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ALERTS

# U.S. Supreme Court Rejects Willfulness Prerequisite For Disgorgement Of Profits Award

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On April 23, the U.S. Supreme Court resolved a split among the U.S. Courts of Appeals, finding in *Romag Fasteners, Inc. v. Fossil Group, Inc.* that willfulness is not a threshold requirement for an award of disgorgement of profits. On behalf of the Supreme Court, Justice Neil Gorsuch delivered an opinion holding that "a trademark defendant's mental state is a highly important consideration," but is not an "inflexible precondition" for a disgorgement award.

The court's ruling rejects the U.S. Court of Appeals for the Second Circuit precedent relied on by the U.S. Court of Appeals for the Federal Circuit in earlier proceedings between the parties.

The Supreme Court's analysis began with the language in the Lanham Act allowing a recovery of defendant's profits "subject to the principles of equity." The court noted "the statutory language has never required a showing of willfulness to win a defendant's profits." The absence of a requirement in the statute for a particular mental state is "all the more telling." The court rejected appellee's argument that the wording "principles of equity" incorporates a willfulness requirement for disgorgement of profits. Based on its analysis of pre-Lanham Act trademark decisions, the court determined "[m]ens rea figured as an important consideration in awarding profits in pre-Lanham Act cases."

The court concluded the defendant's mental state is therefore relevant, but is not a precondition to a disgorgement award:

"Given these traditional principles, we do not doubt that a trademark defendant's mental state is a highly important consideration in determining whether an award of profits is appropriate. But

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acknowledging that much is a far cry from insisting on the inflexible precondition to recovery Fossil advances."

Justices Samuel Alito, Stephen Breyer and Elena Kagan concurred, making the court's holding on willfulness even more clear, stating that "willfulness is a highly important consideration in awarding profits under §1117(a), but not an absolute precondition." In other words, willfulness is a factor, but not a requirement for a disgorgement award.

Justice Sonya Sotomayor issued her own concurrence. While she agreed that willfulness is not a requirement for a disgorgement of profits award in a trademark case, she added that a disgorgement of profits award is not consistent with the "principles of equity" if the trademark defendant acted innocently or in good faith.

The court's opinion was silent on, and does not affect, other requisite elements for a disgorgement of profits award, such as a causal connection between a defendant's infringing activity and its profits. The court also did not define what other factors should be considered in assessing a disgorgement of profits award.

Of critical importance, this holding by the Supreme Court sides with precedent in several circuits – namely the Third, Fourth, Fifth, Sixth, Seventh and Eleventh – that willfulness is an element, but not a requirement, for disgorgement.

To obtain more information, please contact the Barnes & Thornburg attorney with whom you work, or Philip Jones at 312-338-5915 or pjones@btlaw.com.