Trademark Litigation and Attorney Fees

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Author(s): Richard Kirkpatrick, William P. Atkins
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William P. Atkins
Richard Kirkpatrick Pillsbury Winthrop Shaw Pittman LLP

In trademark litigations, a slow-motion revolution is now accelerating. Motions for attorney fees have reached the point of routine in many trademark cases, and judges are giving them their full attention. This article will briefly trace the development of the new law and then address the practicalities.

While actual grants of such motions and awards of fees are supposed to be "rare," the frequency of the process necessarily increases the number of motions, thus the number of awards, thus the increasing risks to trademark litigation parties. Hundreds of thousands of dollars in attorney's fees may be at stake at the end of a full case and may exceed the damages sought or alleged. Prayers for attorney fees in complaints have been immemorial practice, but in the past were usually not pressed with zeal. Conventional wisdom held that the real stakes in trademark litigation were injunctions prohibiting defendant's use of the challenged mark.

This trademark revolution was ignited in 2014 in a patent case decided by the U.S. Supreme Court, Octane Fitness v. ICON, which involved interpretation of the fee-shifting section of the Patent Act: "The court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285. The Supreme Court broadened its application by stressing the ordinary meaning of "exceptional." Before this decision, the Federal Circuit and most courts deciding patent infringement had limited fee awards to cases involving "willful infringement, fraud or inequitable conduct" by the infringer. Those words, however, are not in the statute. The Supreme Court instructed that exceptionality was to be decided based on a holistic view of the "totality of the circumstances," including the substantive merits of the case and the manner in which the case was litigated. Henceforth, willfulness would be a factor but not a requirement in determining whether a case was "exceptional."

The attorney fee provision of the Trademark Act (Lanham Act) was enacted in 1975, and it is identical to the Patent Act provision: "The court in exceptional cases may award reasonable attorney fees to the prevailing party." 15 U.S.C. § 1117(a). Given the identical wording in a field of intellectual property law closely allied with patents, the large majority of United States circuit courts since 2014 has determined that Octane Fitness applies to trademark cases. Previously, most federal courts granted attorney fees only in trademark cases in which the losing infringer was found guilty of some sort of bad faith or willfulness, just as had been the case with patents.

No more. Now, fee-shifting in trademark cases is decided using a holistic review of the totality of the circumstances, and its application is accelerating. This approach has been accurately described by courts as "more flexible" and "more relaxed." Fees are no longer limited to cases of blatant bad faith which has opened trademark litigation to fee motions in most cases. Most trademark cases that are decided on a fairly full fact record do not involve blatant bad faith or onerous litigation conduct. Garden variety trademark cases involve, not counterfeiting, but subjective questions such as whether BRIZZY and VIZZY, both for seltzer beverages, are likely to be confused. Reasonable minds may differ, and there is the meat of litigators.

The Octane Fitness Standards as Applied in Trademark Cases

Litigants are eager to collect fees to recoup expenses and even to net a profit from litigation. To meet the new demands, trademark infringement case law has evolved rapidly since 2014, on motions. The movant's burden is "preponderance of the evidence." In the statutory provision on fees, the permissive "may" contrasts with the imperative “shall” in other sections of the Lanham Act mandating attorney fee awards in certain cases of trademark dilution, counterfeiting, and cyberpiracy.

The decision is entrusted to the judge’s equitable discretion and the exercise of equitable discretion is subject to appellate review only for “abuse of discretion”; the exercise of due discretion requires simply a “basis in reason.” When judges explain their reasons in opinions well, their decisions about fee awards are very hard to reverse. Every field of law has multi-factor tests, and this is no exception. For fees, general factors to consider, as listed in the Octane Fitness decision, are: “frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case), and the need in particular circumstances to advance considerations of compensation and deterrence. … But a case presenting either subjective bad faith or exceptionally meritless claims may sufficiently set itself apart from mine-run cases to warrant a fee award.” As recently reiterated by the Seventh Circuit Court of Appeals in the 2021 case, LHO Chi. River, L.L.C. v. Rosemoor Suites, “bad faith remains relevant even if it’s not required.”

Lower federal courts (trial and circuit levels) have had an increasing number of opportunities to comment in opinions on the new state of the law, as shown in the following sampling: Even post-Octane, “an attorney's fee award is still the exception to the American Rule [that each side pay its own fees] and should be reserved only for rare circumstances.” “Every case will have a loser and the fact that a party made losing arguments is not grounds for finding a case exceptional; to do so, the prevailing party must show that [its case] stands out from others.” If a loser’s trademark case was “colorable” (with reasonable arguments pro and con), it may escape an attorney fee award, but not if the case was “objectively baseless,” “extremely weak,” or “frivolous.” Success on motions for default judgment; to dismiss; for preliminary injunction; or for summary judgment may favor but does not require awards of fees to the prevailing party. Fee requests are made on all these types of motions, not to mention post-trial motions.

