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 *AMICI CURIAE* INTELLECTUAL PROPERTY LAW PROFESSORS IN SUPPORT OF RESPONDENTS

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INTEREST OF *AMICI CURIAE*

Amici are intellectual property law professors from law schools throughout the United States who regularly teach, research, and write about trademark law and remedies. Amici have no direct financial interest in the parties to or the outcome of this case. They do share a professional and academic interest in ensuring that trademark law develops in a way that furthers the purposes of a balanced trademark system.[1]

A full list of *amici* can be found in the Appendix.

SUMMARY OF ARGUMENT

For centuries, the equitable remedy of disgorgement of a defendant's profits has required that a tort defendant is a conscious wrongdoer. That has been true in equity jurisprudence generally, and it has been true in trademark infringement cases both before and after the adoption of the Lanham Act in 1946. Congress incorporated this tradition in the Lanham Act by providing for trademark infringement remedies "subject to the principles of equity."

The subsequent adoption of a new and separate law covering trademark dilution did not alter the requirements of equity. Congress's codification of trademark dilution law made explicit the requirement

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[1] The parties have granted blanket consent for the filing of this brief. No counsel for a party authored this brief in whole or in part, and no party or counsel for a party made a monetary contribution intended to fund its preparation or submission. No person, other than *amici* or their counsel, made a monetary contribution to the preparation or submission of this brief.

that monetary recovery required proof of willful dilution. In so doing, Congress should not be understood to have *sub silentio* overruled centuries of remedies jurisprudence in non-dilution trademark infringement contexts. To read the statute otherwise would ignore Congressional intent, misread the plain meaning of the statute, violate canons of statutory interpretation designed to avoid just such unintended results, and upend the policies of trademark remedies.

ARGUMENT

I. TRADITIONAL "PRINCIPLES OF EQUITY" INCORPORATED IN THE LANHAM ACT REQUIRE WILLFULNESS AS A PREREQUISITE FOR DISGORGEMENT OF PROFITS

The plain text of the Lanham Act is clear: entitlement to monetary recovery for trademark infringement, including defendant's profits, is "subject to the principles of equity." 15 U.S.C. § 1117(a). Understanding §1117(a) and its substantive limitations on profit awards therefore depends on understanding traditional principles developed by equity courts up to the time of the Lanham Act's adoption. *See* James M. Koelemay, *Monetary Relief for Trademark Infringement under the Lanham Act*, 72 Trademark Rep. 458, 460 (1982) ("An understanding of the history of the remedies for trademark infringement is a necessary foundation for understanding Section 35.").

The history of equity jurisprudence as applied to trademark profit remedies reveals that virtually all courts in all eras required (or, in some cases early on, presumed) some form of bad faith before a plaintiff was entitled to an accounting for profits. Indeed, willfulness has been a longstanding requirement for an award of profits in equity generally. *Compare* RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 51(4) (disgorgement liability for "conscious wrongdoers" and defaulting fiduciaries), with *id.* sec. 50 (more conservative measures of restitution for "innocent recipients" of benefits to which they are not entitled).

A. Profit Disgorgement Originated As a Remedy in English Equity Courts and Required Proof of Fraudulent Intent

Common law trademark jurisprudence first emerged in England beginning in the sixteenth and seventeenth centuries. Initially, plaintiffs could only pursue their claims in courts of law as a writ of deceit; the standard for such cases was fraud. *See, e.g.*, *J.G v. Sandforth*, *Cory's Entries*, BL MS. Hargave 123, fo. 168 (1584); *Southern v. How*, *Popham's Reports* 143 (1618). In order to recover damages in actions at law, plaintiffs had to prove lost sales due to the trade diversion that resulted from the infringement. Mark A. Thurmon, *Confusion Codified: Why Trademark Remedies Make No Sense*, 17 J. Intell. Prop. L. 245, 260-61 (2010). Deceived consumers could also bring a case under the same writ. Mark P. McKenna, *The Normative Foundations of Trademark Law*, 82 Notre Dame L. Rev. 1839, 1853-1855 (2007).

