adjusting and reconciling public and private needs." (footnote omitted)). The rule articulated by the court of appeals in this case, which follows the precedent in several circuits, represents a rigid rule that disregards the flexible nature of equity.

appropriate"), *aff'd*, 742 F. App'x 291 (9th Cir. 2018). Unless directly quoting other sources, this brief therefore uses "accounting" when referring to the equitable remedy of defendant's profits and "award" when referring to the legal remedy of plaintiff's damages.

Requiring willfulness regardless of the other equities of the case is also inconsistent with this Court's traditional preference for flexible standards, rather than bright-line rules in intellectual property cases. *See Kirtsaeng v. John Wiley & Sons, Inc.*, 136 S. Ct. 1979, 1988-89 (2016); *Halo Elecs., Inc. v. Pulse Elecs., Inc.,* 136 S. Ct. 1923, 1934 (2016); *Octane Fitness, LLC v. ICON Health & Fitness, Inc.,* 572 U.S. 545 (2014); *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534 (1994). The accounting remedy is similarly an equitable one that does not lend itself to the application of bright-line rules.

Outside of the trademark context, there is no general principle of equity that demands proof of willfulness for an accounting of profits. Indeed, the willfulness requirement is at odds with the flexible nature of the remedy. For example, in securities cases, disgorgement is a remedy that gives courts flexibility to determine the appropriate remedy "to fit the wrongful conduct." *S.E.C. v. Wyly*, 56 F. Supp. 3d 394, 426 (S.D.N.Y. 2014) (internal quotation marks omitted). Likewise, there is no categorical requirement of willfulness to recover for unjust enrichment under the common law. *See Pierce v. Emigrant Mortg. Co.*, No. CIV.A. 3:04-CV-1767J, 2007 WL 4800725, at *7 (D. Conn. Dec. 27, 2007) (applying Connecticut law to hold in non-trademark case that "a plaintiff is not compelled to establish bad faith in order to recover under a theory of unjust enrichment"), *amended in part*, No. CIV.A. 3:04-CV-1767J, 2008 WL 349191 (D. Conn. Feb. 6, 2008); *Koyo Corp. of U.S.A. v. Comerica Bank*, No. 1:10 CV 2557, 2011 WL 4540957, at *6 (N.D. Ohio Sept. 29, 2011) (holding, in non-trademark case, that

"Defendants erroneously read[] a fourth element into Ohio's standard for unjust enrichment, arguing that Plaintiff must also sufficiently allege fraud, misrepresentation or bad faith.").

Willfulness should be a factor in judging whether an accounting is appropriate in Section 43(a) cases.[4] Indeed, even courts rejecting the bright-line rule requiring willfulness have nonetheless noted that it is an "important factor." *See, e.g.*, *Quick Techs.,* 313 F.3d at 349 ("It is obvious from our cases that willful infringement is an important factor which must be considered when determining whether an accounting of profits is appropriate."). There is, however, no reason courts should require it in all cases as a necessary threshold.[5]

Several courts have applied a factor-based approach for determining whether an accounting is appropriate. Under this test, the factors for consideration include, but are not limited to: "(1) whether the defendant had the intent to confuse or deceive, (2) whether sales have

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[4] A lack of willfulness should weigh against an accounting, and it does under the tests for an accounting articulated by the Third, Fourth, and Fifth Circuits. *See Synergistic Int'l, LLC v. Korman*, 470 F.3d 162, 175 (4th Cir. 2006); *Banjo Buddies, Inc. v. Renosky*, 399 F.3d 168, 175 (3d Cir. 2005); *Quick Techs., Inc. v. Sage Grp.*, 313 F.3d 338, 349 (5th Cir. 2002).

