An Exceptional Development: Toward a Unified Standard for Recovering Attorneys' Fees in Trademark Litigation

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This discussion includes an analysis of recent trademark infringement cases and current trends affecting the recovery of attorneys' fees in trademark infringement matters, including the Supreme Court's definition of "exceptional" and the impact of the Octane Fitness *patent infringement decision on trademark infringement matters.*

Introduction

In 2014, the Supreme Court overruled Federal Circuit precedent, changing (and, most observers believe, lowering) the showing that must be made for a successful litigant in a patent case to recover attorneys' fees. The Supreme Court did not address the effect of its decision on trademark infringement matters under the Lanham Act.

As lower courts begin to grapple with that issue, certain trends are becoming apparent. At long last, there is likely to be a uniform standard in trademark infringement matters for recovering attorneys' fees—a standard that is identical to that now applicable in patent cases.

The Supreme Court's Definition of "Exceptional"

Nearly two years ago, in *Octane Fitness v. ICON Health & Fitness, Inc.*,[1] the Supreme Court changed the standard for obtaining attorneys' fees in patent infringement cases. The statutory basis for such awards is set forth in 35 U.S.C. Section 285: "The court in exceptional cases may award reasonable attorney fees to the prevailing party."

In *Octane Fitness*, the Court noted that this is a discretionary standard that for decades was applied using a "holistic, equitable approach." However, that approach changed with the Federal Circuit's decision in *Brooks Furniture Mfg., Inc. v. Dutalier Int'l, Inc*.[2]

The Federal Circuit held in *Brooks Furniture* that a patent case may be deemed exceptional only "when there has been some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed.R.Civ.P. 11, or like infractions."[3]

The Supreme Court criticized the *Brooks Furniture* test as a "more rigid and mechanical formulation" than had been used in the past.[4]

Instead, the Supreme Court held that the word "exceptional" should be given its plain meaning. The Court cited such dictionary definitions of "exceptional" as "uncommon," "rare," or "out of the ordinary."

Therefore, a case is "exceptional" when it "stands out from others with respect to the substantive strength of a party's litigating position . . . or the unreasonable manner in which the case was litigated."[5]

The Supreme Court rejected the *Brooks Furniture* test, which "superimposes an inflexible framework onto statutory text that is inherently flexible," in favor of a test in which a district may find a case "exceptional" by using its discretion in light of the totality of the circumstances.[6]

The Supreme Court also held that the evidentiary standard for determining whether a case is exceptional should be preponderance of the evidence, jettisoning the Federal Circuit's clear and convincing evidence standard.[7]

Although the Supreme Court did not expressly state that its holding applies to trademark litigation under the Lanham Act,[8] it did note that the Lanham Act contains an identical exceptional case standard.

The Supreme Court also cited with approval a D.C. Circuit case that defined "exceptional" in the context of the Lanham Act as meaning "uncommon" or "not run-of-the-mill."[9]

Since *Octane Fitness* was decided, numerous district and appellate courts have struggled with the question of whether its flexible standard for patent cases should apply to requests for attorneys' fees in trademark infringement matters.

Does—or Should—*Octane Fitness* Apply to Trademark Cases?

The Federal Circuit has exclusive appellate jurisdiction over patent matters, and until *Octane Fitness*, the *Brooks Furniture* standard applied nationwide to patent litigation. District Court trademark matters are appealable to regional circuits, with the different circuits adopting various tests for determining when a case is "exceptional."[10]

In his opinion in *Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC*,[11] Judge Richard Posner attempted to clarify the term "exceptional case" in the Lanham Act context, noting the "surprising lack of agreement among the federal courts of appeals concerning its meaning in the Act."[12]

The court held that a Lanham Act case is exceptional for purposes of awarding fees "if the losing party was the plaintiff and was guilty of abuse of process in suing, or if the losing party was the defendant and had no defense yet persisted in the trademark infringement or false advertising for which he was being sued, in order to impose costs on his opponent."[13]

This standard did not appear to catch fire with other circuits, or with other district courts within those circuits; courts instead continued to apply their own standards.[14]

But in light of *Octane Fitness*, Judge Posner's vision of a nationwide standard for determining exceptionality in trademark infringement matters finally may be fulfilled. So far, two circuit courts have held that the *Octane Fitness* test applies to trademark infringement matters.

First, in *Fair Wind Sailing, Inc. v. Dempster*,[15] a unanimous Third Circuit panel "imported" the Octane Fitness analysis into its consideration of the standard for determining whether a trademark infringement case was exceptional.

The court cited a number of reasons for doing so, including that the Lanham Act's statutory attorneys' fee provision is identical to that in the Patent Act—and in fact, the latter was cited by Congress in adopting the former.[16]

A few months later, the Fourth Circuit, citing *Fair Wind*, stated that it saw "no reason not to apply the *Octane Fitness* standard when considering the award of attorneys fees under § 1117(a)."[17]

No other circuit court has yet decided whether to apply *Octane Fitness* to a motion for attorneys' fees in a trademark case.[18] However, trends are developing among district courts as well.

