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Client Alert News Flash

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Ninth Circuit Applies *Octane Fitness*' Loosened Fee-Shifting Standard to Trademark Cases

Ninth Circuit joins growing trend in circuit courts, which has practical implications for trademark litigants on both sides.

Two years have passed since the US Supreme Court added some teeth to the Patent Act's fee-shifting provision in *Octane Fitness, LLC v. ICON Health & Fitness, Inc*.[1] There was *no* question that a potential patent plaintiff (troll or otherwise) should give increased weight to the possibility that the plaintiff could be left paying its target's legal fees under the now-loosened exceptionality standard. There was, however, an open question as to whether potential trademark plaintiffs ought to do the same — *i.e.*, does the *Octane Fitness* fee-shifting standard apply in the trademark context? The Ninth Circuit is the latest of a growing number of circuits to answer that question in the affirmative.

The Ninth Circuit Adopts *Octane Fitness*' More Lenient Fee-Shifting Standard in the Trademark Context

In 2013, plaintiff SunEarth, Inc. prevailed in a trademark infringement case against a rival solar product provider, defendant Sun Earth Solar Power Co., and sought to recover its fees under the Lanham Act's "exceptional case" fee-shifting provision.[2] The district court deemed the defendant's conduct "negligent," but held that to be insufficient for a fee award under the Ninth Circuit's then-binding standard for exceptionality.[3] The plaintiff appealed just as the *Octane Fitness* opinion came down.

A three-judge panel initially heard the appeal, affirming the district court's ruling and holding that the "prior definition of exceptional," which required "malicious, fraudulent, deliberate, or willful" conduct to shift fees, still governed.[4] The issue was then brought to the Ninth Circuit sitting en banc. The Ninth Circuit recently issued its opinion, which is unequivocal: the loosened fee-shifting standard articulated in *Octane Fitness* applies with equal force to the trademark code's "parallel and identical" fee provision.[5] Thus, there is no longer a "precise rule or formula" for determining whether a prevailing trademark litigant is entitled to a fee award. Instead, the question is whether the "totality of the circumstances" render the case "exceptional" — *i.e.*, the case "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."[6]

The *SunEarth* opinion cites the virtual identity of the respective fee-shifting provisions as the primary basis for finding that *Octane Fitness* applies to the Lanham Act as well as the Patent Act.[7] Therefore, in the Ninth Circuit, "district courts analyzing a request for fees" under the Lanham Act "should examine the 'totality of the circumstances' to determine if the case was exceptional … exercising equitable discretion

in light of the nonexclusive factors identified in *Octane Fitness* and *Fogerty*, and using a preponderance of the evidence standard."[8] The court expressly overruled its contrary precedent and remanded the case to the panel to reconsider plaintiffs' fee request in light of *Octane Fitness*.[9]

The *Octane Fitness* Trend

The Ninth Circuit's *SunEarth* decision follows a growing — but not yet unanimous — trend of circuit courts applying the *Octane Fitness* standard to fee requests in trademark cases.

To date, the list of courts is composed of the Third, Fourth, Fifth, Sixth and — now — Ninth Circuits.[10]

While no circuit court of appeals has expressly rejected the application of *Octane Fitness* to trademark cases, the Seventh and Eleventh Circuits have each silently declined to apply the standard, relying on their old "exceptionality" standards without even mentioning *Octane Fitness*.[11]

And, the Second Circuit simply punted, stating the court need not address whether *Octane Fitness* applies to fee requests in trademark cases at this time.[12]

Finally, the DC, First, Eighth and Tenth Circuits, have not yet had occasion to address the potential applicability of *Octane Fitness* in the trademark context.[13]

In the absence of clear direction from the circuit court level, some district courts have been hesitant to disregard circuit precedent regarding fee-shifting in trademark cases in favor of *Octane Fitness*.[14]

Conclusion

While not yet unanimous — and a potential circuit split could put the question before the US Supreme Court for a definitive answer — a loosened fee-shifting standard is increasingly prevalent in trademark cases. The emergence of that trend has practical implications for trademark litigants on both sides. Parties should be increasingly vigilant in taking reasonable positions and conducting diligent pre-suit investigations. On the flip side, a party should also consider whether its fees may be recoverable under the new standard and, among other strategic points, how best to document (through pleadings, written correspondence to opposing counsel, or otherwise) the specific circumstances that, when viewed in "totality," make the case exceptional.

