No. 16-202

In the Supreme Court of the United States

ROMAG FASTENERS, INC.,

Petitioner,

v.

FOSSIL, INC., ET AL.,

Respondents.

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

BRIEF FOR RESPONDENTS IN OPPOSITION

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QUESTIONS PRESENTED

The Lanham Act, 15 U.S.C. § 1117(a), provides that a prevailing plaintiff in a trademark infringement or false designation of origin action can—"subject to the principles of equity"—recover the defendant's profits resulting from the infringement. Some courts of appeals have held that the applicable "principles of equity" require proof that the defendant acted willfully or in bad faith; other courts hold that proof of willfulness or bad faith is an "important" factor in determining whether an award of the defendant's profits is permissible.

1. Whether the Court should address the standard for awarding defendant's profits even though (a) these different formulations have little real-world impact—as evidenced by the fact that courts labeling willfulness "important," but not required, nonetheless in the overwhelming majority of cases approve profits awards when there is proof of willfulness and deny profits awards when willfulness is not shown; and (b) the district court's unchallenged findings in this case bar petitioner from recovering respondent's profits under every standard applied by the lower courts.

2. Whether the Court should hold this case pending its decision in *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC*, No. 15-927, even though the $12,000 reduction in patent infringement damages can be justified on alternate grounds—in particular, the district court's finding that petitioner was liable for sanctions for engaging in bad faith litigation tactics, such as misleading representations and inexcusable delay.

RULE 29.6 STATEMENT

Fossil, Inc., which formally changed its name to Fossil Group, Inc. as of May 2013, has no parent corporation and no publicly held corporation owns 10% or more of its stock. Fossil Stores I, Inc. is a wholly-owned subsidiary of Fossil Group, Inc.

Macy's, Inc. has no parent corporation and no publicly held corporation owns 10% or more of its stock. Macy's Retail Holdings, Inc. is a wholly-owned subsidiary of Macy's, Inc.

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OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-19a) is reported at 817 F.3d 782. The district court's unreported August 8, 2014 opinion ruling on the parties' post-jury trial motions—which was not included in the appendix to the petition—is set forth at App., *infra*, 1a-30a, and is available at 2014 WL 3895905. The district court's June 27, 2014 memorandum of decision (Pet. App. 20a-66a) is reported at 29 F. Supp. 3d 85.

STATEMENT

The principal question in this case concerns the standard for awarding the infringer's profits as a remedy for trademark infringement. Petitioner Romag Fasteners, Inc. ("Romag"), which owns a trademark on magnetic snap fasteners, sought and obtained preliminary and permanent injunctive relief on its trademark claims. It did not seek either actual damages or statutory damages—instead asserting only a claim for defendants' profits. (Romag obtained $54,000 on a patent infringement claim based on the same facts as the trademark claims.)

The governing statute, 15 U.S.C. § 1117(a), authorizes awards of the defendant's profits "subject to the principles of equity." The court below concluded that these principles require proof of willful misconduct to permit an award of profits.

Certainly it is clear that "principles of equity" would not permit an award of defendants' profits in this case. The district court found that Romag engaged in inequitable conduct by delaying this suit until the holiday shopping season in order to inflict maximum economic pressure on defendants—

including the inability to sell $4 million in merchandise—so that defendants would be forced to settle. It also found that Romag made misleading misrepresentations in its temporary restraining order filing that prevented the district court from accurately applying the governing legal standard. *See* pages 9-13, *infra*.

Moreover, the district court found that "the evidence at trial at most could have supported a finding that Fossil was negligent, not that it acted in reckless disregard, with willful blindness, or with actual knowledge of [its third-party supplier's] purchases of counterfeit snaps." App., *infra*, 15a (footnote omitted). And the jury concluded that Romag's trademark played virtually no role in generating Fossil's handbag sales and profits—determining that only 1% of profits was attributable to the trademark.

Finally, Romag lost approximately $37,000 in royalties, but its claim for an award of profits exceeded $26 million. To put this claim in context, the profits Romag sought are more than ***700 times*** Romag's actual loss.

Romag's petition seeking review of the court of appeals' determination that willful misconduct is required for an award of defendants' profits should be denied for three reasons.

First, there is no meaningful conflict among the courts of appeals. Some courts say that willfulness is a prerequisite to an award of the defendant's profits and others say it is an "important" factor. But the reality is that the overwhelming majority of appellate decisions upholding awards of profits under the latter standard involve willful misconduct; and that courts applying that standard almost never award profits when willfulness is not proven. The courts' different formulations have little real-world effect.

Second, this case is an extremely poor vehicle for addressing the question presented, because even if—as Romag contends—the district court's unchallenged finding that Fossil's conduct was not willful is only an *important* factor in determining eligibility for a profits award, Romag would not be entitled to recover profits. Every relevant factor weighs heavily against an award of profits: Fossil did not act recklessly or with knowledge of the infringement; Romag engaged in inequitable conduct, including misrepresentations to the district court, unclean hands, and laches; and the tens of millions of dollars sought by Romag would be a massive windfall given its actual loss of $37,000. The Court should not review the legal issue in a case in which the outcome will not change.

Third, the decision below was correct. The common law required proof of willfulness to permit an award of an infringer's profits, and that common-law rule is incorporated in Section 1117(a) by the statute's reference to "principles of equity." Nothing in a 1999 technical amendment revising other language in Section 1117(a) altered that standard.

A. Legal Background.

Section 32 of the Lanham Act, 15 U.S.C. § 1114(1), creates a private cause of action for the infringement of a registered trademark. Section 43(a) of the Act, 15 U.S.C. § 1125(a), creates a private cause of action for false designation of origin.

The Act authorizes a range of remedies for prevailing plaintiffs, depending on the facts of the case. These may include injunctive relief (see 15 U.S.C. §

1116(a)); statutory damages (*id.* § 1117(c)); actual damages (*id.* § 1117(a)); recovery of the defendant's profits (*ibid.*); and reasonable attorneys' fees (*ibid.*).

The standards governing monetary remedies in infringement and false designation actions are specified in Lanham Act Section 35(a), 15 U.S.C. § 1117(a). Prior to 1999, that provision stated that a plaintiff establishing a violation of either provision

> 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.

It specified that if a 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." *Ibid.* Also, such an award "shall constitute compensation and not a penalty." *Ibid.*

This Court explained—in a case under the Lanham Act's statutory predecessor, the Trademark Act of 1905—that proof of infringement by itself is insufficient to permit an award of the defendant's profits. "[W]here an injunction will satisfy the equities of the case," an award of the defendant's profits is not appropriate. *Champion Spark Plug Co. v. Sanders,* 331 U.S. 125, 131 (1947). In *Champion*, there was "no showing of fraud or palming off" and "the likelihood of damage to [the plaintiff] or profit to [the defendants] was "slight"; this Court held that the grant of the injunction by itself therefore "satisf[ied] the equities of the case." *Ibid.*

Some courts of appeals—in ascertaining the "principles of equity" governing awards of the defendant's profits under Lanham Act Section

1117(a)—held that proof of willfulness is required for such an award. *See, e.g.*, *George Basch Co. v. Blue Coral, Inc.*, 968 F.2d 1532 (2d Cir.), *cert. denied*, 506 U.S 991 (1992); *SecuraComm Consulting, Inc. v. Securacom Inc.*, 166 F.3d 182, 190 (3d Cir. 1999) (Alito, J.) ("a plaintiff must prove that an infringer acted willfully before the infringer's profits are recoverable"), *overruled on other grounds*, *Banjo Buddies, Inc. v. Renosky*, 399 F.3d 168, 175 (3d Cir. 2005); *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, 961, 969 (D.C. Cir. 1990) (Thomas, J.) (an award of profits is "proper only in a case involving actions that evince willfulness or bad faith, such as passing off a product as another seller's product").

Other courts concluded that "principles of equity" made willfulness an important consideration, but not a prerequisite to an award of profits. *E.g.*, *Pebble Beach Co. v. Tour 18 I Ltd.*, 155 F.3d 526, 554 (5th Cir. 1998).

In 1996, fifty years after enacting Lanham Act Section 1117(a), Congress added to another provision of the Act a new cause of action for trademark dilution, specifying that a prevailing plaintiff would be entitled only to injunctive relief unless it also proved that the defendant "willfully intended to trade on the owner's reputation or to cause dilution of the famous mark." 15 U.S.C. § 1125(c)(2). A plaintiff that made that showing would also "be entitled to the [monetary] remedies set forth in section 1117(a) * * * subject to the discretion of the court and the principles of equity." *Ibid.*

However, the 1996 amendment created uncertainty, because Congress did not amend Section

1117(a) to add a reference to the new dilution cause of action. Congress therefore amended the statute again in 1999. As the committee report accompanying the 1999 amendment explained: "[t]he language of the [1996 amendment] presented to the President for signing did not include the necessary changes to [Section 1117(a)] * * *. Therefore, in an attempt to clarify Congress' intent and to avoid any confusion by courts trying to interpret the statute, section three makes the appropriate changes to [Section 1117(a)] * * * to allow for * * * damages." H.R. Rep. 106-250, 106th Cong., 1st Sess., at 6 (1999).

The 1999 amendment altered Section 1117(a) as follows (added text in italics):

> When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, ~~or a violation under section 1125(a),~~ *a violation under section 1125(a), 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 principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action.[1]

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[1] As a result of subsequent unrelated amendments (see Pet. App. 11a), the current version of the provision reads:

> 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, * * *

B. Factual Background.

Romag owns a patent for a type of magnetic snap fastener and a trademark registration for the mark ROMAG. Pet. App. 22a. Romag's snaps are manufactured in China by Wing Yip Metal Manufactory Accessories Limited ("Wing Yip"), which sells them to customers in Asia and pays a five cent per-snap royalty to Romag. Pet. App. 22a-23a.

Fossil sells consumer fashion accessories, including handbags, both directly to consumers and through retailers such as Macy's. Pet. App. 23a-24a. Fossil does not manufacture the handbags it sells, but contracts with independent business entities to do so. Pet. App. 24a.

Superior Leather Limited manufactured handbags in China for Fossil. Pet. App. 24a. "As Fossil's designated manufacturer, Superior, not Fossil, purchases the component parts for handbags, including the magnetic snaps." *Ibid.*

Romag in May 2010 obtained information indicating that Superior was using non-genuine Romag snaps. That information provided "sufficient knowledge * * * to bring suit" in June 2010. Pet. App. 45a. Romag did not act on the information for five months.

On November 17, 2010, Romag's attorney sent a cease and desist letter to Fossil stating that Fossil products contained counterfeit Romag snaps and demanding that Fossil suspend sales of products with counterfeit snaps. Fossil investigated the alle-

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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.

gations and was informed by Superior on December 2, 2010, that Superior "had purchased ROMAG snaps from a manufacturer that was 'not the authorized licensee of Romag.'" Pet. App. 25a, 29a.

C. District Court Proceedings.

Romag commenced this action on November 22, 2010, alleging patent and trademark infringement. The district court granted a temporary restraining order on November 30, 2010. Pet. App. 29a-31a.

Romag sought permanent injunctive relief as well as a monetary award consisting solely of defendants' profits; Romag did not seek either actual damages or statutory damages for trademark infringement. District Ct.'s Jury Charge, ECF No. 410, at 22 [JA2384]; App., *infra*, 29a. In particular, Romag sought all of the handbag profits of Fossil, Macy's, and several other retailers attributable to Fossil handbags—an amount that, according to Romag, totaled approximately $26 million, Plaintiff Exh. 263; Romag further requested that the award of profits be trebled. Complaint, ECF No. 1, at 11 [JA220].

