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Trademarks/Attorneys

Octane's Creep Into Lanham Act Cases Continues; Deliberately Low Fees Award Given

■ **Holding:** *Octane applies to trademark cases, and this "utterly meritless" case is certainly "exceptional," under that standard, the court says.*

■ **Takeaway:** *By docking the fee award in this case the court puts defendants on notice: throwing the kitchen sink at frivolous claims may not be the best course of action.*

The Supreme Court's definition of what is an "exceptional case" that warrants an award of attorneys' fees under the Patent Act is likely to be applied by the Fourth Circuit to cases arising under the Lanham Act, the U.S. District Court for the District of Maryland said Jan. 26 (*Teal Bay Alliances, LLC v. Southbound One, Inc.*, 2015 BL 17049, D. Md., No. 1:13-cv-02180-MJG, 1/26/15).

The court's opinion was the latest in a string of rulings that have applied *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, to Lanham Act cases, on the grounds that the statutes have identical "exceptional case" provisions.

But even a wholesale adoption of the *Octane* standard in trademark cases won't necessarily lead to clarity, Peter M. Brody, Ropes & Gray LLP, Washington, told Bloomberg BNA.

"Even if all of the circuits line up in favor of the *Octane* standard, that doesn't mean that there is going to be predictability or uniformity in fee decisions," Brody said. "In fact, far from it, because the standard is inherently flexible and rather vague, so you are going to see an enormous variety and range of decisions. And they are not necessarily going to square with each other."

"[T]o ding somebody for raising a legally cognizable defense... is somewhat problematic."

—PETER M. BRODY, ROPES & GRAY LLP

The exceptional case ruling—and the ultimate award of \$30,000 in attorneys' fees—was bolstered by a separate Jan. 26 ruling in which the court determined that the plaintiff's trademark infringement claim was "baseless," and it said the registered trademark in question—"Shorebilly"—should be cancelled since it was obtained

"by means of false statements made, and a false document submitted, to the United States Patent and Trademark Office."

In its fees order, the court, while highly critical of the plaintiff for suing in the first place, did not spare the defendant for its own litigation miscues, and in particular for raising what the court deemed were meritless defenses "that needlessly increased the cost of litigation."

The total fees award was thus far less than the defendant requested, and was calculated based on the court's "deliberate underestimate of the minimal amount of legal fees incurred in regard to the trial of the instant case."

'Problematic' Ruling for Defendants in Frivolous Cases.

"The very self-conscious approach the court takes here, where it says it knows that it is giving an award that is nowhere near the amount spent, and that it is doing it on purpose to send a message, is not very common," Brody, told Bloomberg BNA.

"What's interesting to me about this message is that you might understand the court to be saying that defense counsel should not make every available argument: When you are faced with a frivolous case, then you should focus on the fact that it is a frivolous case and don't try to turnover every stone and try every defense."

However, defense attorneys facing frivolous lawsuits are going to have a hard time knowing where to draw the line, Brody said. Scorched earth litigation tactics may certainly be overly burdensome and courts can and do try to control those.

"But to ding somebody for raising a legally cognizable defense—assuming that the facts at least facially supported the defense—then I think that is somewhat problematic," Brody said.

'Utterly Meritless' Claims. The tone for the court's Jan. 26 bench trial order, which was issued following a four-day trial held in July, was set early.

In the third paragraph, Judge Marvin J. Garbis called plaintiff Teal Bay LLC's claims "specious" and "utterly meritless."

Teal Bay, an entity owned and operated by Ocean City, Md., residents Marcus and Barbara Rogerson, first contemplated selling T-shirts around 2010. At the time, "They intended to name the business 'Shorebilly,' a word that is the seashore context equivalent of 'hill-billy,'" the court said.

When Teal Bay applied for registration, their application claimed that the trademark was first used in commerce in May 2010. That, however, was actually the date that the Rogersons had placed the mark—along with a graphic they downloaded from a free clip art

database—on bumper stickers and given them out for free to businesses in the Ocean City community.

The first T-shirt sale actually came in March 2011 when Barbara Rogerson’s mother purchased an undisclosed number of T-shirts. Other T-shirts were later sold at an Ocean City gas station.

The problem with these shirts, which were submitted to the PTO as specimens of use, was that the trademark was undoubtedly being used in an ornamental manner. Indeed, the examiner assigned to the application informed Marcus Rogerson of this in a telephone conversation.

Following that conversation, Marcus Rogerson had three sample T-shirts made “using the proffered ‘Shorebilly’ mark in the Polo and Izod fashion that the examiner had told him was illustrative of a proper trademark use.”

The application was later amended to state that the trademark was first used in commerce in March 2011, the date of the sale to Barbara Rogerson’s mother.

The court disapproved of this series of actions, stating that they “were taken with the intent to deceive the PTO.”