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1 *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014).

2 *See SunEarth, Inc. v. Sun Earth Solar Power Co.*, No. C 11-4991 CW, 2013 U.S. Dist. LEXIS 120439, at *65-67 (N.D. Cal. Aug. 23, 2013); *see also* 15 U.S.C § 1117(a) (allowing courts to "award reasonable attorneys' fees to the prevailing party" in "exceptional cases").

3 *Id.* at *65.

4 *SunEarth, Inc. v. Sun Earth Solar Power Co.*, Nos. 13-17622, 15-16096, 2016 U.S. App. LEXIS 9682, at *3-4 (9th Cir. May 24, 2016).

5 *SunEarth, Inc. v. Sun Earth Solar Power Co.*, Nos. 13-17622, 15-16096, 2016 U.S. App. LEXIS 19083, at *2 (9th Cir. Cal. Oct. 24, 2016) (per curiam).

6 *Id.* at *3 (quoting *Octane Fitness*, 134 S. Ct. at 1756).

7 *Id.* at *2-3.

8 *Id.* at *4-5; *see also Octane Fitness*, 134 S. Ct. at 1756 n.6 (citing non-exclusive list of factors including "'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.'") (quoting *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534 n.19 (1994)).

9 *SunEarth, Inc.*, 2016 U.S. App. LEXIS 19083, at *5.

10 *See Fair Wind Sailing v. Dempster*, Nos. 13-3305, 14-15722014, 2014 U.S. App. LEXIS 17118, at *26 (3d Cir. Sept. 4, 2014); *Georgia-Pacific Consumer Prods. LP v. von Drehle Corp.*, 781 F.3d 710, 720 (4th Cir. 2015), as amended (Apr. 15, 2015); *Baker v. DeShong*, 821 F.3d 620, 624 (5th Cir. 2016); *Slep-Tone Entm't Corp. v. Karaoke Kandy Store, Inc.*, 782 F.3d 313, 317 (6th Cir. 2015).

11 *See Burford v. Accounting Practice Sales, Inc.*, 786 F.3d 582, 588 (7th Cir. 2015); *Pelc v. Nowak*, 596 Fed. Appx. 768, 770 (11th Cir. 2015).

12 *See Penshurst Trading Inc. v. Zodax L.P.*, No. 15-2557, 2016 U.S. App. LEXIS 10611, at *3 (2d Cir. June 13, 2016).

13 *See, e.g., Mt. Mktg. Grp., LLC v. Heimerl & Lammers, LLC*, No. 14-cv-846 (SRN/BRT), 2016 U.S. Dist. LEXIS 65607, at *8-9 (D. Minn. May 18, 2016) (noting that "[t]he Eighth Circuit has yet to address the applicability of the *Octane Fitness I* exceptional case standard to trademark infringement claims under § 1117(a)"); *Marten Transp., Ltd. v. Plattform Adver., Inc.*, No. 14-2464-JWL, 2016 U.S. Dist. LEXIS 97754, at *62-66 (D. Kan. July 26, 2016) (stating that although "the Tenth Circuit has not had the opportunity to address this issue," the court is confident that "when that opportunity arises, the Tenth Circuit will join its sibling circuits and adopt the Supreme Court's standard from *Octane Fitness* for use in applying the Lanham Act's attorney fee provision").

14 *See, e.g., FN Herstal, S.A. v. Clyde Armory, Inc.*, No. 3:12-CV-102 (CAR), 2016 U.S. Dist. LEXIS 131996, at *7 (M.D. Ga. Sept. 27, 2016) (finding that the court is "bound by the Eleventh Circuit's standard for exceptional cases" because "neither the Supreme Court nor the Eleventh Circuit has addressed whether *Octane* applies to the Lanham Act").