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Ruling Gives IP Fee-Shifting Provision More Teeth

We Don't Yet Know How *Octane Fitness* Applies To Trademark Cases

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Law360, New York (December 08, 2014, 10:17 AM ET) -- Patent pirate. Patent dealer. The "scourge of technology." There seem to be more alternative monikers for so-called patent trolls than there are methods to deter them from bringing frivolous lawsuits. In theory, one potential deterrent has long been the patent code's fee-shifting provision — after all, potential plaintiffs ought to think twice about suing if bringing a meritless case could leave them paying the defendant's attorneys' fees. In practice, however, the onerous two-prong test that has historically been applied to determine whether a patent case met the "exceptional" criteria to allow a court to award fees to a prevailing defendant had rendered this particular potential deterrent a toothless tiger. In short, the (very) remote threat of fee-shifting offered virtually no disincentive against a patent troll asserting questionable claims in the hopes of extorting a lucrative settlement. Enter Octane Fitness.

In April 2014, the U.S. Supreme Court addressed the reach of the patent code's fee-shifting provision, 35 U.S.C. § 285, which provides: "The court in exceptional cases may award reasonable attorney fees to the prevailing party." Historically, to be sufficiently "exceptional" under this provision, a case must have been found to be both (1) "objectively baseless" and (2) brought in "subjective bad faith."[1] In Octane Fitness, a mostly unanimous Supreme Court[2] rejected this two-prong test as being "overly rigid."[3] In its place, the court articulated a new standard: "[A]n 'exceptional' case is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated."[4]

The court further made clear that this case-by-case exceptionality determination is left to the broad discretion

of the district court, after “considering the totality of the circumstances.”[5] In other words, a district court’s exceptionality determination can only be overturned for an abuse of discretion — the most deferential standard of review and the most difficult to overturn.[6]

Together, the Octane Fitness and Highmark rulings give some teeth back to the fee-shifting tiger in patent cases. They also raise some interesting questions outside of the patent context. For example, what effect, if any, do those rulings have on fee-shifting in trademark cases? The answer (for now): It depends on who (i.e., which district court) you ask.

Does Octane Fitness Apply to Trademark Cases? The Early Results Are In … and Inconclusive

Federal trademark law is codified in the Lanham Act, which contains a fee-shifting provision that is virtually identical to the patent code provision at issue in Octane Fitness.[7] Interestingly, although Octane Fitness did not involve trademarks, Justice Sonia Sotomayor (who authored the opinion) cited a Lanham Act case while defining “exceptional” and pointed out the equivalence of the Lanham Act and Patent Act fee-shifting provisions.[8] The ambiguity of the opinion, as it relates to trademark cases, has resulted in various courts throughout the Second, Third, Fourth, Sixth, Ninth and Eleventh Circuits varying widely as to the degree to which Octane Fitness has impacted the exceptionality standard under the Lanham Act.

On one end of the spectrum, some district courts and, notably, the Third Circuit Court of Appeals, have expressly imported the Octane Fitness standard into the trademark context and, in doing so, rejected prior formulations of what constituted an “exceptional” case.[9] In Fair Wind Sailing v. Dempster, a trade dress infringement lawsuit between rival sailing schools, the Third Circuit wholly discarded its traditional “culpability” requirement, finding that Octane Fitness’ more lenient standard applied.[10]

At the other end of the spectrum, some district courts, and at least one court of appeals, have declined to apply Octane Fitness to trademark cases.[11] For example, in Romag Fasterners v. Fossil, a case involving both patent and trademark infringement claims, Judge Janet Aterton of the District of Connecticut applied the Octane Fitness standard to the patent infringement claim but declined to apply it to the trademark infringement claim.[12] In doing so, she noted that post-Octane Fitness, “the Second Circuit cases interpreting the fee provision of the Lanham Act remain good law.”[13]

Still other district courts have fallen somewhere in between these two extremes, considering both the Octane Fitness standard as well as the standards of its circuit in ruling on a motion for attorneys’ fees in the trademark context.[14]

Conclusion

When it comes to the exceptionality standard under the Lanham Act post-Octane Fitness, the only thing the cases make clear is that there is, indeed, an absence of clarity. As these cases, and others like them, continue to make their way up to the appellate arena, it becomes increasingly likely that the Supreme Court itself will be invited to clarify the reach of Octane Fitness outside the patent context. In the meantime, trademark trolls, like their patent troll counterparts, would be well advised to think twice before initiating questionable or frivolous infringement suits in hopes of extracting a lucrative settlement — after all, if unsuccessful on the merits, they could be left with a hefty bill, courtesy of Octane Fitness.