1. Following a trial, the jury found Fossil and defendant Macy's, Inc. liable for patent infringement. The jury determined that neither Fossil nor Macy's had willfully infringed Romag's patent. It awarded reasonable royalty damages of $51,052.14 against Fossil and $15,320.61 against Macy's. Pet. App. 20a-21a.

With respect to the trademark infringement and false designation of origin claims, the jury found Fossil liable, but also found that Fossil had not willfully infringed the trademark. Based on a jury instruction to which Fossil objected—and which was the subject of Fossil's conditional cross-appeal—the jury made an advisory award of $90,759.36 of Fossil's profits under an unjust enrichment theory and $6,704,046.00 of Fossil's profits under a deterrence theory. Pet. App. 20a-21a; App., *infra*, 27a-29a.[2]

The jury went on to determine the portion of the profits attributable to the infringement, as required by this Court's holding in *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 206 (1942), that "[t]he plaintiff * * * is not entitled to profits demonstrably not attributable to the unlawful use of his mark." Here, the jury found that the use of the mark "accounted for approximately 1% of Fossil's profits on the accused handbags," and the district court upheld that determination. App., *infra*, 27a.

2. The district court conducted a bench trial on Fossil's equitable defenses—including laches; Fossil's claim that Romag engaged in sanctionable conduct in connection with the temporary restraining order proceedings; and equitable adjustment of the jury's advisory profits calculations.

With respect to the laches issue, the court held that Romag "had sufficient knowledge * * * by June 2010 to bring suit," but unreasonably and inexcusably delayed in filing suit:

> Plaintiff carefully timed this suit to take advantage of the imminent holiday shopping

[2] The challenged instruction wrongly allowed the jury to issue an advisory award of profits without a finding of bad faith or willful infringement and otherwise provided the jury with little guidance regarding the specific types of egregious conduct that could support a profits award under either an unjust enrichment or deterrence theory. Pet. App. 19a; App., *infra.*, 28a-30a.

> season to be able to exercise the most leverage over Defendants in an attempt to extract a quick and profitable settlement, as it had done twice before in the past three years. Furthermore, Plaintiff, in filing for emergency relief, relied on misleading representations that obfuscated the months of delay, where full disclosure would have undermined its claim of irreparable harm.

Pet. App. 45a, 40a.

In support of this conclusion, the court found that:

- Romag had twice before—in November 2007 and November 2009—"issu[ed] cease and desist letters and [sought] emergency relief on the eve of Black Friday [the first shopping day after Thanksgiving], a time that is an obvious pressure point for retailer defendants." Pet. App. 39a.[3]

- Howard Reiter, Romag's president, received an email tip from China in May 2010 informing him that Superior was using counterfeit snaps; contacted his intellectual property counsel the next day; had information in his files showing that Superior manufactured for Fossil; and obtained Fossil bags from his wife (who was the company's gen-

[3] The district court observed that although Romag's president claimed in his trial testimony "not to know what Black Friday was, he made note of the holiday selling season in his own declaration in support of the TRO in this case." Pet. App. 39a.

eral counsel) that had been purchased by her and another family member who suspected that they might have counterfeit snaps. Pet. App. 26a-28a.

- The court found "inexplicabl[e]" Reiter's testimony that—with all this occurring "within one week"—he nonetheless "drew no connection between his wife's concerns regarding the Fossil bags and the email alleging that Superior was purchasing counterfeit snaps." Pet. App. 38a-39a. Reiter did not investigate the information about counterfeiting then or when he traveled to China in July 2010—and "offered no explanation" for why he failed to do so. *Ibid.*
- The court found that another aspect of Reiter's testimony "does not ring true"—that he "had an epiphany in late October, the trigger for which he could not recall, that led him to finally make the connection between the Fossil bags and the Superior invoices." Pet. App. 39a.

The court determined that Romag's delay caused Fossil to suffer material economic prejudice. Fossil had to remove from its sales channels more than $4.1 million worth of merchandise; "[i]f the TRO had been sought and entered in May or June, when Romag first had a basis for asserting its infringement claims, Fossil's inventory would have been much smaller and half as valuable as its November inventory." Pet. App. 41a.

Because Romag did not "offer[] any excuse for its delay in this case, beyond Mr. Reiter's discredited claim that he had no idea of Fossil's infringement until October 2010," and Romag failed to establish any inequitable conduct by Fossil, the court concluded, based on the balance of equities, that laches should be applied. It therefore excluded the sales between June and November 2010 from the reasonable royalty awards, and reduced them by 18%. Pet. App. 42a.

The district court next granted Fossil's motion for sanctions based on misleading representations in Romag's TRO filing and Romag's delay in seeking a TRO. Pet. App. 50a-54a. It found the Reiter Declaration accompanying the application for the TRO was "misleading in several respects." *Id.* at 51a. "Its limited contents conveyed the impression that Mr. Reiter had just discovered the counterfeit ROMAG snaps [on a November 15 visit to a Macy's store] and only by mere happenstance"—"contrary to his sworn trial testimony that he went to Macy's * * * with the express purpose of confirming his suspicions." *Ibid.*

"More troubling," the court stated, was "the absence in the declaration of any reference to Mr. Reiter's knowledge about this counterfeiting prior to his November shopping trip, particularly because he acknowledged at trial that by late October he had strong suspicions" of counterfeit snaps in Fossil bags. Pet. App. 51a-52a.

Because delay by the plaintiff in bringing suit vitiates the presumption of irreparable harm in a trademark infringement action, "Romag's sparse and misleading representations deprived [the district court] of the ability to accurately apply the appropriate standard in considering Romag's request for emergency injunctive relief." Pet. App. 53a.

In addition, Romag acted in bad faith by delaying its TRO filing until the beginning of the holiday shopping season:

> Given Romag's unmistakable pattern of relying on the pressure point of the holiday season when seeking to enforce its intellectual property rights, it is evident that Romag intentionally sat on its rights between late May 2010 and late November 2010 to orchestrate a strategic advantage and improperly obtain emergency injunctive relief on a timetable of its choosing, not on the irreparability of its harm.

Pet. App. 53a.

Next, the court held that Romag was not entitled to an award of profits on the trademark infringement claims, because proof of willful infringement was necessary to permit any award of profits. Pet. App. 55a-63a.

The court also entered a permanent injunction against Fossil. Pet. App. 63a-65a.

3. Romag had filed a motion for a new jury trial on the willfulness issue, arguing that the district court erred by refusing to include reckless conduct in its jury instructions defining willfulness. The district court denied the motion, finding that Romag had waived the issue because it "did not object to this instruction, and actually requested the charge given" and that the instructions were correct. App., *infra*, 12a, 18a.

The district court further held that even if the instructions had been erroneous, Romag would not be entitled to a new trial, because "the evidence at trial at most could have supported a finding that Fossil was negligent, not that it acted in reckless disregard, with willful blindness, or with actual knowledge of Superior's purchases of counterfeit snaps." App., *infra*, 15a (footnote omitted).

The court found that "the evidence at trial established that":

- "Fossil paid full price for the snaps used by Superior, that it had never been informed of any specific instances of Superior using counterfeit snaps, and that it '[d]idn't believe that counterfeits were being used.'"
- "There was no other evidence to support a finding that Fossil knew or suspected there was a risk that Superior was using counterfeit snaps."
- "[A]bsent evidence of such suspicions, Fossil's failure to investigate Superior more generally amounts to no more than negligence by Fossil."

App., *infra*, 17a-18a. Therefore, the district court concluded, "there was no evidence that Fossil acted recklessly, with willful blindness, or with actual knowledge of a risk of counterfeit snaps." *Id.* at 18a.

D. The Federal Circuit's Decision.

The Federal Circuit unanimously affirmed the district court's holding that proof of willfulness is required for an award of the defendant's profits in a trademark infringement action. Pet. App. 1a-19a.

It began by observing that this Court—in pre-Lanham Act opinions applying the common law—stated that an award of profits was not proper when a defendant "acted in good faith," was an "innocent infringer," or where there was a "want of fraudulent intent." Pet. App. 5a-6a (quoting *Saxlehner v. Siegel-Cooper Co.*, 179 U.S. 42, 42-43 (1900); *Hamilton-Brown Shoe Co. v. Wolf Brothers & Co.*, 240 U.S. 251, 261 (1916); *McLean v. Fleming*, 96 U.S. 245, 257 (1877)). The Restatement of Unfair Competition also requires proof of intentional wrongdoing—imposing liability for the defendant's profits resulting from trademark infringement "only if * * * the actor engaged in the conduct with the intention of causing confusion or deception." Restatement (Third) of Unfair Competition § 37(1) (1995).

The Federal Circuit noted the pre-1999 conflict among courts of appeals as to whether willfulness is required by the "principles of equity" expressly incorporated into Section 1117(a), Pet. App. 7a-9a, and turned to Romag's argument that the 1999 amendment to the provision—specifying that damages under Section 1117(a) were available for "a willful violation under section 1125(c)"—eliminated any willfulness requirement for claims under Section 1125(a).

Recognizing that in this case it was bound by Second Circuit precedent, the Federal Circuit observed that the Second Circuit had held that willfulness was a prerequisite to an award of profits both before and after the 1999 amendment. Pet. App. 7a-8a, 14a (citing *George Basch Co. v. Blue Coral, Inc.,* 968 F.2d 1532, 1540 (2d Cir. 1992); *Int'l Star Class Yacht Racing Ass'n v. Tommy Hilfiger, Inc.*, 80 F.3d 749, 753 (2d Cir. 1996), *cert denied,* 531 U.S. 873 (2000); and

Merck Eprova AG v. Gnosis S.p.A., 760 F.3d 247 (2d Cir. 2014)).

The court of appeals here found "nothing in the 1999 amendment" permitting it "to declare that the governing Second Circuit precedent is no longer good law." Pet. App. 14a-15a.

First, "the limited purpose of the 1999 amendment was simply to correct an error in the 1996 Dilution Act" relating to claims under Section 1125(c). Pet. App. 15a. Congress did not contemplate or intend "any change to the willfulness requirement for violations of § 1125(a)." *Ibid*. "Given the alleged significance of the purported change, one would have expected to see an acknowledgement or discussion from Congress of the courts of appeals cases in the relevant area if Congress had intended to resolve the circuit conflict." *Id*. at 16a.

Second, the source of the willfulness requirement for awards of the defendant's profits is the statutory reference to "subject to principles of equity"—and Congress did not amend that portion of the statutory text in 1999. By adding "willful violation under section 1125(c)," Congress could not change the meaning of a preexisting statutory term that it did not amend.

As the court of appeals explained, the inserted language "does not create a negative pregnant that willfulness is always required in dilution cases but never for infringement," because "[t]he cases relied on by Romag where a negative pregnant was inferred involve statutory provisions enacted at the same time." Pet. App. 16a-17a. "We do not think that Congressional intent [regarding the meaning of 'principles of equity'] can be inferred from an amendment passed years after the fact to address a drafting error." *Id*. at 17a.

Third, the "willful violation" language serves two important purposes wholly unrelated to Section 1125(a) claims. Because damages (as opposed to profits) are available in trademark infringement cases without proof of willfulness—but Congress wanted to limit all monetary remedies, including damages, in dilution claims to cases of willful misconduct—the language was necessary to distinguish between the two types of claims. And "even with respect to awards of profits in dilution cases, the addition of 'willful violation' was necessary to establish a uniform rule," because courts otherwise might apply their precedents in the infringement context to hold that awards of profits without proof of willfulness were permissible in dilution cases. Pet. App. 17a.

The court of appeals therefore concluded that there was no basis for "depart[ing] from Second Circuit precedent requiring willfulness for the recovery of profits in infringement cases." Pet. App. 18a.

