

## How High Court TM Profits Ruling Bears On False Advertising

By **Jonah Knobler** (May 1, 2020, 3:29 PM EDT)

In *Romag Fasteners Inc. v. Fossil Inc.*,<sup>[1]</sup> the U.S. Supreme Court recently made it easier for Lanham Act plaintiffs to disgorge the ill-gotten profits of trademark infringers.

Naturally, the question arises: Since false advertising suits are also governed by the Lanham Act, does Romag apply to false advertising suits, too? The answer is likely yes — but there are important differences between the two types of suits that may make disgorgement awards more difficult for false advertising plaintiffs to obtain.



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### The Romag Decision

The Lanham Act's chief monetary remedies are actual damages or disgorgement of profits. The former measure represents the profits that the plaintiff failed to realize as a result of the defendant's wrongdoing — e.g., its but-for profits from sales that were wrongfully diverted to the defendant.

The latter measure represents the profits that the defendant made from its wrongful conduct — whether or not the plaintiff would have realized those profits instead. As should be clear, these two measures will often diverge. When the defendant's profits significantly exceed the plaintiff's actual damages, an award disgorging those profits and transferring them to the plaintiff may punish the defendant too harshly while giving the plaintiff a windfall.

As such, courts have long recognized that "an award of profits under the Lanham Act is truly an extraordinary remedy."<sup>[2]</sup>

Before *Romag*, as a means of "tightly cabin[ing]" this remedy,<sup>[3]</sup> some circuits required a threshold showing of willful trademark infringement before a court could even consider disgorgement. Other circuits recognized that willfulness was a key consideration, but declined to make it an absolute prerequisite to disgorgement.

In *Romag*, the Supreme Court endorsed the latter view, holding that "a trademark defendant's mental state is a highly important consideration in determining whether [disgorgement] of profits is appropriate," but refusing to make willfulness an "inflexible precondition" to such an award.<sup>[4]</sup> As a result, disgorgement is now available in trademark cases even without a showing of willful infringement — although, as the court's discussion suggests, such awards should be unusual.

## Does Romag Extend to False Advertising?

Of course, the Lanham Act is not just a trademark statute. It also prohibits other forms of unfair competition, including false advertising.[5] Pre-Romag, courts generally adopted the same approach to willfulness as a prerequisite to disgorgement in both types of cases.

In other words, if a given circuit required willfulness as a mandatory prerequisite to disgorgement in a trademark suit, the same rule was deemed to apply in a false advertising suit. By contrast, if a given circuit deemed willfulness an important but nonmandatory factor in trademark suits, the same rule was deemed to apply in false advertising suits.[6]

As discussed, Romag has now abrogated the mandatory approach in the trademark context. Has it done so in the false advertising context as well? At least on its face Romag's discussion and express holding are limited to trademark cases. The court's opinion mentions the word "trademark" or its variants 26 times but never once mentions the words "false advertising." It's conceivable, then, that a court could read Romag as leaving prior lower court precedent in false advertising cases undisturbed.

But this would probably be a mistake. As the Supreme Court has stressed, the reasoning underlying its holdings is just as binding as its express holdings.[7] The question, then, is whether Romag's reasoning translates to the false advertising cases. And the answer to that question is likely yes.

Start with Romag's textual analysis. The court's discussion focused on Title 15 U.S. Code Section 1117(a), the section of the Lanham Act addressing remedies. The court found it significant that this section expressly imposes a willfulness requirement on recovering monetary damages for one particular type of Lanham Act violation — namely, violations of § 1125(c), relating to trademark dilution — while remaining silent about any mens rea requirement for "violation[s] of § 1125(a), [the] provision establishing a cause of action for the false or misleading use of trademarks." [8]

But Section 1125(a), the same section of the Lanham Act that created Romag's cause of action for trademark infringement, also contains the Lanham Act's prohibition on false advertising. Thus, the inference that the court drew from the statutory text should apply equally to false advertising claims.

Romag also analyzed pre-Lanham Act trademark decisions from the equity courts,[9] since the Lanham Act expressly makes all monetary awards "subject to the principles of equity." [10] At first blush, that might caution against extending Romag to the false advertising context, since false advertising, unlike trademark infringement, was not a recognized cause of action at equity.

However, the Romag court concluded that the principles of equity enshrined in the Lanham Act are "transsubstantive" — i.e., they do not depend on the particular cause of action being invoked.[11] Therefore, the court's gloss on the pre-Lanham Act equity decisions should not be limited to the "discrete domain [of] trademark law" and should apply equally to false advertising claims.[12]

For these reasons, lower courts are likely to conclude that Romag abrogates inconsistent precedent in the false advertising context. Notably, lower courts took a similar approach when, in *eBay Inc. v. MercExchange LLC*, [13] the Supreme Court abolished the presumption of irreparable harm in patent cases. Although eBay's express discussion and holding were limited to the patent context, lower courts viewed eBay as abrogating their precedents in the copyright and trademark context as well.[14]

Likewise, when the Supreme Court's decision in *Octane Fitness LLC v. ICON Health & Fitness Inc.*[15] abolished willfulness as a firm prerequisite for an attorney fee award in patent cases, the lower courts also viewed *Octane* as abrogating their contrary precedents in the trademark context.[16]

Extending *Romag's* holding from trademark claims to false advertising claims is a more modest step than either of these, since in this instance, both causes of action are governed by the very same subsection of the very same statute. Thus, given the lower courts' treatment of *eBay* and *Octane*, it is hard to see them taking a different approach here.