Equity courts did not begin entertaining trademark cases until the early nineteenth century. Plaintiffs turned to equity because they were having a difficult time establishing damages and diverted trade in actions at law. The difficulty of proving damages moved equity courts to intervene to provide injunctive relief. *Hogg v. Kirby*, 8 Ves. Jun. 215, 223, 32 Eng. Rep. 336, 339 (Ch. 1803) ("A Court of Equity is these cases is not content with an action for damages; for it is nearly impossible to know the extent of the damage . . ."). Because equity courts conceptualized trademark infringement as a trespass on property rights, the availability of *injunctive relief* did not turn on whether the defendant acted with fraudulent intent; the plaintiff only had to demonstrate substantially exclusive use. McKenna, *supra*, at 1856.

English Chancellors did recognize that an accounting for profits was an additional remedy available to plaintiffs in equity. *Hogg*, 32 Eng. Rep. at 339. Nevertheless, equity courts largely refrained from awarding both injunctive relief and profit disgorgement for decades because of the interplay between actions at law and equity. Thurmon, *supra*, at 266-67. Plaintiffs could technically receive complete relief if they prevailed in both their legal and equity actions and could successfully prove actual damages.

Because it was difficult to prove damages at law given the unavailability of discovery at the time, equity actions soon became the favored path for trademark plaintiffs, who increasingly did not bring an action at law at all. In the face of this development, equity courts sought to award plaintiffs complete relief in a single action to avoid redundant suits. Koelemay, *supra* at 467; Francis H. Upton, *A Treatise on the Law of Trade Marks*, 233-34 (1820). In accordance with the maxim that "equity follows the law," equity courts required that plaintiffs establish fraudulent intent (the standard for a writ of deceit) before they awarded defendant's profits. *See, e.g., Cartier v. Carlile*, 31 Beav. 292, 297, 54 Eng. Rep. 1151, 1153 (1862) (if plaintiff "cannot recover at law, he ought not to recover in equity"); *Taylor v. Carpenter*, 11 Paige Ch. 292 (NY Ch. 1844) (case referred to a Master for an accounting for profits after defendant's fraudulent intent was established).

Thus, by the nineteenth century, the basic framework for trademark remedies was established. Plaintiffs could recover damages in actions at law. The inquiry there was centered on the harms suffered due to trade diversion and loss of good will resulting from defendant's fraud. At equity, plaintiffs could obtain an injunction without proving intent, but an accounting or disgorgement of defendant's profits required a showing of wrongful intent.

American trademark remedies jurisprudence in this era largely tracked these developments in English courts. *See, e.g., Bell v. Locke*, 8 Paige Ch. 75, 76-77 (NY Ch. 1840) (citing English equity cases and recognizing the right to injunctive relief on theories of fraudulent intent and public deception but finding that defendants did not act with deceit); *cf. Lawrence Mfg. Co. v. Tennessee Mfg. Co.*, 138 U.S. 547, 548-49 (1891) (indicating that equity courts had jurisdiction over trademark cases on the basis of protecting plaintiffs' property rights).

B. The Willfulness Requirement Persisted as Trademark Jurisprudence Evolved During the Late 19th and Early 20th Centuries

Early equity jurisprudence around profit disgorgement was clear-cut: fraudulent intent had to be shown before an accounting for profits could be awarded. Developments during the late 19th and early 20th centuries added complexity and at times unclear and ambiguous reasoning. But in the end, willfulness remained a requirement for profit disgorgement in the vast majority of courts.

1. While equity courts began awarding profit disgorgement as an alternative monetary remedy to damages at law, developments in the late nineteenth century led American equity courts to start awarding both damages and disgorgement in trademark cases. *See* Thurmon, *supra*, at 270 (tracing developments in English equity practice and American intellectual property law that ultimately influenced American equity courts of that era). This trend was by no means universal; many courts continued to award only profits or damages, but not both. *See, e.g., Avery v. Meikle*, 3 S.W. 609, 613 (Ky. 1887).