No Priority, No Confusion. The court additionally found that the defendant was using the term “Shorebilly Brewing Company” in commerce by October 2012.

Teal Bay sent the brewery a cease-and-desist letter on Oct. 9, 2012. Attempts to resolve the dispute through a licensing agreement failed, and in July 2013 Teal Bay sued.

During the course of the litigation, the restaurant’s owner, Daniel Robinson, changed the name of his establishment from Shorebilly Brewing Co. to Backshore Brewing Co.

Teal Bay, however, declined to drop the case, “asserting damage claims that can, at best, be described as implausible,” the court said in its attorneys’ fees order.

The implausibility of Teal Bay’s claims was highlighted by the court’s conclusions that:

- “Teal Bay did not acquire any valid trademark rights prior to Southbound’s first use in commerce of the name ‘Shorebilly Brewing Company.’”

- “Teal Bay’s PTO trademark registration was defective and should be cancelled.”

- “Southbound’s use of the name ‘Shorebilly Brewing Company’ was not likely to cause confusion for purposes of any trademark infringement or unfair competition claim on the part of Teal Bay.”

Back to *Octane*. *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 110 U.S.P.Q.2d 1337 (2014) (88 PTCJ 28, 5/2/14), said that an 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.”

In the instant case, the court’s fee ruling said that the Third Circuit was the only circuit to have “addressed the question of whether the Supreme Court’s *Octane Fitness* definition of an exceptional case is applicable to trademark cases.”

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The court was technically correct that *Fair Wind Sailing, Inc. v. Dempster*, 764 F. 3d 303, 112 U.S.P.Q.2d 1340 (3d Cir. 2014), (88 PTCJ 1186, 9/12/14), was the only time a circuit court found *Octane* applicable to trademark cases.

However, in a nonprecedential August opinion the Sixth Circuit applied *Octane* to the patent claims at issue, but applied its own two-step inquiry for determining exceptionality under the Lanham Act for the asserted trade dress infringement claims (*Premium Balloon Accessories, Inc. v. Creative Balloons Mfg., Inc.*, No. 13-3587, 2014 BL 219213 (6th Cir., Aug. 7, 2014) (89 PTCJ 625, 1/9/15)).

The court noted that post-*Octane* district court rulings have been inconsistent regarding whether the term “exceptional cases” under Section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a), should be construed the same as it is under the Patent Act.

But, the court said that it found “persuasive the rationale of the Third Circuit as expressed in *Fair Wind Sailing* and predicts that the United States Court of Appeals for the Fourth Circuit will agree.”

Applying *Octane*’s lenient standard, the court found this case exceptional and granted the defendant attorneys’ fees.

‘Not Surprising’ *Octane* Applied. Ropes & Gray’s Brody noted that, with the exception of the Sixth Circuit and a few outlier district court cases, “The trend seems to be very much in favor of the Third Circuit’s approach” of applying *Octane* to Lanham, Act cases.

“That is not surprising given that the fee-shifting language is identical in both statutes,” he said.

Moreover, “In the *Octane* decision itself, when the Supreme Court explains why it thinks a flexible standard is appropriate, it actually cites a Lanham Act case,” Brody noted.

That case, *Noxell Corp. v. Firehouse No. 1 Bar-B-Que Restaurant*, 771 F. 2d 521, 227 U.S.P.Q. 115 (D.C. Cir. 1985), was issued by then-appeals court Judges Ruth Bader Ginsburg and Antonin G. Scalia.

“If citing to that case is not an indication that the Supreme Court sees these two statutes as being subject to an alike interpretation, then I don’t know what would be,” Brody said.

Prolonged Litigation. But although the court determined that the facts—or, rather, Teal Bay’s lack of facts showing that it had any rights to the mark before it filed its claim—made this case exceptional, it was nonetheless critical of a number of the defenses Southbound raised.

For example, Southbound required briefing and a decision on the baseless contention that “shorebilly” could not be a trademark because the word was generic. Counsel, some-

how, neglected to note that generic words can be trademarks for products or services other than those identified by the word itself. For example, the word “apple” may be used as a trademark for computers but not for fruit.

These “meritless defenses,” the court said, “imposed unnecessary burdens on Teal Bay and on the Court.”

Thus, it made its fee award “on the basis of a deliberate underestimate of the minimal amount of legal fees incurred in regard to the trial of the instant case.”

Teal Bay was represented by Steven D. Lustig of Dickinson Wright PLLC, Washington. Southbound was

represented by Christopher J. Lyon of Astrachan Gunst Thomas P.C., Baltimore.

BY TAMLIN BASON

Full text of attorneys’ fees order at http://www.bloomberglaw.com/public/document/Teal_Bay_Alliances_LLC_v_Southbound_One_Inc_Docket_No_113cv02180_.

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