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[1] See, e.g., Brooks Furniture Mfg. v. Dutailier Int'l, Inc., 393 F.3d 1378, 1381 (Fed. Cir. 2005); Synthes USA, LLC v. Spinal Kinetics, Inc., 734 F.3d 1332, 1345 (Fed. Cir. 2013).

[2] Justice Antonin Scalia joined except as to footnotes 1–3. Octane Fitness, LLC v. ICON Health & Fitness, Inc., 134 S. Ct. 1749, 1752 (2014).

[3] Id. at 1756.

[4] Id. (emphasis added).

[5] Id.

[6] See also Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc., 134 S. Ct. 1744, 1747 (2014) ("[A]n appellate court should apply an abuse-of-discretion standard in reviewing all aspects of a district court's § 285 determination.")

[7] See 15 U.S.C § 1117(a) ("The court in exceptional cases may award reasonable attorney fees to the prevailing party.").

[8] Octane Fitness, 134 S. Ct. at 1756 (citing Noxell Corp. v. Firehouse No. 1 Bar-B-Que Restaurant, 771 F.2d 521 (D.C. Cir. 1985)).

[9] See, e.g., Fair Wind Sailing v. Dempster, Nos. 13-3305, 14-15722014, 2014 U.S. App. LEXIS 17118, at *26 (3d Cir. Sept. 4, 2014) ("We therefore import Octane Fitness's definition of 'exceptionality' into our interpretation of § 35(a) of the Lanham Act."); BMW of North Am., LLC v. Cuhadar, No. 6:14-cv-40-Orl-37DAB, 2014 U.S. Dist. LEXIS 112365, at *4–6 (M.D. Fla. June 20, 2014) (applying the Octane Fitness standard in lieu of the Eleventh Circuit's more rigid definition of "exceptional"); BMW of N. Am., LLC v. Eurocar Tech., L.L.C., No. 6:13-cv-1215-Orl-18DAB, 2014 U.S. Dist. LEXIS 107447, at *4–6 (M.D. Fla. July 15, 2014) (same).

[10] Fair Wind Sailing, 2014 U.S. App. LEXIS 17118, at *26.

[11] See, e.g., Premium Balloon Accessories v. Creative Balloon Mfg., Inc., Nos. 13-3587, 13-4049, 13-4130, 2014 U.S. App. LEXIS 15326 (6th Cir. Aug. 7, 2014) (applying Octane Fitness to patent claims, but applying Sixth Circuit's two-prong exceptionality test to trademark claims without comment); Apple Inc. v. Samsung Elecs. Co., No. 11-CV-01846-LHK, 2014 U.S. Dist. LEXIS 117494, at *53 n.1 (N.D. Cal. Aug. 20, 2014) (holding that "the Ninth Circuit's more flexible formulation of determining what constitutes an 'exceptional case' in Lanham Act cases still applies after Octane Fitness"); Wagner v. Mastiffs, No. 2:08-CV-00431, 2014 U.S. Dist. LEXIS 125160, at *8 n.5 (S.D. Ohio Sept. 8, 2014) (noting Octane Fitness "expressly affected motions for fees brought under the Patent Act only" and applying instead the Fourth Circuit's two-step exceptionality test); Romag Fasterners, Inc. v. Fossil, Inc., No. 3:10-cv-1827 (JBA), 2014 U.S. Dist. LEXIS 113061, at *14–15 (D. Conn. Aug. 14, 2014) (applying Octane Fitness and granting attorneys' fees for patent infringement claim, but declining to apply Octane Fitness and denying attorneys' fees for trademark infringement claim, because "the Supreme Court

was interpreting only the Patent Act and not the Lanham Act in Octane Fitness”).

[12] Fossil, 2014 U.S. Dist. LEXIS 113061, at *14 (“[T]he Supreme Court was interpreting only the Patent Act and not the Lanham Act in Octane Fitness.”).

[13] Id.

[14] See, e.g., Daddy v. Monster Cable Prods., No. 6:10-1170-MGL, 2014 U.S. Dist. LEXIS 83477, at *13–14 (D.S.C. June 19, 2014) (applying the Fourth Circuit’s “deliberate, willful, fraudulent, or malicious” standard as well as Octane Fitness’ “more flexible standard” and noting that under either standard, the case was not exceptional); Apple Inc. v. Samsung Elecs. Co., No. 11-CV-01846-LHK, 2014 U.S. Dist. LEXIS 117494, at *53 n.1 (N.D. Cal. Aug. 20, 2014) (holding that “the Ninth Circuit's more flexible formulation of determining what constitutes an ‘exceptional case’ in Lanham Act cases still applies after Octane Fitness” because it is consistent with the Octane Fitness standard).

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