

When Can Brand Owners Demand ‘Show Me the Money’?

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Continuing Confusion over the Availability of Monetary Damages Under the Lanham Act

When enacted, § 35 of the Lanham Act provided for a prevailing plaintiff to obtain monetary damages including the defendant's profits and any damages sustained by the plaintiff "subject to the principles of equity." 15 U.S.C. § 1117(a) (1947). Over the years, application of the principles of equity led most Circuit Courts to incorporate into § 35 a requirement that a plaintiff must show either bad faith or actual confusion before entitlement to an award of profits. *See, e.g., George Basch Co., Inc. v. Blue Coral, Inc.*, 968 F.2d 1532 (2d Cir. 1992) ("Under section 35(a) of the Lanham Act, plaintiff must prove that a trademark or trade dress infringer acted with willful deception before the infringer's profits are recoverable by way of an accounting, whether the rationale is that the infringer was unjustly enriched, that plaintiff sustained damages from the infringement, or that accounting is necessary to deter a willful infringer from doing so again."); *Rolex Watch USA, Inc. v. Meece*, 158 F.3d 816 (5th Cir. 1998) (holding that a seller of watches did not engage in deliberate trademark infringement, so the court did not err in refusing to award profits and attorney's fees to the plaintiff); *Lindy Pen Co., Inc. v. Bic Pen Corp.*, 982 F.2d 1400 (9th Cir. 1993) ("Competitor's infringement of pen manufacturer's 'Auditor's' mark was not willful, so that manufacturer was not entitled to accounting of competitor's profits."). Indeed, the Restatement (Third) of Unfair Competition goes further and directs that the defendant should only have to disgorge its profits when it acted in bad faith or fraudulently, because "award[ing] an accounting of profits when the defendant deliberately but in good faith used a mark with knowledge of the plaintiff's prior use ... can chill lawful behavior." Restatement (Third) of Unfair Competition § 37 cmt. e (1995).

However, when the Lanham Act was amended in 1999 to include the Anti-Cybersquatting Consumer Protection Act ("ACPA"), a "technical" amendment was also included to clarify that the monetary remedies available under the Federal Trademark Dilution Law, passed a few years before ACPA, were only available if the defendant in a dilution case acted willfully. Specifically, Congress amended § 35(a) of the Lanham Act to limit the recovery of damages in dilution cases to instances of a "willful violation," as follows (amendment in bold):

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), **or a willful violation under section 1125(c)**, shall have been established in any civil action arising under this Act ...

See Trademark Amendments Act of 1999, Pub. L. No. 106-43 § 1117, 113 Stat 218, 219 (1999).

The addition of the "willful violation" language as an express requirement for monetary damages in a dilution claim has been found by some courts to evidence Congressional intent to modify the standard for awarding monetary damages for ordinary infringement. This perception was first hinted at by the Fifth Circuit in *Quick Techs v. Sage Group Plc*, 313 F.3d 338 (5th Cir. 2002). In *Quick Techs*, while not discussing the 1999 Amendments specifically, the Fifth Circuit noted that the "plain language" of the statute did not create a willfulness requirement. *Id.* at 349-350.

Three years later, however, the Third Circuit expressly found that the 1999 Amendments changed the standard for awarding monetary damages in an ordinary trademark infringement case. *See Banjo Buddies, Inc. v. Renosky*, 399 F.3d 168 (3d Cir. 2005). The Third Circuit's rationale was that "Congress was aware that most courts had consistently required a showing of willfulness prior to disgorgement of an infringer's profits in Lanham Act cases, despite the absence of the word 'willful' in the statutory text prior to

1999." *Id.* at 174. In light of this compelling rationale, it made perfect sense to read the amendment as a refinement of the requirements for obtaining monetary relief. As one district court explained, "[i]t is well settled that 'where Congress includes particular language in one section of a statute but omits it in another section of the same Act, it is generally assumed that Congress acted intentionally and purposely in the disparate inclusion or exclusion.'" *Nike, Inc. v. Top Brand Co.*, No. Civ. 8179 (KMW)(RLE), 2005 WL 1654859 at 12 (S.D.N.Y. July 13, 2005) (quoting *Duncan v. Walker*, 533 U.S. 167, 173 (2001)).