Nevertheless, some opinions from this era began to conflate damages and an accounting for profits, viewing them as largely interchangeable. *See, e.g.*, *El Modelo Cigar Mfg. Co. v. Gato*, 7 So. 23, 28 (Fla. 1890) (finding that accounting was merely a method of ascertaining damages). Opinions from courts in this era that awarded both damages and an accounting for profits in a single action often did not distinguish between the substantive standard that applied to one or the other. But, although there was "'some conflict in the decisions,' the weight of authority by . . . [1905] was 'in favor of the rule that an account of profits will not be taken where the wrongful use of a trade-mark or a tradename has been merely accidental or without any actual wrongful intent to defraud a plaintiff or to deceive the public.'" Thurmon, supra, at 275 (quoting *Regis v. Jaynes*, 191 Mass. 245, 248 (Mass. 1906)).

Notably, the only examples of decisions Thurmon identified as dispensing with the requirement of willfulness were a single 1883 Alabama district court case, about which he concludes, "[n]o other cases were found that went this far," and dictum in a 1870 Maryland district court case. Thurmon, *supra*, at 275 n.141-42 and corresponding text; *see also* Koelemay, supra, at 473 (noting that most cases from this era required a showing of fraudulent intent before profit disgorgement, regardless of whether the action sounded in trademark or unfair competition)

2. Around this same time, American equity courts began distinguishing between "technical" trademarks and other claims that sounded in unfair competition. This distinction mirrored the earlier one found in English courts between property-based actions in equity and fraud-based actions at law. McKenna, *supra*, at 1862.

Technical trademarks were "arbitrary or fanciful" terms applied to products in commerce. *Id.* Because technical trademarks were arbitrary in character, equity courts viewed them as being exclusively appropriated by the senior user. Junior mark users who engaged in "passing off" their product as the mark owner's by using the identical mark were assumed to be acting illegitimately, and thus willfully. *See Lawrence Mfg. Co.*, 138 U.S. at 549 ("If the absolute right belonged to plaintiff, then if an infringement were clearly shown, the fraudulent intent would be inferred"). In contrast, non-technical "trade names" largely comprised "surnames, geographic terms, [and] descriptive terms." McKenna, *supra*, at 1862. Because these terms were susceptible to legitimate uses by junior mark users, courts carefully examined the facts for fraud in order to finely parse fair from unfair competition.

Consequently, courts required a showing of fraudulent intent before awarding an injunction in cases involving trade names but presumed intent when awarding injunctions in cases involving technical trademarks. Koelemay, *supra*, at 473. It was reasonable in technical trademark cases to presume that the defendant's profits were the plaintiff's because the whole cause of action was about passing off: using an identical mark in direct competition with the plaintiff to divert plaintiff's customers to the defendant. That is not something that occurs accidentally.

Presuming willfulness in those cases did not show that willfulness was not required. To the contrary, there would be no reason to presume willfulness if it *was not* a requirement. And the prevailing practice for accounting for profits was still centered on a proof of wrongful intent. Koelemay, *supra*, at 473 (noting that most cases from this era required a showing of fraudulent intent before awarding defendant's profits, regardless of the type of trademark).

3. Courts continued using these equity standards after passage of the 1905 Trademark Act even though the text of the Act made no mention of a scienter requirement for monetary recovery. *See Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 131 (1947) (finding, with reference to the 1905 Trademark Act, that an injunction was sufficient to satisfy the equities in the case because there was no evidence of fraud or palming off); *Straus v. Notaseme Hosiery Co.*, 240 U.S. 179, 181 (1916) (even though defendant's imitation of plaintiff's mark was unfair, an accounting for profits

was not justified because there was no evidence of deceit); *Regis*, 191 Mass. at 248.