### **Post-Romag, Differences Still Remain**

Although lower courts are likely to extend *Romag* to false advertising cases, that doesn't mean they will treat false advertising cases and trademark cases identically when it comes to disgorgement awards.

Pre-*Romag*, courts recognized that there are "important differences between ... a trademark claim and a false advertising claim" that made it more challenging for a false advertising plaintiff to obtain a disgorgement award.[17] For example, a trademark — like a patent or copyright — is "a kind of property, of which the owner is entitled to the exclusive enjoyment." [18] Any act of trademark infringement trespasses on that exclusive property right and is therefore inherently injurious to the plaintiff.

By contrast, a defendant's mere act of airing a false advertisement does not inherently cause injury in the same way.[19] This bears on the equitable calculus that courts must make when assessing whether disgorgement is called for.

Similarly, courts have recognized that it is often more difficult to show diversion of sales in a false advertising case than in a trademark case. That is because trademark infringement targets the customers of the trademark holder by explicitly trading on its mark.[20] By contrast, false advertising (as long as it does not attack a competing product by name) targets the market as a whole.

Thus, especially in a large, multiseller market, it can be challenging for a false advertising plaintiff to show that the defendant diverted its customers.[21] This, too, can make it harder for a false advertising plaintiff to make the equitable case for disgorgement.

As discussed above, *Romag* likely removes willfulness as a categorical prerequisite to disgorgement in both trademark and false advertising cases. But *Romag* does not change these inherent differences between trademark violations and false advertising violations; accordingly, they will continue to guide the courts in exercising the discretion that *Romag* confers on them.[22]

The upshot is that, while disgorgement awards against nonwillful trademark infringers should be the exception even after *Romag*, disgorgement awards against nonwillful false advertisers should be truly rare.

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[1] Romag Fasteners Inc. v. Fossil Inc., No. 18-1233, 2020 U.S. LEXIS 2408 (Apr. 23, 2020).

[2] W. Diversified Servs. v. Hyundai Motor Am., Inc., 427 F.3d 1269, 1274 (10th Cir. 2005).

[3] Id.

[4] 2020 U.S. LEXIS 2408, at \*12.

[5] See 15 U.S.C. § 1125(a)(1)(B).

[6] See, e.g., Merck Eprova AG v. Gnosis S.P.A., 760 F.3d 247, 261 (2d Cir. 2014); Vitamins Online, Inc. v. Heartwise, Inc., 2019 U.S. Dist. LEXIS 211439, at \*63 (D. Utah 2019); Pipe Restoration Techs., LLC v. Coast Bldg. & Plumbing, Inc., 2018 U.S. Dist. LEXIS 196094, at \*13-14 (C.D. Cal. 2018).

[7] Bucklew v. Precythe, 139 S. Ct. 1112, 1126 (2019); see also United States v. Van Alstyne, 584 F.3d 803, 813 (9th Cir. 2009) ("We are bound not only by the holdings of the Supreme Court's decisions but also by their mode of analysis." (cleaned up)).

[8] 2020 U.S. LEXIS 2408, at \*5-6.

[9] See 2020 U.S. LEXIS 2408, at \*10-12.

[10] 15 U.S.C. § 1117(a).

[11] 2020 U.S. LEXIS 2408, at \*8-11.

[12] Id.

[13] 547 U.S. 388 (2006).

[14] See, e.g., Salinger v. Colting, 607 F.3d 68, 70 (2d Cir. 2010) (copyright); Herb Reed Enters., LLC v. Fla. Entm't Mgmt., 736 F.3d 1239, 1249 (9th Cir. 2013) (trademark).

[15] 572 U.S. 545 (2014).

[16] See, e.g., Romag Fasteners, Inc. v. Fossil, Inc., 866 F.3d 1330, 1335 (Fed. Cir. 2017); SunEarth, Inc. v. Sun Earth Solar Power Co., 839 F.3d 1179, 1181 (9th Cir. 2016); Georgia-Pacific Consumer Prods. LP v. Von Drehle Corp., 781 F.3d 710, 721 (4th Cir. 2015); Fair Wind Sailing, Inc. v. Dempster, 764 F.3d 303, 315, 61 V.I. 797 (3d Cir. 2014).

[17] Dependable Sales & Serv. v. TrueCar, Inc., 394 F. Supp. 3d 368, 373 (S.D.N.Y. 2019).

[18] Hamilton-Brown Shoe Co. v. Wolf Bros. & Co., 240 U.S. 251, 259 (1916).

[19] See Dependable Sales, 394 F. Supp. 3d at 374.

[20] ALPO Petfoods, Inc. v. Ralston Purina Co., 913 F.2d 958, 966 (D.C. Cir. 1990).

[21] See *Porous Media Corp. v. Pall Corp.*, 110 F.3d 1329, 1335-36 (8th Cir. 1997); *McNeilab, Inc. v. Am. Home Prods. Corp.*, 848 F.2d 34, 38 (2d Cir. 1988).

[22] 2020 U.S. LEXIS 2408, at \*12.