With respect to the laches issue, the court of appeals affirmed the district court's application of laches to the patent infringement action based on its prior decision in *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC*, 807 F.3d 1311, 1321 (Fed. Cir. 2015) (en banc), *cert. granted*, 136 S. Ct. 1824 (2016). Pet. App. 5a.

REASONS FOR DENYING THE PETITION

I. The Court Should Deny Review Of The Question Regarding Awards Of Defendant's Profits In Trademark Infringement Actions.

The Court has several times denied review of the question presented here regarding the role of willfulness in claims for defendant's profits in trademark infringement actions. *See, e.g., M2 Software Inc. v. Viacom Inc.*, No. 04-56794, 223 Fed. App'x 653 (9th Cir.), *cert. denied*, 552 U.S. 1038 (2008); *Contessa Food Prods. Inc. v. Lockpur Fish Processing Co. Ltd.*, Nos. 03-55415, 03-55469, 03-55502, 03-55581, 123 Fed. App'x 747 (9th Cir. 2005), *cert. denied*, *sub. nom. Contessa Premium Foods, Inc. v. Berdex Seafood, Inc.*, 546 U.S. 957 (2005).

The Court should reach the same conclusion in this case, for several reasons. *First*, there is not a meaningful conflict among the courts of appeals warranting this Court's attention. Although the lower courts apply different formulations of the standard for awarding an infringer's profits, the presence or absence of willful infringement is, at minimum, an "important" factor. In the overwhelming majority of cases decided by courts applying the latter test, willfulness is present when profits are awarded—demonstrating that the issue has no practical importance.

Indeed, the lack of practical importance is confirmed by the actions of trademark owners, who can exercise considerable discretion in choosing where to sue. If the difference in standards had real-world consequences, one would expect to see a large number of cases filed in circuits holding that willful misconduct is important, but not required. That has not occurred. To the contrary, most cases are filed in the Second Circuit and other circuits that label willfulness a prerequisite.

Second, this case is a poor vehicle for addressing the issue, because the legal standard urged by petitioner will not change the result. Indeed, the district court expressly found "the evidence at trial at most could have supported a finding that Fossil was negligent, not that it acted in reckless disregard, with willful blindness, or with actual knowledge of Superior's purchases of counterfeit snaps." App., *infra*, 15a (footnote omitted). And the district court found that Romag had engaged in misconduct warranting the application of laches and an award of sanctions. *See* pages 9-13, *supra*. "[P]rinciples of equity" (15 U.S.C. § 1117(a)) do not permit any award of profits in those circumstances.

These deep flaws likely explain the absence of even a single *amicus* brief in support of certiorari. Strong trade associations protect the interests of intellectual property owners—the Intellectual Property Owners Association, the American Intellectual Property Law Association, the International Trademark Association, just to name a few. And those trade associations appear frequently as *amici* before this Court. Their absence speaks volumes about the lack of practical importance of the issue and the problems with this case as a vehicle for addressing it.

Finally, the court of appeals' determination is correct; and its analysis of the effect of the 1999 amendment—the first comprehensive assessment by any court—likely will lead other courts to reconsider their views on the issue. *See* J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* §30:62 (4th ed.) (September 2016 Update) (agreeing with the decision below and criticizing other appellate decisions for their lack of analysis). That additional percolation will assist this Court when and if it determines that review of the issue is appropriate.[4]

A. There Is No Meaningful Conflict Among The Lower Courts Necessitating This Court's Intervention.

Every circuit applying Section 1117(a)'s "principles of equity" standard to decide whether to award an infringer's profits holds that whether the infringement was committed willfully or in bad faith is an important factor. The only difference among the courts of appeals' standards is the weight accorded to

[4] An additional defect in Romag's request for review is that Romag challenges a well-established Second Circuit standard, but the decision below was rendered by the Federal Circuit applying Second Circuit precedent. The Second Circuit has assumed a central role in explaining the basis in equity for the willfulness requirement, and this Court has declined review of at least three prior Second Circuit willfulness decisions. *See Int'l Star Class Yacht Racing Ass'n v. Tommy Hilfiger, Inc.*, 205 F.3d 1323 (2d Cir.), *cert denied*, 531 U.S. 873 (2000); *Banff, Ltd. v. Colberts, Inc.,* 996 F.2d 33 (2d Cir.), *cert. denied,* 510 U.S. 1010 (1993); *George Basch Co. v. Blue Coral, Inc.*, 968 F.2d 1532 (2d Cir.), *cert. denied*, 506 U.S. 991 (1992).

If the Court concludes that the willfulness issue warrants review, the Court should await a decision from the Second Circuit, rather than grant review here, given the numerous defects in the case. The Court's *single* grant of certiorari of a Federal Circuit decision applying a regional circuit's substantive law, *see* Pet. 18 (citing *Unitherm Food Sys., Inc. v. Swift-Eckrich, Inc.*, 546 U.S. 394 (2006)), cuts against, not in favor of, Romag's request for review, particularly because that case involved a federal procedural rule (Fed. R. Civ. P. 50) promulgated by the Court under the Rules Enabling Act, 28 U.S.C. § 2072, that was at odds with two long-standing decisions of the Court.

the willfulness factor—and that difference has little real-world significance because willful misconduct is present in the overwhelming majority of cases in which a court of appeals has permitted recovery of the defendant's profits.

Some courts hold that bad faith must be present before an infringer's profits may be awarded. *E.g.*, *George Basch Co.*, 968 F.2d at 1537 ("a finding of defendant's willful deceptiveness is a prerequisite for awarding profits"); *ALPO,* 913 F.2d at 965, 968; *Minn. Pet Breeders, Inc. v. Schell & Kampeter, Inc.,* 41 F.3d 1242, 1247 (8th Cir. 1994); *Lindy Pen Co. v. Bic Pen Corp.,* 982 F.2d 1401, 1405 (9th Cir. 1993); *Bishop v. Equinox*, 154 F.3d at 1223.

Others hold that bad faith is an "important" factor to consider. *E.g.*, *Synergistic Int'l, LLC v. Korman,* 470 F.3d 162, 175 (4th Cir. 2006) (agreeing with "the Third and Fifth Circuits" that "willfulness is a proper and important factor"); *Quick Techs., Inc. v. Sage Group PLC,* 313 F.3d 338, 349, 350 (5th Cir. 2002), *cert. denied*, 540 U.S. 814 (2003) (concluding "[i]t is obvious from our cases that willful infringement is an important factor which must be considered"); *Banjo Buddies*, 399 F.3d at 171 ("[w]e hold that wilfulness [sic] is an important equitable factor").

The difference in formulations of the test has little practical importance. Every court views willfulness at least as an important factor, and the differences between them result in minimal inter-circuit variation in outcome—in the overwhelming majority of cases in which profits are awarded, willfulness is present.

Indeed, the cases cited by Romag to demonstrate the circuit conflict (Pet. 10-11) confirm that profits are regularly denied in circuits applying the "important factor" formulation when willful infringement is not proven. *See*, *e.g.*, *Quick Techs.*, 313 F.3d at 343, 350 (jury found no willfulness; court of appeals held that jury instruction requiring willfulness was error, but went on to uphold denial of profits under multi-factor test); *Optimum Techs., Inc. v. Home Depot U.S.A., Inc.*, No. 06-14432, 217 Fed. App'x 899, 903 (11th Cir. 2007) (finding that "Home Depot's actions of alleged infringement were not willful," and that the "district court did not abuse its discretion in finding an accounting of Home Depot's profits was not an appropriate remedy"); *see also Gucci Am., Inc. v. Daffy's Inc.*, 354 F.3d 228, 231, 241-43 (3d Cir. 2003) (in case involving non-willful infringement decided prior to adoption of multi-factor test in *Banjo Buddies*, analyzing profits entitlement under both *SecuraComm's* willfulness requirement and *Quick Technologies'* multi-factor approach and finding denial of profits proper under both standards); *Seatrax, Inc. v. Sonbeck Int'l Inc.*, 200 F.3d 358, 372 & n.9 (5th Cir. 2000) (applying factors; affirming district court denial of accounting where jury found no willful infringement; and stating that court's independent research does not "reveal[] any cases from this circuit where an accounting of profits has been awarded without a finding of willfulness"); *Pebble Beach*, 155 F.3d at 555 (articulating factors and affirming denial of accounting where there was no palming off and implicitly finding that infringement was not willful).[5]

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[5] Similarly—regardless of the test applied—egregious, bad faith

The difference among the circuits is not only insignificant; Romag also fails to support its claim that the circuit divergence arises persistently. Romag cites twelve 2015 cases in support of that contention. Pet. 15. Most of those opinions, however, simply refer to an accounting of profits without addressing the issue here. Regardless, even defendant's twelve cases equal a mere four-tenths of one percent of the roughly 3,000 trade-mark cases filed annually. *See* Judicial Business of the U.S. Courts, http://www.uscourts.gov/statistics/table/c-2/judicial-business/2015/09/30.

The case-filing patterns of plaintiffs asserting trademark infringement claims also undermine Romag's claim regarding the importance of the different approaches of the courts of appeals.

Trademark plaintiffs have not shied away from circuits with a willfulness requirement. The Second and Ninth Circuit, both of which apply that rule, *see, e.g.*, *Fifty-Six Hope Rd. Music, Ltd. v. A.V.E.L.A., Inc.*, 778 F.3d 1059, 1073-74 (9th Cir. 2015), remain the most popular.[6] If, as Romag posits, the willful-

infringers who purposefully use a trademark will, subject to consideration of other equitable factors, be made to account for profits attributable to their infringement. *See Banjo Buddies*, 399 F.3d at 176 (where infringer "palmed off" trademarked product, district court did not abuse its discretion in ordering an accounting of infringer's profits); *Roulo v. Russ Berrie & Co., Inc.*, 886 F.2d 931, 941 (7th Cir. 1989) ("Given the evidence of intentional imitation and the substantial similarity between the two card lines, the district court judge's decision to instruct the jury that an award of profits would be appropriate was not an abuse of discretion.").

[6] For example, from 1994 to 2014, the federal district courts in California (14,602 filings) and New York (8,594 filings) consistently topped the list as the most popular venues for trademark

ness requirement precludes deserving plaintiffs from recovering defendants' profits—an assertion with which respondents strongly disagree—the filings would favor courts located in circuits that do not apply that rule. The data, however, shows precisely the opposite.

For example, Romag itself could have sued Fossil in any of several circuits holding that willfulness is an important factor, such as the Fifth Circuit where Fossil is headquartered. It chose not to do so.

The actions of trademark infringement plaintiffs confirm the lack of importance of the question presented.

B. This Case Is An Extremely Poor Vehicle Because The District Court's Factual Findings Bar An Award Of Defendant's Profits Under Any Legal Standard.

A ruling in Romag's favor on the legal issue presented for review will not change the outcome of this case. The final and unchallenged factual findings made by the district court preclude an award of profits under the standard Romag supports. That makes this case a poor vehicle for resolving the question—the Court instead should await a case in which the

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plaintiffs. Federal filings in those states regularly outstrip filings in venues without that requirement, such as Florida (5,549), Texas (4,088), Illinois (3,644), Pennsylvania (2,223), and New Jersey (2,614). Matthew Sag, *IP Litigation in U.S. District Courts: 1994 to 2014*, 101 Iowa L. Rev. 1067, 1108 app. B tbl.8 (2016); *see also* Brian C. Howard & Jason Maples, *Lex Machina Trademark Litigation Report 2016*, at 11 (May 2016) (showing, *inter alia*, that the Central District of California (4,164 cases) and Southern District of New York (2,142 cases) were the top two districts for Lanham Act filings from 2009 to March 2016).

legal standard might affect the outcome, and that is not true here.