Petitioner cites to *Hamilton-Brown Shoe Co. v. Wolf Bros. & Co.*, 240 U.S. 251, 253 (1916), and *Mishawaka Rubber Manufacturing Co. v. S.S. Kresge Co.*, 316 U.S. 203 (1942), as evidence that wrongful intent was not treated as a requirement for profit disgorgement. Pet. Br. 37-41. *Mishawaka* is inapposite as the Court was only "review[ing] the provision of the decree dealing with the measure of profits and damages," not the standard for infringement. 240 U.S. at 204-05. Similarly, the Court in *Hamilton-Brown Shoe* was focused on the appropriate measure of accounting, so there was no need to explicitly acknowledge that willfulness was required for profit disgorgement. In any event, the Court did reference the lower court's finding of fraudulent infringement when rejecting the Defendant's argument about the burden plaintiffs bear during an accounting for profits.

C. When the Lanham Act Was Adopted, Well-Established Equitable Principles Required Willfulness for Recovery of Profits

Thus, at the time of the adoption of the Lanham Act in 1946, "one could say with some certainty that a plaintiff in a trademark case had to prove deceptive intent to obtain a defendant's profits." Thurmon, supra, at 283-84 (finding "no cases" from 1905 to the enactment of the Lanham Act that awarded defendant's profits "absent evidence of willful infringement or some other form of bad faith."); *see also* RESTATEMENT (THIRD) OF UNFAIR COMPETITION, § 37 cmt. e ("courts generally require proof of intentional misconduct as a prerequisite to an accounting of the defendant's profits").

A willfulness requirement as a "principle of equity" is thus part and parcel of the long tradition of equity practice around profit recoveries. In enacting the Lanham Act, Congress not only acted within the context of these common law principles, but in fact incorporated the then-current state of equitable jurisprudence by adding, for the first time, the express limitation that profits and other monetary remedies would be "subject to the principles of equity." 15 U.S.C. § 1117(a). The well-established principles existing at that time made willfulness a prerequisite for profit disgorgement. In determining the meaning of §1117(a), this Court should not interpret "principles of equity" in a way that contravenes this longstanding, well-established history and practice.

Cases interpreting the Lanham Act did not change that well-established rule. *See, e.g.*, *Foxtrap Inc v. Foxtrap, Inc.*, 671 F.2d 636, 641-42 (D.C. Cir. 1982) (finding that courts customarily require a plaintiff to show bad faith or willfulness before awarding profit disgorgement after surveying circuit and district court case law); *ALPO Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 968 (D.C. Cir. 1990) (Thomas, J.) (award of defendant's profits "requires proof that the defendant acted willfully or in bad faith." (citing *Foxtrap*)).

II. THE 1999 AMENDMENT TO § 1117(a) DID NOT ALTER THIS WELL-ESTABLISHED WILLFULNESS REQUIREMENT

The Federal Circuit decision below properly rejected the argument that the 1996 addition to the

Lanham Act of a cause of action for dilution and the clarifying Trademark Amendments Act of 1999. somehow, *sub silentio*, swept aside this well-established rule. First, the 1999 Amendment's context demonstrates that Congress' purpose was to clarify a previous omission in dilution remedies, not to alter long-standing remedies for § 1125(a) trademark infringement. Second, Congressional silence about any intent to substantially change well-established remedies for § 1125(a) trademark infringement by way of a clarification to a different legal doctrine demonstrates that no such change was intended. Finally, the plain meaning of the amended text of § 1117(a) does not support an interpretation that willfulness is no longer required for profit disgorgement for § 1125(a) trademark infringement.

A. Congress Amended § 1117(a) to Correct an Earlier Omission, Not to Overturn Longstanding Equitable Principles Requiring Willfulness

The 1999 Amendment was intended to correct a drafting error in the 1996 Dilution Act). *See* Trademark Amendments Act of 1999, Pub. L. No. 106-43, § 3, 113 Stat. 218-19. There is no reason to think Congress also intended this straightforward clarification to alter the well-settled principle that willfulness is required for profit disgorgement for trademark infringement under § 1125(a).

Courts do not consider a statute's text in a vacuum. Even if the text itself implies otherwise, "a reviewing court should not confine itself to examining a particular statutory provision in isolation" because "[t]he meaning—or ambiguity—of certain words or phrases may only become evident when placed in context." *FDA v. Brown & Williamson Tobacco Corp.*, 529 U.S. 120 (2000). It is a "fundamental canon of statutory construction that the words of a statute must be read in their context and with a view to their place in the overall statutory scheme." *Davis v. Michigan Dept. of Treasury*, 489 U.S. 803, 809 (1989).