When considering fee motions on the substantive merits of infringement cases, many courts apply the same multi-factor confusion test as used in the case-in-chief (as distinct from the general Octane Fitness multi-factor test for exceptionality described above). Confusion factors include similarity of the marks and products, channels of trade, etc. One factor overlaps both tests: motivation or willful, bad faith intent to confuse, which remains highly relevant, albeit not, as noted, required. The same rules apply to the factors: they are not exclusive; they are to be weighed and balanced; they are not to be counted mechanically; etc. Ironically, the complexity of the multi-factor confusion test itself may help excuse an unsuccessful plaintiff from paying defendant’s fees. Said a judge in one district court: “[T]he question of trademark infringement is a fact-intensive inquiry and the number of factors that favors one side or the other does not go hand in hand with a finding that a claim is not colorable.” Even losing on all factors but one may not be fatal if the party supported its case with relevant evidence and reasonable argument. A weak showing on a single factor, however, may not suffice. Even willfulness of a defendant, formerly so dark a cloud, does not compel an award of fees. “If the Court were to allow an award of attorney’s fees in every case involving willful and deliberate infringement, then the exception would swallow the rule” (i.e., the court must decide based on the totality of circumstances). When a plaintiff loses an infringement claim, it may be excused from paying fees on grounds that it had a duty to reasonably police and enforce its mark.

Practical Effects of the New Standards

In any litigation that progresses for a substantial length of time, substantive and procedural irregularities are bound to arise: Did the defendant fail to do a trademark search? If so, was the search thorough and the opinion well-reasoned? Did the defendant’s product design team know of or even study the plaintiff’s product? Were the tactics in the litigation well-founded? Was discovery pursued with the appropriate and/or proportional amount of effort? Was discovery responded to in a timely and fair manner? Is a party or its counsel trying to increase the amount of an opponent’s fees in a case in order to drive a settlement? Was this or that motion unnecessary? Was an argument bogus? Did an attorney repeatedly use intemperate language? Was the litigation strategy an effort to delay an inevitable result? If enough time has passed, enough hearings held and enough papers filed, a litany of evils can be compiled by the prevailing party to justify an award of fees, but perhaps rightly so. Marshalling the facts and making the arguments on fees can approach the costs of the substantive part of the litigation itself; fees awarded can also result in amounts exceeding the damages sought or expected.

Is there a latent contradiction in the Supreme Court’s Octane Fitness opinion that makes it more revolutionary than perhaps intended? On the one hand, it holds that an exceptional case is “simply one that stands out from the others.” On the other hand, it requires a “totality of the circumstances” test using non-exclusive multiple factors. So framed, there is nothing simple about it. Why re-examine the entire case to see if it “simply stands out?” Why not simply look for anything that “stands out?” How does a seemingly simple question prompt a virtual relitigation of the whole case? Does the very breadth of the new dragnet introduce an inherent bias toward exceptionality? The totality of the circumstances may cause a judge to miss the forest for the trees, each of which is examined. Judicial default to the totality of the circumstances and non-exclusive multi-factor tests may, depending on the case, create more expense than cast more light on the “simple” question of exceptionality.

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The lessons are clear. Clients must be cautioned early and often of the risk of an adverse fee award. It is hard to imagine a more dismal conversation than an attorney informing a client that it will have to pay not only its fees, but also those of the adverse party, which by now the client heartily dislikes anyway. With some courts (and even judges) developing reputations for finding cases exceptional, deciding where to file suit has an added consideration. Such courts could be preferable or not, depending upon the case or opponent. Now, more than ever, a judge's perception of a party's litigation strategy is critical on this point. Clients need to appreciate that the cost-benefit analysis of trademark litigation has a growing factor, one which may surpass the damages at issue. And it applies to both sides of the courtroom.

By recent literal readings of broadly worded statutory provisions enacted decades ago by Congress, but confined by judges' general sense of equity, the Supreme Court has opened a new field of battle, radically complicating and problematizing trademark litigation. There is no opposing groundswell and no reason to think that Congress will enact amendments to tighten the statutes. Whatever may be its virtues, the "totality of the circumstances" standard is omnivorous and expensive to litigate. Requiring willfulness had preemptively closed many litigations. The assumptions of practicing trademark litigators, based on a mountain of case law, have been upended, and businesses involved in trademark disputes are exposed to far more potential monetary loss than formerly. Litigations are bound to multiply and intensify as the parties litigate about not only injunctions but also money—a volatile accelerant.

William Atkins is a partner of Pillsbury Winthrop LLP, Editor of the annually published PTAB Handbook, Co-Editor of the Patent Litigation Strategies Handbook, and co-presenter of PLI's The Trademark Modernization Act of 2020 program, available from PLI Programs on Demand. He also teaches intellectual property litigation at George Washington University's law school.

Richard Kirkpatrick is a retired partner of Pillsbury and author of Likelihood of Confusion in Trademark Law, published by Practising Law Institute with semi-annual supplements (read now on PLUS). Richard is also a co-presenter of several PLI programs, including Money to Be Won and Lost in Trademark Litigation: Attorney Fees, Damages and Profits and Trademark Searches and Advice of Counsel and will be speaking at the upcoming Trademark Searching: Law and Practice Update.