[5] As in the context of other equitable remedies, evidence of the defendant's intent is an important factor in the analysis of whether an accounting of a defendant's profits is an appropriate remedy. A defendant's intent might not necessarily rise to the level of "willful" infringement, but still could support an accounting. Willfulness is too rigid a standard.

been diverted, (3) the adequacy of other remedies, (4) any unreasonable delay by the plaintiff in asserting his rights, (5) the public interest in making the misconduct unprofitable, and (6) whether it is a case of palming off." *Synergistic,* 470 F.3d at 175; *Banjo Buddies*, 399 F.3d at 175; *Quick Techs*., 313 F.3d at 349. This multi-factor test includes willfulness as a consideration, but allows courts the flexibility to analyze it as one of many important factors in deciding whether the principles of equity warrant an accounting.

Regardless of the particular standard applied, courts considering an accounting as a possible remedy for trademark infringement and unfair competition typically review whether equitable rationales offered warrant this remedy. The circuits apply differing approaches based on several policy rationales underlying the accounting remedy. *See generally* J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 30:64 (5th ed.). These rationales include making plaintiffs whole as a proxy for the legal remedy of an award of their actual damages,[6] depriving defendants of unjust gains,[7] and deterring defendants

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[6] *See, e.g.*, *Visible Sys. Corp. v. Unisys Corp.*, 551 F.3d 65, 80 (1st Cir. 2008); *Minn. Pet Breeders, Inc. v. Schell & Kampeter, Inc.*, 41 F.3d 1242, 1247 (8th Cir. 1994); *George Basch Co. v. Blue Coral, Inc.*, 968 F.2d 1532, 1539 (2d Cir. 1992); *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 941 (7th Cir. 1989).

[7] *See, e.g.*, *Hamilton–Brown Shoe Co. v. Wolf Bros.*, 240 U.S. 251, 259 (1916); *Masters v. UHS of Del., Inc.*, 631 F.3d 464, 474 (8th Cir. 2011); *Marshak v. Treadwell*, 595 F.3d 478, 495 (3d Cir. 2009); *Burger King Corp. v. Mason*, 855 F.2d 779, 781 (11th Cir. 1988);

from future misconduct. The importance of willfulness should vary depending on the facts of each case and the rationale offered by the plaintiff in each case.[8] For example, if the proxy-for-actual-damages model applies, a prevailing plaintiff should be made whole regardless whether the defendant acted willfully. No willfulness prerequisite exists for awarding actual damages. *See Quiksilver, Inc. v. Kymsta Corp.*, No. CV 02-5497-VBF(MCX), 2008 WL 11342749, at *2 (C.D. Cal. Jan. 25, 2008) ("The weight of authority in the Ninth Circuit supports the conclusion that proof of willfulness is required to obtain profits under either an unjust enrichment or deterrence theory, but is not required to obtain profits under a 'rough proxy' damages theory."). Most courts do appear to require a showing of willfulness when applying the deterrence model, even in jurisdictions that do not require willfulness as a threshold to an accounting. In fact, this reasoning is typically phrased in terms of "deterrence of a willful infringer." *See, e.g.*, *Minn. Pet Breeders*, 41 F.3d at 1247. Therefore, even if willfulness is not a necessary prerequisite, a court may properly conclude that an accounting is inappropriate if the only argument advanced by a plaintiff for an accounting is deterrence of future infringement.

Maltina Corp. v. Cawy Bottling Co., 613 F.2d 582, 585 (5th Cir. 1980); *W.E. Bassett Co. v. Revlon, Inc.,* 435 F.2d 656, 664 (2d Cir. 1970).

[8] *See Tamko Roofing Prods., Inc. v. Ideal Roofing Co.*, 282 F.3d 23, 38 (1st Cir. 2002); *Mason*, 855 F.2d at 781; *Maltina Corp.*, 613 F.2d at 205; *W.E. Bassett Co.*, 435 F.2d at 664; *Roulo*, 886 F.2d at 941.

The underlying facts of the case, and the equitable theory underlying the remedy, should determine the importance of proof of willfulness. The rule applied by the court of appeals in this case, however, eschews analysis of the particular facts of each case in favor of an arbitrary rule. That rule turns the analysis on its head by demanding proof of willfulness as a prerequisite before even considering whether an accounting is appropriate under the principles of equity.