Reading the statute's words in context includes considering its ultimate purpose. A provision's interpretation should not contradict the greater purpose of the statute. For example, in *Cook City. v. United States ex rel. Chandler*, this Court found it unlikely "Congress intended to repeal municipal liability sub silentio by the very Act it passed to strengthen the Government's hand in fighting false claims" despite the text arguably implying otherwise. 538 U.S. 119, 122 (2003). Likewise, in *United States v. O'Brien*, this Court noted Congress intended changes to the disputed statute to increase readability and "fix" a judicial holding, not make substantive changes to the statute itself. 560 U.S. 218, 235 (2010).

1. Petitioner's reading of the 1999 Amendment ignores its history and purpose. In late 1995, Congress passed the Dilution Act, which amended the Lanham Act to add a cause of action for trademark dilution under § 1125(c). Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98, 109 Stat. 98 (1996). Congress intended to provide injunctive relief and, if the dilution was willful, monetary relief as possible remedies for trademark dilution. The 1996 statute provided that trademark owners are "entitled to remedies set forth in section 1117(a)" for willful infringements of their mark. But Congress erred by not also updating § 1117(a), which allowed at the time

monetary relief only for "a violation under section 1125(a)." Consequently, the Dilution Act did not technically provide the intended monetary relief for willful trademark dilution.

The 1999 Amendment corrected this error in the Dilution Act. In the Amendment, Congress altered § 1117(a) to provide that trademark owners may receive monetary relief for "a violation under § 1125(a) or (d) of this title or a willful violation under § 1125(c) of this title." The legislative history for the 1999 Amendment contains no indication Congress intended to alter the framework for determining monetary relief for trademark infringement under § 1125(a) by adding this phrase. *See* H.R. Rep. No. 106-250, at 6 (1999). In fact, there is no indication Congress intended the addition to have any effect other than correcting its earlier omission when it passed the Dilution Act. *See id.* ("Section three seeks to clarify that in passing the Dilution Act, Congress did intend to allow for injunctive relief and/or damages against a defendant found to have willfully intended to engage in commercial activity that would cause dilution of a famous trade-mark.").

2. The notion that Congress intended to eliminate the willfulness requirement with respect to § 1125(a) violations through the 1999 Amendment has the purpose of the Amendment exactly backward. The remedy provision of the Dilution Act and of the 1999 Amendment worked to *limit* the remedies available to trademark owners, specifying that they could not receive *any monetary damages* for dilution of their marks unless the dilution was willful. But accepting Petitioner's argument that the Amendment implicitly eliminated any willfulness requirement for

infringement under § 1125(a) would dramatically *expand* the scope of monetary relief in trademark cases. Following this Court's reasoning in *Cook City*, it is difficult to fathom that Congress would, silently and entirely by implication, *increase* monetary relief for trademark infringement in the same amendment where it carefully *limited* monetary relief for dilution.

B. Congress Gave No Indication That It Intended the Amendment to Eliminate the Well-Established Willfulness Requirement

Congress provided no indication whatsoever that it intended the 1999 Amendment to work a fundamental and drastic change to the willfulness prerequisite for profit disgorgement for the separate tort of trademark infringement under § 1125(a). If true, there would be no better example than this of Congress "hid[ing] elephants in mouseholes." *Whitman v. Am. Trucking Ass'ns*, 531 U.S. 457, 468 (2001).

Congress must be explicit, not completely silent, when it intends to implement a substantive change. *O'Brien*, 560 U.S. at 231 (citing *Dir. of Revenue v. CoBank ACB*, 531 U.S. 316, 318 (2001)) ("Congress does not enact substantive changes *sub silentio*."); *see, e.g.*, *Brown & Williamson Tobacco Corp.*, 529 U.S. at 160 ("[W]e are confident that Congress could not have intended to delegate a decision of such economic and political significance to an agency in so cryptic a fashion"). "'[A] major departure from the long tradition of equity practice should not be lightly implied.'" *eBay Inc. v. MercExhange, L.L.C.*, 547 U.S. 388, 391 (2006) (quoting *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 320 (1982)).