Under the legal standard that Romag prefers, the question of willfulness does not vanish from the scene. Rather, "willful infringement is an important factor which must be considered." *Quick Techs.,* 313 F.3d at 349, 350.

Courts canvass a variety of factors, including:

(1) whether the defendant had the intent to confuse or deceive, which "addresses whether there has been a willful infringement on the trademark rights of the plaintiff, or whether the defendant has acted in bad faith";

(2) whether sales have 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 the case involves palming off.

Synergistic, 470 F.3d at 175 (citing *Quick Techs.*, 313 F.3d at 349); *accord Banjo Buddies,* 399 F.3d at 175; *see also George Basch*, 968 F.2d at 1540 (citing the following factors from the Restatement (Third) of Unfair Competition (Tent. Draft No. 3, 1991) § 37(2) at cmt. f.: "(1) the degree of certainty that the defendant benefited from the unlawful conduct; (2) [the] availability and adequacy of other remedies; (3) the role of a particular defendant in effectuating the infringement; (4) plaintiff's laches; and (5) plaintiff's unclean hands").

Here, all of these factors weigh heavily against an award of profits.[7]

Fossil did not engage in intentional misconduct—or even act recklessly. The district court expressly found that "the evidence at trial at most could have supported a finding that Fossil was negligent, not that it acted in reckless disregard, with willful blindness, or with actual knowledge of Superior's purchases of counterfeit snaps." App., *infra*, 15a (footnote omitted).[8]

Fossil did not divert any sales. Fossil and Romag are not competitors, and no sales were diverted from Romag to Fossil.

Other remedies are available and adequate, and an award of Fossil's profits would be an inequitable windfall. Fossil, a non-willful infringer, was subject to an injunction from the inception of the case, a powerful remedy with strong deterrent effect. Here, the preliminary relief that Romag obtained rendered millions of dollars of inventory worthless and eliminated Fossil's holiday handbag sales. Romag has been awarded a 9¢ per-snap rea-

[7] The district court did not address this issue in light of its holding that willfulness was required for an award of defendant's profits, see App., *infra*, 28a, but the district court's uncontested findings leave no doubt about the outcome: Romag is not entitled to an award of profits under any standard.

[8] Romag asserts (Pet. 18) that the jury found that Fossil acted with "callous disregard" for Romag's trademark rights. But the district court reviewed the evidence in detail in connection with Romag's motion for a new trial—in an opinion petitioner does not discuss—and made the express finding set forth in the text above that the evidence "at most could have supported" a finding of negligence and could not support findings of recklessness, willful blindness, or actual knowledge.

sonable royalty, nearly doubling the 5¢ per-snap royalty paid to it by Wing Yip, and Romag elected not to seek statutory damages. *See* pages 7-8, *supra*. The injunction and the more than $54,000 royalty payment are more than sufficient remedies for Fossil's non-willful and non-beneficial infringement.

Romag's laches in delaying suit strongly supports denying Romag an award of Fossil's profits. The district court's entered unchallenged factual findings that (1) Romag unreasonably delayed filing this action to gain a tactical settlement advantage; and (2) Romag's conduct caused millions of dollars of harm to Fossil in lost inventory and lost profits. *See* pages 9-12, *supra*. These findings strongly support denying Romag an equitable accounting of millions of dollars in Fossil's profits.

The public interest in making the misconduct unprofitable strongly favors Fossil. This factor "addresses the balance that a court should strike between a plaintiff's right to be compensated for the defendant's trademark infringement activities, and the statutory right of the defendant to not be assessed a penalty." *Synergistics*, 470 F.3d at 176. Here, Romag was more than compensated for its 5¢ per-snap royalty, and it did not seek statutory damages, which would have provided additional compensation for Fossil's non-willful infringement. Conversely, an award of Fossil's profits would be a windfall far beyond any notion of compensation, and would punish Fossil, particularly in light of (a) the district court's finding that Fossil did not know about the infringement or benefit from the infringement, *see* App., *infra*, 15a-18a; page 14, *supra*; and (b) the undisputed fact that Romag's snap mark did not drive Fossil's handbag profits—demonstrated by the jury's allocation of only 1% of Fossil's profits, *see* page 9, *supra*.

Fossil Did Not Palm Off. "Palming off" means use of the trademark by a "defendant subjectively and knowingly intended to confuse buyers." J. Thomas McCarthy, *Trademarks and Unfair Competition*, § 25:3 (Sept. 2016 Update). Fossil's use was unknowing, without intent to confuse, App. *infra*, 17a, and, as the jury's attribution of only 1% of Fossil's profits to the infringement shows, did not confuse buyers.

Romag's inequitable, unclean hands strongly support denying Romag an award of defendants' profits. The Restatement and *George Basch Co.* factors also require a court to take account of a plaintiff's unclean hands. The district court's findings that Romag acted in bad faith, engaged in sanctionable delaying tactics, and proffered a misleading declaration militates strongly against Romag and its claim for an equitable accounting of Fossil's profits.

In sum, every factor weighs heavily against an award of profits—so Romag would not obtain such an award even under its preferred legal test.

And, even if—contrary to the clear findings of the district court—Romag could establish an entitlement to profits, it could obtain at most $65-70,000.

Under this Court's decision in *Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co.*, 316 U.S. 203, 206 (1942), Romag "of course, is not entitled to profits demonstrably not attributable to the unlawful use of [its] mark." The jury found that 99% of Fossil's handbag profits were attributable to something other than Romag's snap trademark. Pet. App. 70a.

That unchallenged finding caps Romag's potential recovery at 1% of Fossil's profits or $65,000 to $70,000 (ignoring the equities weighing against any award). Again, even if Romag's view of willfulness is accepted, the result below will be relatively unchanged, and Romag certainly will not reap a boon of $7 million.

C. The Court Of Appeals' Holding Is Correct.

Willfulness is a prerequisite to an award of the defendant's profits in a trademark infringement action.

1. The Willfulness Requirement is Mandated by the "Principles of Equity" Expressly Incorporated into Section 1117(a).

To begin with, proof of willfulness was required at common law. This Court, in *Saxlehner v. Siegel-Cooper Co.*, 179 U.S. 42, 42-43 (1900), held that "an injunction should issue against [three trademark infringers], but that, as [one defendant] appears to have acted in good faith, and the sales of the other[] [defendants] were small, they should not be required to account for gains and profits." *Id.* at 42-43. By contrast, the Court affirmed an accounting of the infringer's profits where the "defendant [did] not stand as an innocent infringer." *Hamilton-Brown Shoe Co. v. Wolf Bros. & Co.,* 240 U.S. 251, 261 (1916); *see also McLean v. Fleming*, 96 U.S. 245, 257 (1878) (explaining that an accounting is "constantly refused * * * in case[s] of acquiescence or want of fraudulent intent") (citing cases); *Champion Spark Plug*, 331 U.S. at 131 (holding in a case under the Trade-Mark Act of 1905 that an injunction satisfied the equities in that case, as there had been no "fraud or palming off").

Numerous pre-Lanham Act lower court decisions likewise restricted the equitable accounting remedy—the common-law mechanism for awarding defendant's profits—to cases in which willful infringement had been established.[9] Synthesizing this authority, the 1938 Restatement authorized an award

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[9] *See, e.g.*, *N.K. Fairbank Co. v. Windsor*, 124 F. 200, 202 (2d Cir. 1903) ("in all cases where there has been recovery [of profits], intentional fraud has been found"); *P.E. Sharpless Co. v. Lawrence*, 213 F. 423, 428 (3d Cir. 1914) (awarding profits because unfair competition was "willful and fraudulent"); *Horlick's Malted Milk Corp. v Horluck's, Inc.*, 51 F.2d 357, 359 (W.D. Wash. 1931) (requiring "willful fraud"), *aff'd in part on other grounds*, 59 F.2d 13 (9th Cir. 1932); *Rubber & Celluloid Harness Trimming Co. v. F.W. DeVoe & C.T. Reynolds Co.*, 233 F.150, 160 (D.N.J. 1916) (same); *Dr. A. Reed Cushion Shoe Co. v. Frew*, 158 F. 552, 556 (W.D.N.Y. 1908) (stating that accounting rests entirely on defendant's intentional fraud and plaintiff's loss of business), *rev'd on other grounds and affirmed on denial of accounting*, 162 F. 887 (2d Cir. 1908); *Kickapoo Dev. Corp. v. Kickapoo Orchard Co.*, 285 N.W. 354, 359-60 (Wis. 1939) (finding case within the rule allowing recovery of profits gained where mark was intentionally simulated); *Liberty Oil Corp. v. Crowley, Milner & Co.*, 258 N.W. 241 (Mich. 1935) (denying accounting against defendant's sales made without knowledge of plaintiffs' rights); *Globe-Wernicke Co. v. Safe-Cabinet Co.*, 144 N.E. 711, 713 (Ohio 1924) (citing "many authorities" limiting accounting to deliberate and willful infringement); *United Drug Co. v. Kovacs*, 123 A. 654, 655 (Pa. 1924) (holding defendants liable for their profits, but stating that "[a] different question would arise if its imitation had been an innocent one); *Regis v. Jaynes*, 77 N.E. 774, 776 (Mass. 1906) (noting some conflict, but finding "weight of modern authority" denies accounting for use of mark "merely accidental or without an actual wrongful intent to defraud"); *Beebe v. Tolerton & Stetson Co.*, 91 N.W. 905 (Iowa 1902) (accounting requires plaintiff to show defendant's bad faith); *George T. Stagg Co. v. Taylor*, 27 S.W. 247, 247 (Ky. Ct. App. 1894) (reversing profits award because "proof does not show any fraudulent intent").

of profits "if, but only if, (a) [a defendant] engaged in his conduct *with the purpose of securing the benefit of the reputation* in the market of the other." Restatement (First) of Torts § 747 Profits (1938) (emphasis added).

When the Lanham Act was adopted in 1946, and specified that a plaintiff could—"subject to the principles of equity"—recover "defendant's profits," 15 U.S.C. § 1117(a), Congress plainly, and expressly, incorporated the pre-existing common law rule. Indeed, the inclusion within Section 1117(a) of the reference to "principles of equity" was expressly intended to make clear that the legislation preserved the common law "principles of equity in respect of allowances of and defenses to an accounting of profits." *Hearings on H.R. 102, H.R. 5461, and S. 895 Before the Subcomm. on Trade-Marks of the House Comm. on Patents*, 77th Cong., 1st Sess. 228 (1941) (testimony of Prof. Milton Handler).

That is consistent with the Lanham Act's purpose, which was "to codify and unify the common law of unfair competition and trademark protection." *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 861 n.2 (1982) (White, J., concurring) (citing S. Rep. No. 79-1333 (1946)); *see also Kirtsaeng v. John Wiley & Sons, Inc.,* 133 S. Ct. 1351, 1363 (2013) ("when a statute covers an issue previously governed by the common law, we must presume that Congress intended to retain the substance of the common law") (internal quotation marks omitted).

This Court's recent decision in *Halo Electronics v. Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016), confirms that conclusion. Although Section 284 of the Patent Act contains "no precise rule or formula" for enhancing damages in patent infringement actions, *Halo* directs that a district court's "discretion should be exercised in light of the considerations" underlying the grant of that discretion; namely, more than two centuries of case law establishing a bright-line requirement of willful infringement as a prerequisite to enhancing damages. 136 S. Ct. at 1932 (internal citation omitted).

Here, it is even clearer that Section 1117(a)'s incorporation of "principles of equity" must be given content by the common law rules that preceded it. And the common law plainly required proof of willfulness to permit an award of the defendant's profits in a trademark infringement action.[10]

2. The 1999 Amendment Did Not Alter the Standard For Awarding Profits.

Romag argued below that this history is irrelevant because the 1999 amendment supposedly abrogated any willfulness requirement that existed prior to that date. That argument fails for multiple reasons.