B. The Willfulness Requirement Unnecessarily Harms the Important Goals of the Trademark Laws

A categorical willfulness requirement undercuts the important policies protecting trademarks and preventing unfair competition. It is important that courts retain the full range of remedies available under Section 35(a) for trademark infringement and unfair competition. The remedy of an accounting of an infringer's profits can be an important proxy for a plaintiff's damages, and can also be used by courts to deter infringement. The willfulness requirement undercuts those important remedial goals.

As a practical matter, recovery of a defendant's profits may be the only substantive monetary relief available in some cases. An award of actual damages requires proof of the fact and the amount of injury, and can in many cases be too speculative. Many courts also require proof of actual consumer confusion, which can be difficult to prove. Therefore, it is important that courts have the accounting remedy available to do justice, even in the absence of willful misconduct by a defendant. *See Banjo Buddies*, 399 F.3d at 172 (damages arising from defendant's "usurpation of a corporate opportunity, breach of the non-compete contract and overcharging" for the product were "too speculative to support any monetary award," such that net profits were the only viable option for monetary relief); *Basketball Mktg. Co. v. Upscale Entm't & Mktg. Grp.*, 227 Fed. Appx. 492, 493 (6th Cir. 2007) (monetary relief based solely on the profits earned by the defendants from its infringing use of plaintiff's trademarks); *see also Am. Rice, Inc. v. Producers Rice Mill, Inc.*, 518 F.3d 321, 338 (5th Cir. 2008) (ordering accounting along with an injunction, as "an injunction alone would not compensate [the plaintiff] for [the defendant's] past infringement and [because] infringing conduct should be unprofitable to infringers"); *Tamko Roofing Prods., Inc. v. Ideal Roofing Co.,* 282 F.3d 23, 34 (1st Cir. 2002) ("the award of [infringer's] entire profits was correct" as was the award of attorney's fees, as the "legislative intent [for an award of profits] was partly to encourage the enforcement of trademark rights in cases where the 'measurable damages are nominal,'" (citing S. Rep. 93-1400)). Finally, unless a defendant has engaged in counterfeiting, awards of attorneys' fees are reserved for "exceptional cases. 15 U.S.C. § 1117(a).

In sum, requiring proof of willfulness may prevent any recourse at all, even when a trademark is clearly infringed and other equitable factors support an accounting. In other words, a rule allowing an accounting only upon proof of willfulness does not adequately serve the policy of protecting trademark owners. The "paramount" public interest of unfair competition law in preventing confusion in the marketplace, *see Coach House Rest., Inc. v. Coach & Six Rests., Inc.*, 934 F.2d 1551, 1564 (11th Cir. 1991), will necessarily also suffer as a result.

The policy rationale for the willfulness requirement offered by some courts does not justify that requirement in all cases. In this case, the court of appeals applied the law of the Second Circuit that requires willfulness for an accounting. The Second Circuit authority upon which it relied:

> reasoned that this requirement is necessary to avoid the conceivably draconian impact that a profits remedy might have in some cases. While damages directly measure the plaintiff's loss, *defendant's* profits measure the defendant's gain. Thus, an accounting may overcompensate for a plaintiff's actual injury and create a windfall judgment at the defendant's expense.

817 F.3d at 786 (internal quotation marks omitted). Concern about overcompensating a plaintiff is legitimate, and relevant to the principles of equity. It is not, however, a valid basis for a prophylactic requirement in all cases. Courts easily can avoid the "conceivably draconian impact" of an accounting by applying the full range of the principles of equity.[9]

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[9] The same provision of the Act also provides: "If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty." 15 U.S.C. §1117(a).

