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'Romag v. Fossil': License Provisions for Avoiding a Trip to the Supreme Court

Regardless of how the Supreme Court rules, many disputes can be avoided by clarifying the contractual obligations of the parties.

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The U.S. Supreme Court is set to hear oral arguments Jan. 14 in *Romag Fasteners v. Fossil*, No. 18-1233. The court's ruling is expected to clarify whether a trademark owner must prove infringement was willful under federal trademark law in order to recover the infringer's profits or if willful infringement is only one factor that should be considered by a district court when reaching that decision.

Because willfulness can be difficult to prove, most trademark owners would prefer not to have that as a requirement. In the absence of that requirement, an accused infringer could lose profits that are unrelated to the actual infringement, as is suggested by the facts in *Romag*. Regardless of how the Supreme Court rules, many disputes can be avoided by clarifying the contractual obligations of the parties.

In *Romag*, Texas-based accessories giant Fossil Inc. entered into an agreement in 2002 to use Romag fasteners on handbags manufactured in China, and agreed to instruct its manufacturers to purchase the fasteners only from the sole authorized Chinese manufacturer. Romag reportedly became aware in June 2010 that counterfeit Romag parts were being used for those products. However, the company waited until Nov. 17, 2010, to send Fossil a cease and desist letter, filing a lawsuit seeking a preliminary injunction five days later.

At trial, the actual damages awarded for patent and trademark infringement on the Romag parts was less than $100,000, but the damages awarded by the jury to "deter future trademark infringement" was almost $7 million. This despite evidence Romag's president submitted a false affidavit regarding the date on which the counterfeit parts were first discovered, to make it appear there was no delay in seeking the preliminary injunction.

Based on these facts, the dispute could have been prevented by including one or more of a number of suitable provisions in the original agreement between Fossil and Romag.

A key clause to negotiate at the outset is specific recognition of the risks of counterfeit parts, with an agreement on what damages will be paid in the event a supplier is providing counterfeit parts. As the parties would likely have been able to reach a mutually agreed process for identifying such counterfeit parts and taking corrective action prior to any allegations of infringement, the agreed-to damages would likely have excluded profits.

The inclusion of a duty to inspect clause would have specified the requirements Fossil needed to follow to avoid liability for use of such counterfeit parts from its suppliers. The discovery of the counterfeit parts in this case required Romag to send the suspected parts to its factory, which confirmed that those parts could not have been made with the equipment at the factory. Such measures would be rather extraordinary if they needed to be performed on the part of Fossil, but they could have been included in the agreement if the parties decided that made the most sense. Based on Romag's practice of inspecting consumer products in U.S. stores to identify potentially counterfeit parts, it does not appear that Romag had a more commercially reasonable process for identifying potential counterfeits before the products reached the end point in the chain of commerce.

Romag also waited over four months to file suit, until shortly before the peak shopping season, and sought to recover profits in excess of 7,000% of actual damages. As such, it appears that they preferred not to have a more commercially reasonable process, instead implicitly reserving the right to seek profits instead of just damages for infringement. A clause imposing the obligation to inspect on either or both of the parties would likely deter either of the parties from acting in a manner that might substantially improve its position over the other party in any subsequent litigation.

Agreements also should include a limitation of liability clause specifically addressing the issue of counterfeit parts. Such a clause would have avoided concerns with even willful infringement by specifying the limits on any claim for liability. It also places the duty to police for counterfeits on Romag instead of Fossil, in such that fasteners were merely an incidental part of the final product and likely not a deciding factor for consumers purchasing the Fossil product. By assigning a lower limit to such damages, Romag would have a greater incentive to inspect the end products and report any identified counterfeits to Fossil, instead of allowing it to wait until the worst possible time to seek an injunction.

In conclusion, a well-drafted agreement between the parties in this case could have avoided the need to seek Supreme Court review and withstand the associated costs and uncertainties. Regardless of whether the Supreme Court decides to require willfulness for lost profits or not, parties entering into agreements with suppliers would be well-advised to specify exactly how the issue of counterfeits will be addressed and remedied instead of leaving such matters to the whims of the suppliers and the vagaries of the law.

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