Even in cases where the text itself implies such a substantial change, this Court has been hesitant to decide that Congress intended to overturn established jurisprudence without an explicit indication. *See United States v. Madigan,* 300 U.S. 500, 506 (1937) (citing *United States v. Munday*, 222 U.S. 175, 182 (1911); *Ibanez v. Hong Kong Banking Corp.*, 246 U.S. 621, 626 (1918)) ("The modification by implication of the settled construction of an earlier and different section is not favored."); *see also* A. Scalia & B. Garner, Reading Law 331 (2012) ("A clear, authoritative judicial holding on the meaning of a particular provision should not be cast in doubt and subjected to challenge whenever a related though not utterly inconsistent provision is adopted in the same statute or even in an affiliated statute").

Direct modifications to a statute itself for clarifying purposes, such as deleting or adding phrases to it, are not alone sufficient to show Congress intended to change the statute's substance. *See Helsinn Healthcare S.A. v. Teva Pharm. USA, Inc.*, 139 S. Ct. 628, 633-34 (2019) (adding the phrase 'or otherwise available to the public' was not sufficient "to conclude Congress intended to alter the meaning" of 'on sale,' a reenacted term with "a settled meaning"); *CoBank ACB*, 531 U.S. at 318 (refusing to interpret deleted language from the Farm Credit Act to mean Congress had "eliminated the States' ability to collect revenue from the banks *sub silentio,*" undermining "the Act's more than 50-year history"). A "structural or stylistic" change to a statute is also not the sort of necessary "clear indication" required to show that Congress intended to change its meaning. *United States v. O'Brien,* 560 U.S. 218, 231-32 (citing *Grogan v. Garner*, 498 U.S. 279 (1991)).

Petitioner's interpretation of the 1999 Amendment requires believing Congress, entirely by implication, intended to change the well-established prerequisite of willfulness for profit disgorgement in cases of trademark infringement under § 1125(a). That would have been a fundamental and highly substantial change, one that Congress would not enact *sub silentio*.

C. The Plain Text of § 1117(a) Supports a Continued Willfulness Requirement

Finally, even if this Court were to ignore the history, context, and purpose of the statute altogether, a plain reading of the text of § 1117(a) does not show that the addition of the new word "willful" in reference to dilution somehow eliminates any requirement of willfulness for disgorgement of profits for infringement under § 1125(a). Instead, the meaning of "willful" in this context is much simpler and less mysterious.

The dilution statute makes clear that, in order to recover *any* monetary relief for dilution – damages, litigation costs, or defendant's profits – the dilution must be willful. The statute distinguishes dilution in this respect from trademark infringement, for which plaintiffs may recover their own lost sales without proof of intent. In other words, willfulness is required for *any form of monetary relief* for dilution but is only required to award defendant's profits for trademark infringement. This meaning is reinforced by the fact that, at least since the Lanham Act's passage, willfulness has not been a prerequisite for actual damages for infringement, but it expressly is for dilution.

The placement of the term "willful" in the statute supports that reading. As amended, § 1117(a) provides,

> When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, a violation under section 1125(a) or (d) of this title, or a willful violation under section 1125(c) of this title, shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 of this title, and 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.

The amended statute separates monetary relief considerations for trademark violations into two categories, those "under section 1125(a) or (d)" and those "under section 1125(c)," trademark dilution. And there are three possible types of monetary relief: disgorgement of profits, damages, and litigation fees. All three types of monetary relief for both categories of violations are "subject to the principles of equity."

The amendment to § 1117(a) explicitly requires "willful" trademark dilution for a dilution plaintiff to receive any monetary relief. In contrast, willfulness is not explicitly required for monetary relief from trademark violations under § 1125(a) and (d). But all forms of monetary relief remain "subject to the principles of equity." The natural reading of the statute is therefore that (1) dilution plaintiffs cannot recover any money unless the dilution was willful, while (2) trademark infringement plaintiffs can recover money according to traditional equitable jurisprudence. And as we have seen, traditional equity jurisprudence requires conscious wrongdoing before disgorging profits.