Several district courts that have looked at the issue have, for many of the reasons cited by *Fair Wind* and *Georgia-Pacific*, agreed that *Octane Fitness* should apply to trademark infringement actions. These courts include the Northern District of Alabama,[19] the Middle District of Florida,[20] and the Southern District of New York.[21]

Other district courts appear to have simply applied *Octane Fitness*, alone or in conjunction with previous tests established by regional circuits, without commentary.[22]

The District Court for the District of Columbia avoided the issue entirely in the colorfully named *Greene v. Brown*, finding that because plaintiff was eligible for fees under the separate standard for trademark counterfeiting (15 U.S.C. Section 1117(b)), the court "need not consider the applicability of the *Octane Fitness* test" to award fees.[23]

A few other courts have bucked the trend, refusing to follow *Octane Fitness* when determining whether a trademark infringement case is exceptional. For example, in *Wagner v. Mastiffs*,[24] the Southern District of Ohio acknowledged that *Octane Fitness* bears "at least some relevance" to Lanham Act actions, but declined to follow it in favor of the still-prevailing Sixth Circuit test.

Another court similarly found that even though the attorneys' fee provisions in the Patent Act and the Lanham Act are "nearly identical," and even though the Supreme Court in *Octane Fitness* cited a trademark case for a definition of "exceptional,"

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because the court's holding was limited to patent cases, "the Second Circuit cases interpreting the fee provision of the Lanham Act remain good law and represent binding precedent on this Court."[25]

Similarly, after discussing *Octane Fitness* in a manner that suggested it was going to follow it, the Northern District of California declined to do so in *Apple Inc. v. Samsung Electronics Co., Ltd.*[26]

There, the court reasoned that because *Octane Fitness* is "best interpreted as overturning the Federal Circuit's 'overly rigid test for awarding attorneys' fees'" in *Brooks Furniture*, and because the Ninth Circuit's test in Lanham Act cases was already more flexible, the Ninth Circuit rule survived *Octane Fitness* and continues to apply to trademark infringement matters.[27]

With numerous cases grappling with whether *Octane Fitness* applies to Lanham Act cases, can Judge Posner's dream of a national standard ever be realized? The answer appears to be yes, despite the conflict among district courts.

The clear trend, as exemplified by the Third and Fourth Circuits, is to apply *Octane Fitness* when determining whether a trademark infringement case is "exceptional" for purposes of awarding fees.

When and if district court decisions make their way to other circuit courts of appeal, it would seem likely that those courts would take a similar approach as the one the Third and Fourth Circuits have adopted.

That the attorneys' fee clauses are nearly identical, and that the Supreme Court expressly relied on an existing Lanham Act definition in defining "exceptional" in patent cases, are strong arguments for extending *Octane Fitness* to trademark matters. This could lead to a nationwide standard, adopted circuit by circuit.

If a circuit split arises (e.g., if the Ninth Circuit adopts the reasoning of the well-respected Judge Koh in the *Apple v. Samsung* matter), the Supreme Court will need to step in to finally define for all circuits what test to use in Lanham Act cases.

The Supreme Court would very likely extend its own *Octane Fitness* test to trademark matters. This is because of reasons discussed by post-*Octane Fitness* lower courts, but also for another important reason. That is, over the last several years, the Supreme Court has issued decisions signaling that patent cases are not entitled to special rules and should be treated like other lawsuits.

For example, in *Medimmune, Inc. v. Genentech, Inc.*,[28] the court emphasized the generally applicable standard for determining whether there is a case or controversy sufficient to maintain an action for declaratory judgment, and criticized the Federal Circuit's patent-specific test as conflicting with that standard.

Earlier, in *eBay Inc. v. Mercexchange, L.L.C.*,[29] the court held that a successful patentee seeking a permanent injunction must meet the traditional test for obtaining such relief applicable to all other cases, similarly rejecting a patent-specific test handed down by the Federal Circuit.

And just last year, the Supreme Court approved a change to the Federal Rules of Civil Procedure that seemed to permit a patentee to state a claim without meeting the minimal standards of notice pleading required in other cases.[30]

Given the trend towards treating patent cases like any other, it would be surprising for the Supreme Court to hold that "exceptional" in the context of patent litigation means one thing, while that same term would have a different meaning under the Lanham Act.

This judicial philosophy, combined with the Court's express invocation of and reliance on trademark definitions in *Octane Fitness*, indicates that when and if the issue reaches the Supreme Court, the Court most likely will apply the *Octane Fitness* definition of "exceptional" to the Lanham Act.

Conclusion

Intellectual property litigation can be very expensive, and the possibility of obtaining attorneys' fees can affect everything from litigation budgeting to settlement negotiations.

The Supreme Court decision in *Octane Fitness* provided clarity to patent litigants and lawyers that remains lacking in the parallel world of trademark infringement litigation.

However, the current trends, the language of *Octane Fitness* itself, and the apparent Supreme Court philosophy rejecting special rules for patent cases, all indicate that we are moving toward the national standard for determining "exceptionalism" in trademark cases that has eluded courts in the past.