In addition, the willfulness requirement can itself impose a "conceivably draconian impact" of denying any monetary remedy to a deserving plaintiff who cannot demonstrate actual damages or prove that the infringer acted willfully. To avoid overcompensating a plaintiff, this willfulness requirement may violate the "Congressional purpose of making infringement unprofitable." *Banjo Buddies*, 399 F.3d at 178. Beyond that, there may be cases in which, even if a plaintiff receives a windfall, "it is preferable" that the plaintiff rather than the infringer receive the benefits of the infringement. *Id.*; *see also Marshak v. Treadwell*, 595 F.3d 478, 496 (3d Cir. 2009) ("Moreover, to the extent that Appellants argue that such an accounting would result in a windfall for [the plaintiff], we believe it to be more equitable that [the plaintiff], rather than [the defendant] and his associates, receive the benefits of the infringement.")

C. Imposing a Willfulness Requirement Is Inconsistent with The Statutory Scheme

The remedies provision of the statute at issue applies "[w]hen a violation of any right of the registrant of a mark registered in the Patent and Trademark Office [under section 32], or a violation under section 43(a) or (d), or a willful violation under section 43(c), shall have been established in any civil action arising under this Act… ." 15 U.S.C. § 1117(a). The plain language of the statute requires proof of a willful violation only for Section 43(c) of the Lanham Act, 15 U.S.C. § 1125(c), which recognizes a cause of action against the likely dilution of a famous mark. There is no such limitation in the statute for accountings arising from trademark infringement under Section 32 of the Act, *id.* § 1124, from unfair competition under Section 43(a) of the Act, *id.* § 1125(a) – the particular claim at issue here – and cybersquatting under Section 43(d) of the Act, *id.* § 1125(d). In neither the original enactment nor any of its amendments over the years did Congress include willfulness as a requirement for an accounting of profits arising from trademark infringement or unfair competition under Section 43(a).

In 1999, Congress amended the language of this statute. The 1999 amendment replaced "or a violation under section 43(a)" with "a violation under section 43(a), or a willful violation under section 43(c)." Pub. L. No. 106-43, § 3(b), 113 Stat. 219 (Aug. 5, 1999). The plain language of this amendment indicates Congress's intent to condition monetary awards for trademark dilution claims, but not trademark infringement or unfair competition claims, on proof of willfulness.

Several courts have concluded that this 1999 amendment "effectively superseded the willfulness requirement" that some courts applied prior to that time. *See Banjo Buddies*, 399 F.3d at 174; *Quick Techs.,* 313 F.3d at 347-48. Those courts have assumed congressional awareness that many courts prior to the amendment required proof of willfulness before ordering an accounting of an infringer's profits. They hold that by qualifying the remedy for a trademark dilution claim, but not a trademark infringement, unfair competition, or cybersquatting claim, Congress abrogated the willfulness requirement in the latter three contexts.

On the other hand, some courts argue that the legislative history of the 1999 amendment is not sufficiently clear to abrogate the willfulness requirement. Regardless of the history of the amendment, however, the plain text of the amendment should be instructive. The lack of an express willfulness requirement in the portion of Section 35(a) at issue here, given other uses of willfulness to qualify remedies in the same statutory provision, supports the conclusion that willfulness should not be required for the accounting of profits remedy. The amendment shows that Congress can qualify the availability of an accounting by requiring willfulness, yet, Congress did not do so for a trademark infringement or unfair competition claim. The court of appeals applied a rule that is inconsistent with the plain language of the statute. Holding that willfulness is not a perquisite to an accounting is the only result consistent with the express terms of the statute.

CONCLUSION

This Court should confirm that willfulness is not a prerequisite to an accounting of profits arising from violations of Section 43(a) of the Lanham Act. Consistent with the flexible nature of equitable relief generally, as well as the express text of Section 35(a) of the Act, willfulness should not be a bright-line prerequisite for that remedy. Instead, willfulness is an important factor, along with other principles of equity, for district courts to apply based on the facts and circumstances of each case.

Respectfully submitted,

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