Indeed, Petitioner's reading of the statute would read the term "subject to principles of equity" out of the statute. If Congress intended to fundamentally remake trademark remedies to contradict centuries of equity jurisprudence, it would not have kept the requirement that courts should apply those principles.

Under traditional principles of equity, willfulness is not required to recover damages or litigation fees for trademark infringement under § 1125(a) and (d). But willfulness is required for profit disgorgement. By not including the word "willful" for violations under § 1125(a) and (d) but retaining the requirement to apply the principles of equity, the statute allows for the three types of monetary relief to be treated differently subject to these well-established equitable principles.

III. SOUND POLICY REASONS SUPPORT CONTINUING TO REQUIRE WILLFULNESS AS A PREREQUISITE FOR PROFIT AWARDS

Compelling policy considerations support reading § 1117(a) to continue to limit the award of a defendant's profits to cases of willfulness or bad faith on the part of the infringer. Disgorgement of profits regularly provides a windfall to plaintiffs. It is a powerful and, at times, extreme remedy that must be applied with great care. Limiting its use to cases of willful infringement or conscious wrongdoing is essential to prevent it from disrupting the balance the trademark system seeks to maintain.

Eliminating the willfulness prerequisite and allowing recovery of profits from even innocent infringers would cause significant harm in many cases. It would unjustly enrich plaintiffs and disproportionately punish defendants with awards that far exceed any measure of the actual damages needed for appropriate compensation. And it would create strong and perverse incentives for plaintiffs to engage in strategic and abusive litigation practices that would have far more to do with leveraging the powerful threat of massive remedies to force costly settlements of meritless cases or to drive up recoveries than with genuine redress for infringement.

1. Trademarks protect a company's good will or brand equity. Consumers use trademarks as a shorthand to identify desired product attributes, including quality, features, and intangibles like cultural cachet. A trademark infringement thus gives rise to two harms: (1) a public harm in the form of misinformation or fraud perpetuated on the market that serves to confuse consumers; and (2) a private harm to the party whose trademark was infringed. Private harm can take the form either of trade diversion or of the defendant's misappropriation of good will and value that was ultimately generated by the plaintiff. Modern trademark law is a strict liability regime; upon a showing of "likelihood of confusion," liability attaches whether or not the defendant intended to confuse consumers.

The Lanham Act provides for injunctions, damages, and an accounting for profits as remedies for proven infringement. Trademark remedies must balance the need to deter malicious or willfully bad faith conduct with the need avoid chilling legitimate forms of competition and commerce. Continuing to limit profit disgorgement only to cases of willful infringement will protect that balance and ensure more socially optimal outcomes compared to a world where willfulness is not a prerequisite.

2. Profit disgorgement is suited to situations of bad faith where deterrence is the primary goal. While compensatory rationales have sometimes been wrapped up with awards of profits, an accounting for profits is inherently centered on defendants' gains and not plaintiffs' losses, making it a poor mechanism for compensating plaintiffs. Because plaintiffs need only prove gross sales before the burden shifts to defendants to establish deductible costs, there is a substantial risk of overcompensation. The risk is particularly great where, as in this case, the plaintiff's product is only one component of a larger product. In such cases, the apportionment of value is extremely difficult and awarding profits under a compensatory rationale will lead to plaintiffs recovering often far more than the actual value misappropriated by defendants. The resulting unjust enrichment for plaintiffs and excessive payments by defendants undermines the balance of the trademark remedy system.

That defendants often have to pay more than their net gains from infringement is far less of an issue when willfulness is a bar to profit disgorgement. The ex ante risk that a willfully infringing defendant may have to disgorge profits acts to deter socially undesirable behavior. On the other hand, if unconscious or innocent infringers are at risk of profit disgorgement, possibly far in excess of any actual harm caused, they may be chilled from engaging in legitimate competition or desired commercial activity. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION, § 37 cmts. e ("application of the accounting remedy to uses undertaken in good faith can chill lawful behavior . . . thus effectively expanding the scope of the plaintiff's trademark rights."). To avoid such chilling, innocent infringement is better remedied after the fact in the form of damages and injunctive relief.