First, Congress in 1999 did not amend, reenact, or alter in any way the statutory text that is the source of the willfulness requirement—the portion of Section 1117(a) stating that the plaintiff's "entitle[ment]" to the specified monetary remedies, including "defendant's profits," is "subject to the principles of equity." Congress's addition of the word

[10] Romag's repeated assertion (Pet. 19, 20) that there is no textual basis for the willfulness requirement is mystifying. The express text providing that "principles of equity" govern the availability of monetary remedies, including the defendant's profit, provides a clear basis for this requirement in the provision's plain language.

"willful" in another clause of the provision could not alter the meaning of words enacted 53 years earlier.

Second, the statutory context makes clear that "the limited purpose of the 1999 amendment was simply to correct an error in the 1996 Dilution Act" relating to claims under Section 1125(c), which could prevent dilution plaintiffs from obtaining the monetary remedy that Congress granted in 1996. Pet. App. 15a; *see* pages 5-6, *supra*. Congress did not contemplate or intend "any change to the willfulness requirement for violations of § 1125(a)." Pet. App. 15a.

In particular, Congress did not even acknowledge the pre-1999 willfulness standards for trademark infringement claims adopted by the courts of appeals, let alone indicate any intention to address that issue. "Given the alleged significance of the purported change, one would have expected to see an acknowledgement or discussion from Congress of the courts of appeals cases in the relevant area if Congress had intended to resolve the circuit conflict." Pet. App. 16a; *accord Dir. of Revenue of Mo. v. CoBank ACB,* 531 U.S. 316, 323 (2001) ("[I]t would be surprising, indeed, if Congress * * * made a radical—but entirely implicit—change * * * [with a] 'technical and conforming amendment[].'") (internal citation omitted); *Whitman v. Am. Trucking Ass'ns, Inc.,* 531 U.S. 457, 468 (2001) (Congress does not "hide elephants in mouseholes.").

Third, as the court of appeals explained, the inserted language "does not create a negative pregnant that willfulness is always required in dilution cases but never for infringement," because "the cases relied on by Romag where a negative pregnant was inferred involve statutory provisions enacted at the same time." Pet. App. 16a-17a. "We do not think that Congressional intent [regarding the meaning of 'principles of equity'] can be inferred from an amendment passed years after the fact to address a drafting error." *Id.* at 17a.

Moreover, the "willful violation" language serves two important purposes wholly unrelated to Section 1114 and Section 1125(a) claims. Because damages (as opposed to profits) are available in trademark infringement cases without proof of willfulness—but Congress wanted to limit all monetary remedies for dilution claims, including damages, to cases of willful misconduct—the language was necessary to distinguish between the two types of claims. And "even with respect to awards of profits in dilution cases, the addition of 'willful violation' was necessary to establish a uniform rule," because courts otherwise might apply their precedents in the infringement context to hold that awards of profits without proof of willfulness were permissible in dilution cases. Pet. App. 17a.

In sum, the court below correctly held that the 1999 amendment has no effect on the standard for awarding defendant's profits in Section 1125(a) trademark infringement actions. Under the governing common law standard, adopted in the Lanham Act, willfulness is a prerequisite to such an award of profits.

II. The Court Should Not Hold The Laches Issue Pending Disposition Of *SCA Hygiene* Because There Are Alternate Grounds For Reducing The Patent Infringement Award.

The second question presented provides no grounds for holding the petition pending resolution of *SCA Hygiene*.

To be sure, *SCA Hygiene* controls the legal basis on which the district court rested the approximately $12,000 reduction in patent damages—the application of laches, which the court of appeals affirmed on the basis of its *SCA Hygiene* ruling.

But Romag's only challenge to the laches ruling was a legal one; it never challenged the factual findings of inexcusable, bad faith delay and resulting millions of dollars in economic prejudice on which that ruling was based. Those findings are now final. Thus, even if this Court were to hold that laches were no longer available in patent infringement actions, the district court's $12,000 reduction for Romag's misconduct in improperly delaying suit seven months to maximize settlement pressure would be fully justified and supportable on an alternative ground: the district court's holding that sanctions against Romag were appropriate for filing a false and misleading declaration to obscure that delay, and for bad faith in delaying its suit. *See* pages 12-13, *supra*; Pet. App. 50a-54a.

There is no warrant for delaying disposition of the petition given the alternate legal grounds for reducing Romag's damages by $12,000.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

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APPENDIX

UNITED STATES DISTRICT COURT
DISTRICT OF CONNECTICUT

ROMAG FASTENERS, INC.,
Plaintiff,
v.
FOSSIL, INC.*, et al.*,
Defendants.
Civil No. 3:10cv1827 (JBA)

August 8, 2014

RULING ON POST-TRIAL MOTIONS

On April 3, 2014, after a seven-day trial, a jury returned a verdict finding *Defendants Fossil, Inc.* and *Fossil Stores I, Inc.* ("*Fossil*") liable for trademark infringement, false designation of origin, state common law unfair competition, and violation of the Connecticut Unfair Trade Practices Act ("CUTPA"). (See Jury Verdict [Doc. # 417].) The jury also found *Fossil and Macy's, Inc.* and *Macy's Retail, Inc.* ("*Macy's*") liable for patent infringement. (*Id.*) The jury returned a verdict of no liability for the remaining defendants, and found that neither Fossil nor Macy's had willfully infringed Plaintiff *Romag Fasteners, Inc.'s* ("*Romag*") patent or trademark. *(Id.)* The jury made an advisory award of $90,759.36 of Fossil's profits for trademark infringement under an unjust enrichment theory and $6,704,046.00 of Fossil's profits for trademark infringement under a deterrence theory and determined that 99% of Fossil's profits were attributable to factors other than its infringement of the ROMAG mark. (*Id.*) Finally, the jury awarded a reasonable royalty of $51,052.14 against *Fossil* and $15,320.61 against Macy's for patent infringement. (*Id.*)

The Court then held a two-day bench trial on April 8 and 9, 2014 to address "the equitable defenses of estoppel, acquiescence, unclean hands, and laches; the equitable adjustment of the amount of profits awarded by the jury; the calculation of punitive damages; treble damages; attorneys' fees; and the amount of statutory damages to be awarded," (Ruling Granting Mot. to Bifurcate [Doc. # 360] ¶ 15), as well as Romag's claim for a permanent injunction. Defendants also asserted that Romag failed to mitigate its damages and sought sanctions as a result of Romag's conduct in procuring a temporary restraining order ("TRO") at the outset of this case. (*See* Defs.' Prop. Findings of Fact and Conclusions of Law [Doc. # 419] at 42–45.) The Court ultimately concluded that Defendants had failed to establish their equitable defenses of unclean hands or breach of the duty to mitigate, but that they had sustained their burden with respect to the equitable defense of laches, and reduced the jury's award of a reasonable royalty by 18% to an award of $41,862.75 against Fossil and an award of $12,562.90 against Macy's. (See Findings of Fact and Conclusions of Law [Doc. # 471] at 40–41.) The Court also imposed sanctions on Plaintiff for its conduct in seeking a Temporary Restraining Order ("TRO") in this case, holding that Plaintiff may not recover its attorney's fees in connection with the TRO proceedings. (*Id.* at 40.) Finally, the Court held as a matter of law that because the jury found that Fossil's trademark infringement was not willful, Romag was not entitled to an award of Fossil's profits. (*Id.* at 40–41.)

Plaintiff now moves [Doc. # 472] pursuant to Rules 50(b) and 59 of the Federal Rules of Civil Procedure for judgment as a matter of law and for a new trial. Romag argues that it is entitled to judgment as a matter of law with respect to the issue of trademark infringement by the Retailer Defendants—Macy's, Belk, Inc., The Bon-Ton Stores, Inc., The Bon-Ton Department Stores, Inc., Dillard's, Inc., Nordstrom, Inc., Zappos.com, Inc., and Zappos Retail, Inc. Romag further argues that it is entitled to a new trial on the issue of willful trademark infringement and the attribution of Fossil's profits. Defendants have also filed a "conditional" motion [Doc. # 475] for judgment as a matter of law and a new trial on the issue of an award of profits if this Court's ruling with respect to the willfulness requirement is overturned on appeal and this Court determines in its analysis of the equitable factors governing an award of profits that Plaintiff is entitled to such an award.[1] For the following reasons, Plaintiff's motion will be granted in part and denied in part, and Defendants' motion will be denied without prejudice to renewal.

I. Legal Standard

A court may enter judgment as a matter of law "[i]f a party has been fully heard on an issue during a jury trial and the court finds that a reasonable jury would not have a legally sufficient evidentiary basis to find for the party on that issue." Fed. R. Civ. P.

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[1] Also pending before the Court in this case are Plaintiff's Motions for Supplemental Relief [Doc. # 378], Attorney Fees and Costs [Doc. # 450], and to Compel Compliance with Plaintiff's Subpoenas [Doc. # 466], which will be addressed in a separate opinion.

50(a)(1). The standard for judgment as a matter of law under Rule 50 "mirrors" the summary judgment standard "such that the inquiry under each is the same." *Reeves* v. *Sanderson Plumbing Prods., Inc.*, 530 U.S. 133, 150 (2000) (internal citations and quotation marks omitted). However, where a jury has deliberated and returned a verdict, the Court "may set aside the verdict pursuant to Rule 50 only where there is 'such a complete absence of evidence supporting the verdict that the jury's findings could only have been the result of sheer surmise and conjecture, or there is such an overwhelming amount of evidence in favor of the movant that reasonable and fair minded [persons] could not arrive at a verdict against him [or her].'" *AMW Materials Testing, Inc.* v. *Town of Babylon*, 584 F.3d 436, 456 (2d Cir. 2009) (quoting *Cross* v. *New York City Transit Auth.*, 417 F.3d 241, 248 (2d Cir. 2005)).

"The court may, on motion, grant a new trial on all or some of the issues—and to any party— . . . after a jury trial, for any reason for which a new trial has heretofore been granted in an action at law in federal court." Fed. R. Civ. P. 59(a)(1)(A). "Unlike judgment as a matter of law, a new trial may be granted even if there is substantial evidence supporting the jury's verdict. Moreover, a trial judge is free to weigh the evidence [her]self, and need not view it in the light most favorable to the verdict winner." *DLC Mgmt. Corp.* v. *Town of Hyde Park*, 163 F.3d 124, 133 (2d Cir. 1998). "A new trial must be granted if the court determines that the verdict is against the weight of the evidence, that the damages are excessive, or that, for other reasons, the trial was not fair to the party moving." *Santa Maria* v. *Metro–North Commuter R.R.*, 81 F.3d 265, 273 (2d Cir. 1996). The grant of a new trial is also appropriate when, "in the opinion of the district court, the jury has reached a seriously erroneous result or . . . the verdict is a miscarriage of justice." *DLC Mgmt. Corp.*, 163 F.3d at 133.

II. Romag's Motion for Judgment as a Matter of Law and for a New Trial

Romag moves for judgment as a matter of law with respect to the issue of the Retailer Defendant's trademark infringement, and for a new trial on the issues of willful trademark infringement and the attribution of Fossil's profits.

