

# THE IMPACT OF ROMAG FASTENERS INC. V. FOSSIL INC.: WILLFULNESS IS NOT REQUIRED FOR AN AWARD OF PROFITS IN TRADEMARK INFRINGEMENT

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**On April 23, 2020, the U.S. Supreme Court issued a unanimous ruling in Romag Fasteners, Inc. v. Fossil, Inc., determining that a plaintiff does not need to prove willful trademark infringement in order to recover a defendant's profits. This article summarizes the Supreme Court's decision and analyzes the impact of the decision on businesses.**

## Summary of the Case

The case involved Fossil, Inc., which sells handbags and small leather goods, and Romag Fasteners, Inc., which manufactures and sells magnetic snap fasteners that are used in wallets, handbags, and other leather goods. In 2002, Fossil entered into an agreement to use Romag's fasteners in Fossil's products. However, in 2010 Romag discovered that the factories in China that were making Fossil products were using counterfeit Romag fasteners and that Fossil was doing very little to prevent the use of such counterfeit fasteners in its products. In 2010, Romag sued Fossil for patent and trademark infringement. The jury determined that Fossil had infringed Romag's trademark, but rejected Romag's claim that the infringement was willful. Nevertheless, the jury awarded Romag damages based on Fossil's profits. Since the Second Circuit requires that a plaintiff seeking an award of the defendant's profits must show willful infringement, the court struck the jury's award. On appeal, the Federal Circuit affirmed, finding that a showing of willfulness is required to award profits within the Second Circuit.

Prior to the Court's ruling, lower circuits were split as to whether willfulness was a requirement for an award of an infringer's profits. Some circuits, including the Ninth Circuit, held that it was a requirement, while other circuits held that it was either not a requirement or that it was uncertain. When reaching its decision, the Supreme Court focused on the language of the statute outlining the damages that can be recovered for trademark claims, 15 U.S.C. § 1117. Although section 1117 does require a showing of willfulness to obtain profits under 15 U.S.C. § 1125(c) (trademark dilution claims), it does not require and has never required a showing of willfulness to recover profits under 15 U.S.C. § 1125(a) (trademark infringement claims) and the Court does not "read into statutes words that aren't there." The Court also rejected Fossil's argument that 15 U.S.C. § 1117 includes a willfulness requirement through the language that the plaintiff's entitlement to damages is "subject to the principles of equity." The Court determined that a willfulness requirement is not a fundamental rule or universally recognized as one to rise to the level of a "principle of equity." Finally, the Court noted that, while willfulness is not a requirement, it is still an important element to consider when awarding profits.

## Impact on Businesses

**1. Increase in litigation:** As a result of the ruling, it is now easier to obtain an infringer's profits in trademark infringement lawsuits in several circuits, including the Ninth Circuit. This may lead to an increase in trademark infringement lawsuits

throughout the country as the lower hurdle to receiving profits may incentivize companies to initiate litigation. Since false advertising claims are also governed by 15 U.S.C. §1125(a), the decision may also lead to an increase in litigation involving false advertising claims. Additionally, there may be a decrease in forum shopping and an increase in the filing of lawsuits in circuits where such damages were previously thought to be unattainable. California businesses who were deterred from bringing lawsuits in the Ninth Circuit due to the “willfulness” requirement and deterred from bringing lawsuits in other, more favorable jurisdictions due to expense, now have the opportunity to bring suit in their own jurisdiction.

**2. Cease and desist letters:** Prior to initiating litigation, many businesses first attempt to resolve trademark infringement disputes through cease and desist letters. Such letters typically request that the infringer cease its infringing activity without conditioning resolution of the dispute on an accounting of the infringer’s profits and/or a payment from the infringer for its infringing use. Now that it is easier to obtain a defendant’s profits in a lawsuit, it is likely that infringers may start receiving cease and desist letters that require payment from the infringer in order to resolve disputes. Additionally, infringers may take cease and desist letters more seriously than they would have previously due to the increase in risk if the dispute proceeds to trial.

### **3. Trademark clearance searches:**

Conducting thorough trademark clearance searches before adopting a mark is even more critical.

If a business adopts a third-party’s mark without conducting a trademark clearance search or by improperly conducting such a search, the third-party who owns the mark does not have to prove “willfulness” on the business’ part to recover an award of profits. “Willful” infringement is a higher standard than voluntary or intentional infringement. According to Black’s Law Dictionary, “a voluntary act becomes willful, in law, only when it involves conscious wrong or evil purpose on the part of the actor, or at least inexcusable carelessness, whether the act is right or wrong.”

Now, to get an award of profits, the third-party only has to prove that the business adopted the third-party’s mark by improperly conducting or without conducting reasonable due diligence regarding the availability of the mark. Because of this decision, even if a business did not intend to infringe a third-party’s mark, it may be directed to pay profits in an infringement action.

Conducting clearance searches is also important because, before this decision, one of the risks of not doing clearance searches before adopting or using a mark was getting a cease and desist notice that asked the infringing party to stop using the infringing mark. Now, the risk is that the cease and desist letters could demand payment. The consequences of the Court’s decision on cease and desist letters is discussed in the preceding section of this article.

### **4. Protection through due diligence and robust contracts:**

Now, businesses will have to closely monitor their supply chains and institute robust quality control standards to prevent counterfeit materials from being used in their businesses. Businesses should conduct thorough due diligence of the suppliers that they are contracting with to ensure that the materials provided are not counterfeit.

The supplier agreements should have audit rights that would enable the business to inspect the suppliers’ factories, supply chains, and materials, etc. If there are audit rights in the supplier agreement, the business should exercise those rights in accordance with the supplier agreement; otherwise, it could amount to negligence by the business.

Ideally, these agreements should also have robust indemnity provisions that are not limited in any manner so that the supplier indemnifies the business if it is required to pay profits because of infringement of a third-party’s mark due to the supplier’s action. In reality, most indemnity provisions in supplier agreements would not impose an unlimited obligation on the supplier. The business should evaluate its risk if the supplier is too small to indemnify the business fully or if the supplier is big enough but is pushing back on the indemnity provision.

If you need assistance with trademark clearance searches, contract drafting, cease and desist letters, initiating or defending a trademark infringement action, or have questions, please do not hesitate to reach out to us. Donahue Fitzgerald's intellectual property, litigation, and business and corporate attorneys are committed to providing your business with our best guidance and advice.



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