The problem with divining "Congressional" intent from these amendments is that, for the most part, trademark statutes in the United States are drafted by the International Trademark Association ("INTA"), the leading U.S. trade group for brand owners. Moreover, there is nothing to suggest that INTA ever intended the technical amendment to § 35 in 1999 to overrule *sub silencio* the vast consensus on the need for willfulness or actual confusion to justify an award of monetary damages. See, e.g., 4 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition § 30:62 (4th ed. 2012) ("the 1999 amendment of Lanham Act § 35(a) was not intended to change the law by removing willfulness as a requirement for an award of profits in a classic infringement case, but rather was meant to correct a drafting error when Congress intended to limit the recovery of damages in dilution cases (and only dilution cases) to instances of a willful violation."). More recently, this view has gained traction with some courts. See, e.g., *Life Services Supplements, Inc. v. Natural Organics, Inc.*, 86 USPQ2d 1639, 1642 (S.D.N.Y. 2007) ("While this Court is mindful of the case law that supports plaintiffs' position, it nonetheless believes that the 1999 amendments did not, in fact, eviscerate the Second Circuit's willfulness requirement for an award of profits in false designation of origin suits."); *GMA Accessories, Inc. v. BOP, LLC*, 765 F.Supp.2d 457, 470-71 (S.D.N.Y. 2011) ("there is no indication in either the bill or the house report that Congress intended to alter the existing scheme for damages for infringement."). However, the reality is that no one can predict how any particular court will decide this issue. In fact, in the Southern District of New York, there appears to be an equal number of judges who have decided this question in each direction.

What does this mean? For 32 years the law on this issue was clear. But now, solely because of a technical amendment to the Federal Trademark Dilution Act to ensure that damages for dilution are only available when a defendant acts in bad faith, damages previously not available in an ordinary infringement case are now available. As a result, this issue has been briefed and argued at least a dozen times at great expense to all parties involved.

It is completely understandable that drafting mistakes can (and will) occur despite the best of intentions. Trademark lawyers will no doubt recall the debacle that followed the passage of the Federal Trademark Dilution Act in 1995, which appeared to require on its face evidence of actual dilution instead of likely dilution. See *Moseley et al. v. V Secret Catalogue, Inc., et al.*, 537 U.S. 418 (2003). In that instance, INTA was quick to act to work to amend the Federal Trademark Dilution Act to clarify that actual dilution was not required. In contrast, however, INTA appears reluctant to take any action to correct the apparent drafting mistake in § 35 of the Lanham Act. For example, as a member of the INTA U.S. Legislation Committee for the last two years, this author knows that efforts to raise and rectify this issue were stymied and we were advised not to pursue this issue, despite what appeared to be strong sentiment within the committee to at the very least consider the issue and, likely, recommend to the Board that action be taken to correct this statutory defect.

One explanation for such resistance might be that some believe that this expansion of monetary damages, even if inadvertent, can only benefit trademark owners by giving them a greater arsenal to use in their policing efforts. If, in fact, the consensus among brand owners is that this "accident" is a gift they should be pleased to accept, steps should still be taken to clarify that the new interpretation of § 35 is correct. Otherwise, we may find that ultimately the courts conclude that McCarthy is correct and reject the holding of the Third Circuit and many district courts.

Trademark owners should think closely before embracing this "mistake." Trademark rights are coming under greater scrutiny today than any time in the last 50 years. According to one recent study, trademark plaintiffs in the Southern District of New York are winning only 37% of the time in contrast to well over 50% 20 years ago. Barton Beebe, *An Empirical Study of the Multifactor Tests for Trademark Infringement*, 95 Cal. L. Rev. 1581, 1597

(2006). In this author's opinion, the more that the courts perceive that trademark owners are acting to protect a property right and not as the vindicator of consumers to be free of confusion in the marketplace, the more stringent the courts will become in their enforcement of trademarks. In addition, the potential demise of bad faith and/or actual confusion as a prerequisite to monetary damages has also contributed to the growing number of trademark trolls (entities that make monetary demands based on dubious trademark rights, often forcing defendants to settle rather than fight because of the potential exposure).

Almost 50 years ago, Judge Henry Friendly, one of the leading lights of the Second Circuit, criticized the legislature for providing judges with "guidance that is defective in one way or another and then [doing] nothing by way of remedy when the problem comes to light." Henry Friendly, *The Gap in Lawmaking — Judges Who Can't and Legislatures Who Won't*, 63 Colum. L. Rev. 787, 792 (1963). Even if we assume that the courts will eventually "get it right," hundreds of thousands of dollars will be spent by defendants on a point of law that should not even be in controversy. Forcing companies to spend money on motions that ought to be avoided is tantamount to an absence of due process. Everyone benefits when the trademark bar acts responsibly to correct legislative mishaps thereby saving the courts from the extra burden of having to resolve the resulting confusion.

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