A. Trademark Infringement as to the Retailer Defendants

Romag moves this Court to enter judgment as a matter of law against the Retailer Defendants finding that they infringed the ROMAG mark, arguing that the jury's verdict with respect to Fossil's trademark infringement cannot be reconciled with the jury's finding of no liability with respect to the remaining defendants in the action. The gravamen of Plaintiff's argument is that because the jury found that the accused snaps were counterfeits and because every retailer in the chain of sale is strictly liable for trademark infringement, *see El Greco Leather Products Co., Inc.* v. *Shoe World, Inc.*, 806 F.2d 392, 396 (2d Cir. 1986) ("[The defendant's] sale of the shoes was sufficient 'use' for it to be liable for the results of such infringement and its claimed lack of knowledge of its supplier's infringement, even if true, provides no defense."), the Retailer Defendant's sale of Fossil bags containing those counterfeit snaps rendered them liable for trademark infringement as a matter of law. (See Pl.'s Mem. Supp. [Doc. # 473] at 5–6.) Romag further argues that by finding against Fossil with respect to counterfeiting and trademark infringement, the jury necessarily rejected Fossil's defense to infringement—i.e., that the snaps were genuine—and thus the Retailer Defendants cannot rely on such a defense with respect to their own infringement.

"When confronted with a potentially inconsistent verdict, the court must adopt a view of the case, if there is one, that resolves any seeming inconsistency.'" *Turley* v. *Police Dep't of City of New York*, 167 F.3d 757, 760 (2d Cir. 1999) (internal citations and quotation marks omitted); see also *Indu Craft, Inc.* v. *Bank of Baroda*, 47 F.3d 490, 497 (2d Cir. 1995) ("A court's role is to reconcile and preserve whenever possible a seemingly inconsistent jury verdict."). Defendants contend that the jury's disparate verdicts with respect to trademark infringement can be reconciled because Romag's argument ignores its own burden to establish that the Retailer Defendants actually sold Fossil handbags containing the infringing snaps. Thus, Defendants argue, rather than interpreting the jury's split verdict as a rejection of the strict liability standard on which it was instructed (*see* Jury Instructions [Doc. # 410] at 10–11), the Court can reconcile any discrepancy by concluding that the jury found that Plaintiff failed to prove by a preponderance of the evidence that any of the Fossil handbags sold by the Retailer Defendants actually contained the counterfeit snaps.

In its briefing, Plaintiff argues that "[i]t cannot be disputed that the very same counterfeit Romag magnetic snap fasteners used in Fossil handbags imported and sold by Fossil to the Retail Defendants necessarily were sold by the Retail Defendants to the public." (Pl.'s Mem. Supp. at 5.) In support of this proposition, Plaintiff cites the Retailer Defendants' interrogatory responses and their sales records, indicating that they sold Fossil handbags. (See Exs. 126–130, 131A, 263–269, 596.) However, in their responses to Plaintiff's interrogatories, each defendant included a disclaimer that nothing in the responses should be construed as an admission that the accused handbags actually contained the infringing snaps. (See Exs. 126–30, 264–69.) Thus, in the interrogatories, Defendants did no more than provide the sales data for the requested SKU numbers, and did not admit that the accused handbags contained the infringing snaps.

The jury heard testimony from Doug Dyment that Superior was only one of the three largest manufacturers of women's handbags for Fossil and that it only manufactured approximately forty to fifty percent of Fossil's handbags. (Trial Tr. Vol. II [Doc. # 434] at 363–64.) There was no evidence presented at trial regarding the exact sales chain between Superior, Fossil, and the Retailer Defendants with respect to any specific handbags containing counterfeit snaps. Based on this testimony, the jury could have reasonably concluded that the Fossil handbags to which the Retailer Defendants admitted selling were manufactured by a different manufacturer, and that because there was no evidence presented at trial that Fossil's other manufacturers had used counterfeit snaps, it could have further concluded that those bags did not contain counterfeits. The jury also heard testimony that Fossil sold handbags through department stores, specialty stores, and through its own stores and website (Trial Tr. Vol. II at 349–51), and thus the jury could have reasonably concluded that the snaps it found to be infringing were sold through sales channels other than the Retailer Defendants.[2]

With respect to the actual handbags and snaps presented to the jury at trial, Howard Reiter testified that he had purchased handbags at Macy's, at a Fossil outlet store, and online at Zappos.com to confirm his suspicions of counterfeiting (Trial Tr. Vol. I [Doc. # 433] at 202), but he did not testify as to any purchases from any of the other Retailer Defendants. Mr. Reiter did testify that a Fossil bag of the same style that he had determined contained counterfeit snaps was shown in online advertising for Zappos.com. (*Id*. at 204.) However, Mr. Reiter never testified that he inspected any of the bags purchased from Zappos.com, and stated only that he "checked quite a few bags." (*Id*. at 205.) Thus, Mr. Reiter's testimony did not establish that any of the bags purchased from the Retailer Defendants were manufactured at Superior or were found to contain counterfeit snaps. Based on a review of the evidence presented at trial, the Court concludes that the jury could have found that Plaintiff failed to carry its burden to prove that the Retailer Defendants other than Macy's sold Fossil handbags containing counterfeit ROMAG snaps, which would resolve any potential inconsistency in their verdict.

However, with respect to Macy's, the jury did hear testimony that Fossil bags purchased from Macy's contained counterfeit snaps. Mr. Reiter testified that it was the Fossil bags his wife and sister-in-law

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[2] A review of Romag's exhibit list [Doc. # 415] indicates that some of the Fossil handbags entered into evidence were indeed purchased from non-party retailers, such as "SavyFashions." (*Id*. at 3.)

purchased at Macy's that initially raised his suspicion of counterfeiting. (*Id.* at 174–180.) Mr. Reiter also testified that he personally inspected the snaps taken from a Fossil bag purchased at Macy's, and had his factory in China inspect those snaps, and that based on the analysis of those snaps he reached the conclusion that Fossil was selling handbags containing counterfeit snap fasteners. (*Id.* at 176–80.) Additionally, the jury's verdict against Macy's contains an inconsistency that is not present in its verdict against the other Retailer Defendants. The jury returned a verdict against Macy's with respect to patent infringement. The only way the Court could reconcile this verdict with its verdict finding for Macy's with respect to trademark infringement would be if the jury concluded that Fossil handbags containing Romag snaps manufactured by Superior were sold to Macy's, but that these snaps did not bear the ROMAG mark. There was no evidence at trial to support such a conclusion. Therefore, Plaintiff's motion for judgment as a matter of law with respect to trademark infringement is granted as to Macy's and denied as to the remaining Retailer Defendants.

B. Willful Trademark Infringement

Plaintiff moves for a new trial on the issue of willful trademark infringement, arguing that the Court's instructions on willful trademark infringement were erroneous and that the jury's verdict with respect to willful trademark infringement represents a miscarriage of justice that substantially prejudiced Romag. "A jury instruction is erroneous if it misleads the jury as to the correct legal standard or does not adequately inform the jury on the law." *Cameron* v. *City of New York*, 598 F.3d 50, 68 (2d Cir. 2010). "A jury instruction is proper so long as the charge correctly and sufficiently covers the case to allow the jury intelligently to decide the questions presented to it." *Bruneau* v. *South Kortright Cent. Sch. Dist.*, 163 F.3d 749, 761 (2d Cir. 1998), *abrogated on other grounds by Fitzgerald v. Barnstable Sch. Comm.*, 555 U.S. 246 (2009). When determining whether jury instructions were erroneous, the Court must ask "whether considered as a whole, the instructions adequately communicated the essential ideas to the jury." *United States* v. *Schultz*, 333 F.3d 393, 414 (2d Cir. 2003) (internal citations and quotation marks omitted). If an instruction is erroneous, a new trial must be granted, unless the error was harmless. *See United States* v. *Bah*, 574 F.3d 106, 114 (2d Cir. 2009). "An error is harmless only if the court is convinced that the error did not influence the jury's verdict." *Gordon* v. *N.Y. City Bd. of Educ.*, 232 F.3d 111, 116 (2d Cir. 2000).

The Court instructed the jury as follows with respect to willful trademark infringement:

> Plaintiff also alleges that Defendants willfully infringed its trademark. If you find that Defendants infringed Romag's trademark, you must also determine if Defendants used the trademark willfully, as I now define that term for you. This is a separate claim from Plaintiff's claim that Defendant's infringed Romag's trademark, which I described earlier. To prove willfulness, Plaintiff must show (1) that Defendants were actually aware of the infringing activity, or (2) that Defendants' actions were the result of willful blindness. Willful blindness means that Defendants knew they might be selling infringing

> goods but nevertheless intentionally shielded themselves from discovering the truth.

(Jury Instructions at 14.) Romag argues that this instruction was erroneous because it did not inform the jury that it could find that Defendants' willfully infringed the ROMAG mark if they acted with reckless disregard. In support of this proposition Romag cites *Fendi Adele, S.R.L.* v. *Ashley Reed Trading, Inc.*, 507 F. App'x 26 (2d Cir. 2013), a non-precedential summary order, which held that: "[t]o prove willfulness, a plaintiff must show (1) that the defendant was actually aware of the infringing activity, or (2) that the defendant's actions were the result of reckless disregard or willful blindness." *Id.* at 30 (internal quotation marks omitted) (quoting *Island Software & Computer Serv., Inc.* v. *Microsoft Corp.*, 413 F.3d 257, 263 (2d Cir. 2005)).

However, the Court notes that the portion of the *Island Software* opinion that the Fendi court quoted in defining trademark willfulness was actually a definition of "willfulness" under the Copyright Act. *See Island Software*, 413 F.3d at 263 ("To prove 'willfulness' under the Copyright Act, the plaintiff must show (1) that the defendant was actually aware of the infringing activity, or (2) that the defendant's actions were the result of reckless disregard for, or willful blindness to, the copyright holder's rights." (internal citations and quotation marks omitted)). The *Fendi* court went on to define willful blindness as follows: "In the context of a trademark infringement action, willful blindness means that a defendant knew it might be selling infringing goods but nevertheless 'intentionally shielded itself from discovering' the truth." *Fendi, F.* App'x at 31 (quoting *Tiffany (NJ) Inc.* v. *eBay, Inc.*, 600 F.3d 93, 109–10

(2d Cir. 2010)). The Court's instruction is nearly identical to this language and thus is not clearly erroneous.

Furthermore, Romag did not object to this instruction, and actually requested the charge given by the Court. The Court's original proposed instruction on willful trademark infringement included the phrase "reckless disregard" (see Court's Prop. Instructions, Ex. A to Geiger Decl. [Doc. # 478] at 15), but Romag itself requested that the Court strike this language from its final charge (see Romag's Response to Court's Prop. Instructions, Ex. B to Geiger Decl. at 14). The charge the Court gave is *identical* to the charge Romag requested in response to the Court's proposed instructions. (*Compare id. with Jury Instructions* at 14.) "Where, as here, the party fails to object to the instruction before the jury begins deliberations, a subsequent challenge based on that charge should be entertained only if the alleged errors are fundamental. An error is fundamental under this standard only if it is so serious and flagrant that it goes to the very integrity of the trial." *Shade* v. *Housing Authority of City of New Haven*, 251 F.3d 307, 312–13 (2d Cir. 2001). The Second Circuit has previously noted that it "[cannot] see how holding [a party] to a jury verdict that faithfully followed an instruction… that [the party itself] urged upon the court could give rise to a miscarriage of justice." Id. at 313. Thus, the Court's failure to include "reckless disregard" in its initial instruction does not warrant the granting of a new trial in this case.

After the Court gave its final instructions, the jury requested a definition of the term "intentionally shielded" as it appeared in the Court's instruction on willful trademark infringement. After colloquy with counsel, the Court instructed the jury that

> "Intentionally shielded'" is more than reckless or negligent conduct. It means when a defendant knew that there was a high probability that components which infringed Plaintiff's mark were used on its handbags, but took deliberate actions, such as purposefully looking the other way, to avoid learning of the infringement.

(Suppl. Jury Instructions [Doc. # 411] at 1.) Plaintiff initially objected to a proposal very similar to the language the Court ultimately used, but withdrew its objection when the Court agreed to omit the words "for the purpose of." (Trial. Tr. Vol. VIII [Doc. # 441] at 1594–95 ("Then that would be fine your honor.").) When the Court re-read the above-quoted language without the previously objected-to phrase, Plaintiff failed to object to the instruction in its final form. (*Id*. at 1596.)