The only question is whether this standard will be established by circuits all falling into line, or by the Supreme Court resolving a circuit split. In either case, it appears to be only a matter of time before the "jumble" of varying tests bemoaned by Judge Posner[31] is replaced by a single standard governing trademark infringement actions, wherever they may be brought.

Notes:

1. __ U.S. __, 134 S.Ct. 1749 (2014).
2. 393 F.3d. 1378 (Fed. Cir. 2005).
3. Id. at 1381.
4. 134 S.Ct. at 1754.
5. Id. at 1756.
6. Id. at 1756-57.
7. Id. at 1758.
8. 15 U.S.C. § 1051 et seq.
9. 134 S.Ct. at 1756, 1757, citing, *inter alia*, Noxell Corp. v. Firehouse No. 1 Bar-B-Que Restaurant, 771 F.2d 521, 526 (D.C. Cir. 1985).
10. For a summary of the standards employed by the various circuits, see 5 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition, § 30:100 n.3, at 30-267 through 3--269 (4th ed. 2015).
11. 626 F.3d 958 (7th Cir. 2010).
12. Id. at 960.
13. Id. at 963-964.
14. See, e.g., FLIR Systems, Inc. v. Sierra Media, Inc., 965 F.Supp.2d 1184, 1200-1201 (D. Or. 2013) (citing Nightingale but applying the pre-existing Ninth Circuit test instead); Thomasville Furniture Industries, Inc. v. Thomas, No. 10-00130-RLV-DSC (W.D.N.C. 2012) (noting that the D.C. and Fourth Circuits prefer a "hybrid approach" to determining exceptionality, rather than the Seventh Circuit's approach); Empire Today, LLC. V. National Floors Direct, Inc., 788 F.Supp.2d 7, 31 (D. Mass. 2011) (rejecting an argument based on the Nightingale test and instead applying the "more relevant standard for attorneys' fees in the First Circuit").
15. 764 F.3d 303 (3rd Cir. 2014).
16. Id. at 314-315.
17. Georgia-Pacific Consumer Products LP v. Von Drehle Corp., 781 F.3d 710, 719-21 (4th Cir. 2015).
18. In Slep-Tone Entertainment Corp. v. Karaoke Kandy Store, Inc., 782 F.3d 313, 317-18 (6th Cir. 2015), the Sixth Circuit, indicating that it believed Octane Fitness should apply to that trademark matter, remanded the case to the district court with instructions to "assess the applicability of Octane Fitness." Unfortunately, the lower court never got the chance; after remand, the case was dismissed based on the bankruptcy of one defendant. See Case No. 10-cv-00990-DCN (N.D. Ohio), Dkt. No. 136.
19. Donut Joe's, Inc. v. Interveston Food Services, LLC d/b/a/ Donut Chef, No. 13-CV-1578-VEH (N.D. Ala. 2015) (the court agrees with the other courts that have considered the question that the standard in Octane Fitness also applies to the Lanham Act's attorney fees provision").
20. Florida Van Rentals, Inc. v. Auto Mobility Sales, Inc., No. 13-cv-1732-T-36EAJ (M.D. Fla. 2015) ("Although Octane Fitness dealt with a claim arising under the Patent Act's provision for attorneys' fees, 35 U.S.C. § 285, its holding applies also to 15 U.S.C. § 1117(a), the analogous provision in the Lanham Act").
21. River Light V, L.P. and Tory Burch LLC v. Lin & J International, Inc., et al., No. 13cv3669(DLC) (S.D.N.Y. 2015) (finding that the Court's construction of the term "exceptional" in the patent context "offers guidance" in trademark matters).
22. See, e.g., Albrecht v. Tkachenko, No.14-05442-VC (N.D. Cal. 2015); Marketquest Group, Inc. v. Bic Corporation, No. 11-cv-618 BAS (JLB) (S.D. Cal. 2015)
23. Greene v. Brown, No. 11-2242, (CKK) (D.D.C. 2015), at n.8.
24. Nos. 08-CV-00431, 09-CV-00172 (S.D. Ohio 2014).
25. Romag Fasteners, Inc. v. Fossil, Inc., No. 10cv1827 (JBA) (D. Conn. 2014).
26. No. 11-CV-01846-LHK (N.D. Cal. 2014).
27. Id. at n.1.
28. 549 U.S. 118, 132 n. 11 (2007).
29. 547 U.S. 388, 393-94 (2006).
30. The new Rules eliminate Form 18, a form patent infringement complaint that required much less detail than that required in other cases under the Supreme Court cases Bell Atlantic Corp. v. Twombly, 550 U.S. 544 (2007) and Ashcroft v. Iqbal, 556 U.S. 662 (2009). Again, the Federal Circuit had decided that in light of Form 18, generally applicable pleading standards did not apply to patent cases. See In re Bill of Lading Transmission, 681 F.3d 1323, 1333-35 (Fed. Cir. 2012).
31. Nightingale, supra, 626 F.3d at 961.

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