Damages compensate for the private harm caused by infringement. Injunctions stop the infringement that is causing the public and private harms. These remedies are generally available without a showing of willfulness. Against this backdrop, requiring willfulness for an accounting of profits sets up a clear scheme where plaintiffs have readily available remedies for stopping infringing activity and recovering an approximation of their losses, and the trademark system has a mechanism for deterring bad faith behavior upfront while ensuring that willful actors do not benefit financially from their behavior on the backend.

3. Permitting awards of a defendant's profits for innocent or other non-willful infringement also creates powerful perverse incentives for trademark plaintiffs to engage in abusive litigation tactics. The threat of an award that is vastly in excess of any harm suffered by the plaintiff, and in excess of any gain to the defendant that is *actually attributable to the infringement*, gives a plaintiff extraordinary leverage to coerce innocent infringers into costly settlements that far exceed any measure of genuine harm or compensation. And, as the facts of this case illustrate,

plaintiffs may have incentives to engage in other harmful gamesmanship. They might choose to wait to threaten or institute litigation until immediately before periods of high-sales volume, where the damage caused by a threatened profits award would be the most devastating to a defendant. Or they may choose to delay pursuing trademark infringement of which they become aware to drive up the amount of profits they can recover based on the infringer's ongoing sales.

Indeed, trademark "trolls" and bullying of smaller defendants are already a problem in trademark law, just as they were in patent law before this Court required that courts apply principles of equity in granting patent remedies. *eBay* 547 U.S. at 391. *See* Leah Chan Grinvald, *Shaming Trademark Bullies*, 2011 Wisc. L. Rev. 625; Mark A. Lemley, *Fame, Parody, and Policing in Trademark Law*, 2019 Mich. St. L. Rev. 1, 2 ("Trademark owners regularly overreach. They make extremely broad claims for their marks, trying to control simple shapes, words, or even letters regardless of context"); Kenneth L. Port, *Trademark Extortion: The End of Trademark Law*, 65 Wash. & Lee L. Rev. 585, 588-91 (2008) (describing trademark "strike suits").

While these risks may be outweighed by the need for deterrence and avoiding unjust enrichment in cases where an infringer acts willfully and in bad faith, there is no benefit and only harm in allowing these risks in the case of innocent infringers or those acting without willfulness or other bad faith.

The risk of bullying also explains why this Court should reject the effort to recast willfulness as merely one factor supporting profit disgorgement. Besides contradicting historical practice and the text of the statute, such an approach would leave innocent infringers open to the risk of extortion by trademark trolls. Because they could never be sure they wouldn't face disgorgement regardless of their belief in the legality of their conduct, the safest thing to do under such an uncertain regime is to settle even meritless suits. See, e.g., William McGeveran, *Rethinking Trademark Fair Use*, 94 IOWA L. REV. 49, 52 (2008) ("The lethal combination of uncertain standards with lengthy and costly litigation creates a classic chilling effect upon the unlicensed use of trademarks to facilitate speech, even when such uses are perfectly lawful."); Glynn S. Lunney, Jr., *Two-Tiered Trademark*, 56 HOUS. L. REV.. 295, 297 (2018) ("[T]he party that cannot afford the high and increasing cost of participation in the trademark system loses . . . not because justice . . . dictates that they lose[,] but because they cannot afford to participate in the system. . . . [R]esolution will turn solely on which party can afford to litigate."); Grinvald, 2011 WISC. L. REV. at 652 (explaining how the costs of rebuffing "trademark bullies" makes "ceasing to use the trademark at stake without a battle" perhaps the least expensive option). There is nothing equitable about those results.

CONCLUSION

This Court should affirm the Federal Circuit and hold that willfulness remains a requirement for disgorgement of a defendant's profits in a trademark infringement case.

Respectfully submitted,

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December 4, 2019

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