Plaintiff now argues that the instruction was erroneous because it improperly incorporated language from *Global-Tech Appliances, Inc.* v. *SEB SA*, 131 S. Ct. 2060 (2011), a patent case, in contravention of the Second Circuit's trademark precedent on willful infringement as articulated in *Fendi*. However, in its proposed jury instructions, Plaintiff proposed an instruction on willfulness in the context of trademark infringement and unfair competition that included language similar to that used in the Court's clarifying instruction and that cited *Global-Tech* as the primary authority in support of the charge:

> In addition, you may determine that Defendants' conduct was willful if Defendants re-

> mained willfully blind to the infringement. Defendants remained willfully blind to the infringement if they subjectively believed there was a high probability that they were infringing Romag's trademark, and took deliberate action to avoid confirming this infringement.

(Pl.'s Prop. Jury Instructions [Doc. # 303-13] at 48 (citing *Global-Tech*, 131 S. Ct. at 2070– 72).) In light of this proposed instruction, Romag cannot now be heard to argue that *Global-Tech* is not a proper authority for the Court's jury instructions.

In *Global-Tech*, the Supreme Court conducted a review of the precedents of the Courts of Appeals with respect to "willful blindness," drawing on examples from the criminal context, and synthesized that precedent to arrive at what it concluded was an appropriate general definition of the term "willful blindness." The Court noted that all of the appellate courts appeared to agree on two basic requirements: "(1) the defendant must subjectively believe that there is a high probability that a fact exists and (2) the defendant must take deliberate actions to avoid learning of that fact." 131 S. Ct. at 270. The Court concluded that "these requirements give willful blindness an appropriately limited scope that surpasses recklessness and negligence. Under this formulation, a willfully blind defendant is one who takes deliberate actions to avoid confirming a high probability of wrongdoing and who can almost be said to have actually known the critical facts." *Id.* at 270–71. The Second Circuit recognized a similar proposition in *Tiffany (NJ) Inc.* v. *eBay Inc.*, 600 F.3d 93 (2d Cir. 2010): "[W]illful blindness is equivalent to actual knowledge for purposes of the Lanham Act."

Id. at 110 (internal citation and quotation marks omitted). This Court's supplemental instruction on "intentionally shielded" closely tracked the Supreme Court's language defining the general concept of willful blindness, which is not, as Plaintiff argues, in conflict with existing Second Circuit precedent. Therefore, this Court's instructions, adequately conveyed the concepts of willfulness, were not erroneous and did not represent a fundamental error going to the very integrity of the trial.

Even if this Court's instructions with respect to willful trademark infringement had been erroneous, Plaintiff would not be entitled to a new trial because the evidence at trial at most could have supported a finding that Fossil[3] was negligent, not that it acted in reckless disregard, with willful blindness, or with actual knowledge of Superior's purchases of counterfeit snaps. Romag argues that the jury's verdict resulted in a miscarriage of justice, barring it from recovering any award of profits, because there was insufficient evidence based on which a jury could have concluded that Fossil's actions were not willful. Plaintiff cites evidence that Mr. Dyment knew of the only authorized sales channel for Romag snap fasteners, and that Fossil had had difficulties with Superior in the past, to argue that Romag's failure to inspect Superior's sales records or to visually inspect

[3] Plaintiff presented almost no evidence at trial with respect to the conduct of the Retailer Defendants, willful or otherwise, and cites no evidence in its briefing in support of a finding of willful infringement on the part of the Retailer Defendants.

the snap fasteners on the bags produced by Superior[4] constituted willful infringement.

However, a defendant "has no affirmative duty to take precautions against the sale of counterfeits . . . [and is not required] to seek out and prevent violations." *Hard Rock Café Licensing Corp.* v. *Concession Servs., Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992). Thus, unless Fossil had a specific reason to suspect that there was a risk that Superior was using counterfeit snaps, any lapses in its oversight of Superior would rise no higher than mere negligence. The evidence that Fossil knew generally that counterfeiting was a serious problem in China, or that it had an issue with the use of counterfeit zippers by a different vendor does not establish that Fossil suspected Superior of using counterfeit snaps. Furthermore, when Fossil discovered the use of counterfeit YKK zippers in its products by a vendor, rather than turning a blind eye, it quickly set up a quality control program in an attempt to avoid future issues. (Ex. 119.)

Plaintiff points to several instances where Fossil and Superior had a dispute regarding materials as evidence that Fossil suspected there was a risk that Superior was using counterfeit snaps. However, Mr.

[4] With respect to the evidence that Fossil failed to perform visual inspection of the snap fasteners on its handbags to determine whether or not they contained counterfeits, Mr. Reiter himself testified that when he first looked at the counterfeit snaps on the handbags his wife had purchased from Macy's he did not believe that they were counterfeits. (Trial Tr. Vol. II at 309.) If the inventor of the snaps himself cannot always distinguish a counterfeit snap from an authentic snap via visual inspection, it cannot be the case that a Fossil acted recklessly or with willful blindness by failing to visually inspect the snaps in its handbags.

Dyment testified that he believed Superior's use of PVC instead of genuine leather in some products was an honest mistake, made without any intent to mislead Fossil. (Trial Tr. Vol. II at 461.) He further testified that although Fossil suspected that Superior was charging Fossil for YKK zippers while using generic zippers (see Ex. 118), this led to the concern that Superior was inflating its prices, rather than to a concern that Superior was using counterfeits (see Trial Tr. Vol. II at 462–63). Neither of these instances would have alerted Fossil to the risk that Superior was using counterfeit snap fasteners. Plaintiff cites only one instance in which Fossil had an issue with respect to the snap fasteners used by Superior. There, Fossil raised questions as to the reimbursement amount requested by Superior and indicated that Superior should be using generic rather than branded snaps. (Exs. 92–93.) Ultimately, Fossil agreed to reimburse Superior for the branded price. (Ex. 93.) Romag argues that Fossil should have checked Superior's purchase orders when reviewing its request for reimbursement and that it would have discovered the counterfeiting if it had done so. However, the dispute over the reimbursement amount does not indicate that Fossil suspected Superior of using counterfeits. Rather, the fact that Fossil paid Superior the full amount requested indicates that Fossil believed the snaps were genuine. A company would be highly unlikely to pay full price for a counterfeit, and then to continue to ignore that counterfeiting, opening itself up to liability.

Thus, the evidence at trial established that Fossil paid full price for the snaps used by Superior, that it had never been informed of any specific instances of Superior using counterfeit snaps, and that it "[d]idn't believe that counterfeits were being used."

(Trial Tr. Vol. III [Doc. # 435] at 579.) There was no other evidence to support a finding that Fossil knew or suspected there was a risk that Superior was using counterfeit snaps. If it had such suspicions, Fossil's failure to investigate those suspicions would have constituted willful infringement. However, absent evidence of such suspicions, Fossil's failure to investigate Superior more generally amounts to no more than negligence by Fossil. Therefore, the jury's verdict with respect to willful infringement did not constitute a miscarriage of justice because there was no evidence that Fossil acted recklessly, with willful blindness, or with actual knowledge of a risk of counterfeit snaps, and Romag is not entitled to a new trial on this issue.

C. Attribution of Profits

Romag argues that it is entitled to a full award of Fossil's profits under an unjust enrichment theory, without attribution, and that it is entitled to a new trial on the issue of attribution of Defendants' profits. Romag bases these arguments on perceived errors in the jury instructions and verdict form. Specifically, Romag believes that the jury improperly applied its attribution finding to its award of unjust enrichment profits, and that therefore the Court should multiply the jury's finding by 100 to correct this error. Romag further asserts that the Court's instructions with respect to the jury's determination of the portion of Fossil's profits attributable to the use of the ROMAG mark were erroneous and that they are therefore entitled to a new trial on this issue.

The Court instructed the jury with respect to an award of profits and attribution of profits as follows:

> Profits may only be awarded if you find a Defendant has been unjustly enriched by a use of Plaintiff's trademark or there is a need to deter an infringer from doing so again. It is not necessary for you to make a finding of both unjust enrichment and deterrence in order for you to make an award of profits. You may award Romag Defendants' profits if you make either a finding of unjust enrichment or deterrence, or both… Profit is determined by deducting all expenses from gross revenue. Gross revenue is all of Defendants' receipts from using the infringing mark in the sale of its product. Plaintiff has the burden of proving a Defendant's gross receipts by a preponderance of the evidence. Expenses are all costs incurred in producing the gross revenue. Defendant has the burden of proving expenses. Defendant also bears the burden of proving that any portion of the profit is attributable to factors other than the infringement. Defendant must prove each of these by a preponderance of the evidence. Unless you find that a portion of the profit from the sale of the products using the trademark is attributable to factors other than use of the trademark, you should find that the total profit is attributable to the infringement. If you determine that Plaintiff is entitled to an award of profits under the deterrence rationale, you may decide to award Defendants' profits even if the profits were not acquired due to the use of Romag's mark.

(Jury Instructions at 22–24.) Romag objected to this instruction on the grounds that it invited improper speculation by the jury as to the attribution of the profits, in contravention of the Supreme Court's decision in *Mishawaka Rubber & Woolen Mfg. Co.* v. *S.S. Kresge Co.*, 316 U.S. 203 (1942).

The Court's initial proposed verdict form simply asked the jury to calculate the amount of profits they found proved with respect to each Defendant, reserving the issue of what specific amount to award for the Court's consideration of the equitable factors after trial. At the charge conference, Plaintiff objected to this formulation, and requested that the jury be asked to indicate separately the amount of profits it found should be awarded under an unjust enrichment theory and under a deterrence theory. (*See* Charge Conf. Tr. [Doc. # 439] at 5–8.) The Court acceded to this request. The verdict form given to the jury read as follows:

> B.1 What amount of profits do you find that Romag proved by a preponderance of the evidence that each Defendant made on the sale of the accused handbags which should be awarded to Plaintiff to prevent unjust enrichment to Defendants? *Proceed to Question B.2.*
>
> B.2 What amount of profits do you find that Romag proved by a preponderance of the evidence that each Defendant made on the sale of the accused handbags which should be awarded to deter future trademark infringement? *Proceed to Question B.3.*
>
> B.3 Have Defendants proved by a preponderance of the evidence that any portion of the profits earned from the sale of the accused handbags was attributable to factors other than the use of the ROMAG mark? If your

> answer to Question B.3. is "Yes," what percentage of Defendants' profits earned from the sale of the accused handbags was attributable to factors other than the use of the ROMAG mark?

(Jury Verdict at 4–5.) Romag preserved an objection to the verdict form on the grounds that the order of Questions B.2 and B.3 should have been reversed, arguing that the order might confuse the jury as to whether attribution applied to deterrence profits in addition to unjust enrichment profits. (Trial Tr. Vol. VII [Doc. # 440] at 1572.)

During deliberations, the jury asked the following question: "How does the percentage in "B3" page 5 impact or relate in any way to the totals in "B2" page 4 in any way?" (Court Ex. 5.) In response to this question, the Court suggested to the parties that the current verdict form be exchanged for the original verdict form, which asked only for total profits proved and the percentage of profits attributable to factors other than the use of the mark. (Trial Tr. Vol. VIII at 1598, 1600.) The Court also specifically raised the issue of potential confusion between the unjust enrichment award and the attribution finding:

The Court:	They haven't asked how attribution applies to unjust enrichment.
Mr. Schaeffer:	Right, but they've read the jury charge. Okay? So they—I think they're just very closely following the jury charge…
The Court:	I'm accepting that your earlier view that it shouldn't be there is probably correct. It has been proved to be correct. But if the

next question is, if the next question were to be, does it apply to B1, what's the answer?… If their award of unjust enrichment profits—

Mr. Schaeffer: Right.

The Court: —is less than 100 percent—

Mr. Schaeffer: Right.

The Court: —how then is the allocation applied?… All I want to know is we only have this jury once. Do we want to know what the total amount of profits is as well as unjust enrichment and deterrence profits?…

Mr. Schaeffer: Your Honor, our thinking hasn't changed. We think it's— to start redoing their whole process would not be wise…

The Court: Well, that's—does the answer to B3 apply to B1?

Mr. Schaeffer: It would apply to B1, but we want to keep that separate because we may have questions on the charge on attribution and allocation, so we want those separate amounts.

The Court: So it will be for the Court to apply that percentage to their unjust enrichment.

Mr. Schaeffer: Correct.

(*Id.* at 1603–06.) Based on this colloquy, the Court instructed the jury that the percentage in Question

B3 did not apply to the award in Question B2. (*Id.* at 1607.) Ultimately, the jury awarded $90,759.36 of Fossil's profits under an unjust enrichment theory and $6,704,046.00 of Fossil's profits under a deterrence theory and determined that 1% of Fossil's profits were attributable to its infringement of the ROMAG mark. (*See* Jury Verdict at 4–5.)

Plaintiff now argues that the jury must have applied its finding in Question B.3 to Question B.1 based on the confusing verdict form and jury instructions and that therefore the court should multiply the unjust enrichment award by 100 and amend the judgment to reflect that the jury awarded $9,0759,360.00 of Fossil's profits under an unjust enrichment theory. Plaintiff bases this argument on the fact that there was no evidence regarding an amount of $90,000 in profits, and on the fact that $9 million is an amount somewhere between Defendants' expert's calculation of profits as $6,704,046.00 and Plaintiff's expert's calculation of profits as either $16,192,555.00 or $13,540,338.00. However, Plaintiff's arguments are completely speculative. Romag vehemently rejected the possibility of such confusion by the jury when this specific issue was raised by the Court and refused the Court's offer to provide clarifying instructions or a revised verdict form that could have resolved any doubt on the matter. Furthermore, the jury adopted Defendants' expert's calculation of profits wholesale with respect to the deterrence rationale, which would undercut the argument that it believed that the total amount of profits was closer to $9 million. If the jury had applied its attribution finding to its award of unjust enrichment profits it would have been more likely to award 1% of the $6,704,046.00 amount in its deterrence award.

The verdict form's wording permitted the jury to award less than the full amount of profits, before considering attribution, on both the unjust enrichment theory and the deterrence theory. (See Verdict Form at 4 ("What amount of profits do you find . . . should be awarded . . .).) The Court has a duty to adopt a view of the verdict that would resolve any inconsistencies, *Turley*, 167 F.3d at 760, and it is possible that the jury concluded that Fossil was not unjustly enriched by the full amount of its profits. Additionally, the Supreme Court has recognized "the almost invariable assumption of the law that jurors follow their instructions." *Shannon* v. *United States*, 512 U.S. 573, 585 (1994). Here, the instructions on the verdict form clearly direct the jury to first determine the amount of profits that should be awarded under each rationale, and only then to determine the attribution of profits. There is no instruction in either the jury charge or the verdict form to apply the attribution amount to the award of unjust enrichment profits. Therefore, the Court may assume that the jury followed the directions in the verdict form to calculate their award of unjust enrichment profits before making any determination on the issue of attribution, and the Court declines to award a new trial or amend the judgment on this issue.

Romag also argues that Court should either amend the judgment to reflect an attribution of 0% or grant it a new trial because the jury's finding of 99% attribution was unsupported by the evidence at trial and based on erroneous jury instructions. In *Mishawaka*, the Supreme Court set forth the standard for attribution of profits under the Lanham Act:

> If it can be shown that the infringement had no relation to profits made by the defendant,

> that some purchasers bought goods bearing the infringing mark because of the defendant's recommendation or his reputation or for any reason other than a response to the diffused appeal of the plaintiff's symbol, the burden of showing this is upon the poacher. The plaintiff of course is not entitled to profits demonstrably not attributable to the unlawful use of his mark. The burden is the infringer's to prove that his infringement had no cash value in sales made by him. If he does not do so, the profits made on sales of goods bearing the infringing mark properly belong to the owner of the mark. There may well be a windfall to the trade-mark owner where it is impossible to isolate the profits which are attributable to the use of the infringing mark. But to hold otherwise would give the windfall to the wrongdoer. In the absence of his proving the contrary, it promotes honesty and comports with experience to assume that the wrongdoer who makes profits from the sales of goods bearing a mark belonging to another was enabled to do so because he was drawing upon the good will generated by that mark. And one who makes profits derived from the unlawful appropriation of a mark belonging to another cannot relieve himself of his obligation to restore the profits to their rightful owner merely by showing that the latter did not choose to use the mark in the particular manner employed by the wrongdoer.

316 U.S. at 206–07 (internal citation omitted); see also *Hamilton-Brown Shoe Co.* v. *Wolf Bros. & Co.*, 240 U.S. 251, 261–62 (1916) (holding that where at-

tribution of profits is "inherently impossible" the plaintiff is entitled to the full amount of the defendant's profits).

Plaintiff asserts that these cases stand for the proposition that unless a defendant offers a "reasoned methodology" for the attribution of profits, the plaintiff must recover 100% of the profits proved. Based on this proposition, Romag argues that the Court's instructions and verdict form were erroneous because they provided for an open-ended calculation of attribution, rather than instructing the jury that unless Fossil proved that none of its profits were derived from its use of the ROMAG mark, Romag was entitled to recover the full amount of profits proved. However, *Mishawaka* and *Hamilton-Brown Shoe* do not speak in terms of a "reasoned methodology." Rather, they instruct that where it is impossible to attribute profits the windfall should go to the plaintiff, rather than the infringer. In *Sheldon* v. *Metro-Goldwyn Pictures Corp.*, 309 U.S. 390 (1940), a copyright case that relied on *Hamilton-Brown Shoe* and was cited with approval in *Mishawaka*, the Supreme Court explained that "mathematical exactness" was not required for the attribution of profits. "What [i]s required [i]s only reasonable approximation which usually may be attained through the testimony of experts and persons informed by observation and experience.… The result to be accomplished is a rational separation of the net profits so that neither party may have what rightfully belongs to the other." *Id.* at 404 (internal citations and quotation marks omitted). The Court's instructions and verdict form accurately reflected these concepts and thus were not erroneous and do not merit the granting of a new trial.

Furthermore, contrary to Plaintiff's arguments, the evidence at trial did not mandate an all-or-nothing attribution calculation. Although Fossil's expert Dr. Jay testified that the ROMAG mark played "no role in the purchase of handbags with magnetic snaps," (Trial Tr. Vol. VI [Doc. # 438] at 1269), the jury was "free to accept or reject the expert's opinions in whole or in part and to draw its own conclusions from it," *In re MTBE Products Liability Litigation*, 739 F. Supp. 2d 576, 604 (S.D.N.Y. 2010). Dr. Jay's survey results indicated that 6% of respondents stated that whether there was a brand name printed on the magnetic snap was a reason for purchasing one particular handbag instead of another, and that 2% of respondents stated that the appearance of the brand name on the magnetic snap was the only reason for purchasing one particular handbag instead of another. (Ex. 648 at 8–9.) The jury also saw evidence that Fossil purchased its snaps for approximately $0.24, which represents approximately 1% of the total landed cost of $30.00 for its handbags. (See Ex. 93, 234). Based on this evidence, the jury could have reasonably concluded that the use of the ROMAG mark accounted for approximately 1% of Fossil's profits on the accused handbags. The jury's verdict on attribution was not contrary to the evidence at trial so as to constitute a miscarriage of justice and is not in contravention of the governing legal standards. Therefore, Romag is not entitled to a new trial on this issue or to an amendment of the judgment to reflect an attribution of 0%.

III. Defendants' Motion for Judgment as a Matter of Law and for a New Trial

Defendants have filed what they refer to as a "conditional" motion for judgment as a matter of law and for a new trial. They argue that, in the event the Court's ruling with respect to the willfulness requirement is overturned on appeal, and the Court determines after conducting an analysis of the equitable factors that Plaintiff is entitled to an award of profits, the Court should find as a matter of law that their conduct was not "willfully deceptive" or "unjust" such that Plaintiff cannot recover an award of profits, and that the Court's failure to include these terms in its instructions with respect to an award of profits entitles them to a new trial on this issue. As Plaintiff correctly argues, Defendants essentially seek an advisory opinion with respect to the issue of an award of profits, and as such, Defendants' motion is unripe. In order for the Court to reach the issues raised in Defendants' motion, its prior ruling must first be overturned on appeal, and it must find after an analysis of the equitable factors governing an award of profits that Plaintiff is entitled to such an award. There are thus two different opinions that need to be decided in Plaintiff's favor before Defendants' arguments become ripe. Furthermore, in their motion, Defendants rely on the standard set forth in *George Basch Co.* v. *Blue Coral, Inc.*, 968 F.2d 1532 (2d Cir. 1992), which would likely have to be abrogated in order for an appellate court to overturn the Court's prior ruling on the issue of the willfulness requirement for an award of profits. Therefore, the Court is unable at this time to determine what standard to apply to Defendants' prospective, conditional arguments. In light of these considerations, Defendants' "conditional" motion for judgment as a matter of law and for a new trial is denied without prejudice to renewal in the event that the conditions precedent for such a renewed motion are met.

III. Conclusion

For the foregoing reasons, Plaintiff's Motion [Doc. # 472] for Judgment as a Matter of Law and for a New Trial is GRANTED, in that judgment will be entered against Defendants Macy's, Inc. and Macy's Retail, Inc. with respect to trademark infringement, and DENIED in all other respects. Defendants' "Conditional" Motion [Doc. # 475] for Judgment as a Matter of Law and for a New Trial is DENIED without prejudice to renewal if the Court's ruling with respect to the willfulness requirement is overturned on appeal and the Court subsequently determines based on the equitable factors that Plaintiff is entitled to an award of Fossil's profits for trademark infringement. The Clerk is directed to enter judgment[5] as follows: (1) judgment shall enter against Fossil, Inc. and Fossil Stores I, Inc. with respect to trademark infringement, false designation of origin, state common law unfair competition, violation of CUTPA, and patent infringement in the amount of $41,862.75;[6] (2) judgment shall enter against Macy's, Inc. and Macy's Retail, Inc. with respect to trademark infringement

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[5] The Court will delay the entry of this final judgment until five days after this opinion is issued in order to give Romag the opportunity to elect statutory damages against Fossil and Macy's for trademark infringement.

[6] This figure reflects the jury's award of a reasonably royalty for patent infringement, as reduced by the Court in light of its finding with respect to Plaintiff's laches. The jury's award of Fossil's profits for trademark infringement is vacated by the Court's ruling with respect to the willfulness requirement. The jury awarded no damages on Plaintiff's state-law claims because Plaintiff sought only punitive damages with respect to those claims, and the jury found that Plaintiff was not entitled to such damages.

and patent infringement in the amount of \$12,562.90;[7] and (3) judgment shall enter for Defendants with respect to Plaintiff's remaining claims.

IT IS SO ORDERED.

/s/ Janet Bond Arterton, U.S.D.J.
Janet Bond Arterton, U.S.D.J.

Dated at New Haven, Connecticut
this 8th day of August, 2014.

[7] This figure reflects the jury's award of a reasonably royalty for patent infringement, as reduced by the Court in light of its finding with respect to Plaintiff's laches.