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## Exceptionally Vague: Attorney Fee Shifting Under the Lanham Act

Kelsie Willett

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## EXCEPTIONALLY VAGUE: ATTORNEY FEE SHIFTING UNDER THE LANHAM ACT

*Kelsie Willett\**

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## I. INTRODUCTION

“Government has no other end but the preservation of property.”<sup>1</sup> When English philosopher John Locke wrote those words in the late Seventeenth Century, he could have scarcely imagined the myriad laws governing intellectual property today. However, his statement is just as valid now as it was when he wrote it. Intellectual property law should function in a manner that allows owners to preserve and profit from their creations. Yet increasingly expensive litigation costs complicate trademark owners’ ability to prosecute infringement of their marks, and trademark law can be amended to make prosecution of infringement more economically feasible.

The size of the global market for counterfeit goods is staggering.<sup>2</sup> In Fiscal Year 2013, the U.S. government’s Intellectual Property Rights enforcement resulted in 24,361 seizures, with total seizures valued at \$1,743,515,581 according to the Manufacturer’s Suggested Retail Price (MSRP).<sup>3</sup> For comparison, LVMH, the international luxury goods conglomerate, posted revenues of slightly over \$12 billion for 2013 for its fashion and leather goods brands.<sup>4</sup> The massive size of the counterfeit market renders it imperative that the law facilitates and encourages trademark owners to vigilantly protect their intellectual property.

Litigation is quite expensive, and prosecuting every infringement of his property may not be economically feasible for a trademark owner. The prosecution of a small-scale infringer can still result in massive legal bills.

Our traditional “American Rule” of litigation provides that costs, other than attorney fees, are provided to the prevailing party unless otherwise specified by statute, court order, or elsewhere in the federal rules.<sup>5</sup> Trademark is one specific area of law that deviates from the traditional standard. The 1975 amendments to the Trademark Act of 1946 authorized the award of attorney fees in exceptional cases.<sup>6</sup> The language of the statute is limited, simply stating “[t]he court in exceptional cases may award reasonable attorney fees to the

<sup>1</sup> John Locke, *The Second Treatise, in TWO TREATIES OF GOVERNMENT* § 94 (Peter Laslett ed., Cambridge Univ. Press 1967) (1690).

<sup>2</sup> PEGGY CHAUDHRY & ALAN ZIMMERMAN, PROTECTING YOUR INTELLECTUAL PROPERTY RIGHTS 10 (2013) (estimating the size of the global counterfeit market anywhere from 200 billion to 1 trillion).

<sup>3</sup> INTELLECTUAL PROPERTY RIGHTS SEIZURE STATISTICS FISCAL YEAR 2013, <http://www.cbp.gov/sites/default/files/documents/2013%20IPR%20Stats.pdf> (last visited Jan. 6, 2015).

<sup>4</sup> LVMH 2014 ANNUAL REPORT, [http://r.lymh-static.com/uploads/2015/04/lvmh\\_ra2014\\_gb.pdf](http://r.lymh-static.com/uploads/2015/04/lvmh_ra2014_gb.pdf).

<sup>5</sup> FED. R. CIV. P. 54(d)(1); see *Alyestka Pipeline Serv. Co. v. Wilderness Soc’y*, 421 U.S. 240, 247–83 (1974) for an extensive discussion the history of the American Rule.

<sup>6</sup> Trademark Act, Pub. L. No. 93-600, § 3, 88 Stat. 1955 (1975).

prevailing party.”<sup>7</sup> The ability to recover attorney fees encourages prosecution of infringement by allowing litigation to remain economically viable in cases deemed to be exceptional.<sup>8</sup>

The ability to recover attorney fees in exceptional cases encourages prosecution of infringement, and allows litigation to remain economically viable.<sup>9</sup> Yet, as Judge Posner stated, “a rainbow of standards has been promulgated to define the word ‘exceptional’ in the Lanham Act, some seemingly requiring bad faith or other culpability, others following a less stringent approach.”<sup>10</sup> The Circuits’ varied approaches in determining exceptionality apply both to the factor tests used and the burdens placed on prevailing plaintiffs and defendants.<sup>11</sup>

Congress has created even more confusion through the passing of The Anti-Counterfeiting Consumer Protection Act of 1996, which introduced statutory damages to the Lanham Act for cases involving the use of counterfeit marks.<sup>12</sup> The impact of the introduction of statutory damages to the attorney fee shifting provision in 15 U.S.C. § 1117(a) is subject to limited case law. The Second Circuit has held that electing to receive statutory damages does not prohibit an award of attorney fees.<sup>13</sup> Conversely, the Ninth Circuit found that § 1117(c) makes no provision for attorney fees and reversed a previous award of them.<sup>14</sup> The confusion is compounded because 15 U.S.C. § 1117(b) deals with intentionally using counterfeit marks in commerce and expressly provides for an award of treble profits or damages, whichever is greater, together with reasonable attorney fees.<sup>15</sup>

Part II.A will provide an overview of trademark law, with an extensive discussion of the various causes of action for trademark infringement and counterfeiting. Part II.B will examine how attorney fees are awarded to successful litigants within the copyright and patent realms of intellectual property. Part III will discuss how courts award attorney fees within the

<sup>7</sup> 15 U.S.C. § 1117(a) (2012).

<sup>8</sup> See *Tamko Roofing Prods., Inc. v. Ideal Roofing Co.*, 282 F.3d 23, 34, 39 (1st Cir. 2002) (prevailing plaintiff was awarded over \$500,000 in attorney fees, despite actual damages being slightly over \$200,000; litigation would have been prohibitively expensive in this case when compared to the value of damage suffered).

<sup>9</sup> See *Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC*, 626 F.3d 958, 960–65 (7th Cir. 2010) for a judicial examination of the “semantic jungle” regarding exceptionality under the Lanham Act.

<sup>10</sup> *Yankee Candle Co. v. Bridgewater Candle Co.*, 140 F. Supp. 2d 111, 120 (D. Mass. 2001).

<sup>11</sup> See *infra* Part IV.

<sup>12</sup> ANTI-COUNTERFEITING CONSUMER PROTECTION ACT OF 1996, 1996 Enacted S. 1136, 104 Enacted S. 1136, 110 Stat. 1386 (codified at 15 U.S.C. § 1117(c) (1996)).

<sup>13</sup> *Louis Vuitton Malletier S.A. v. LY USA, Inc.*, 676 F.3d 83, 109 (2d Cir. 2012).

<sup>14</sup> *K & N Eng’g v. Bulat*, 510 F.3d 1079, 1082–83 (9th Cir. 2007).

<sup>15</sup> 15 U.S.C. § 1117(b) (2012).

trademark sphere. Part III.A will center on the confusion over how to apply the exceptionality standard in trademark infringement cases. Part III.B will look at how courts have interpreted the law with respect to receiving attorney fees in conjunction with statutory damages in trademark infringement cases.

This Note argues in Part IV two distinct points. The first being that the proper standard for determining exceptionality is the presence of malicious, fraudulent, deliberate, or willful conduct while holding plaintiffs and defendants to equal burdens. A finding of exceptionality should be based on conduct before the commencement of the suit, conduct during litigation, or both. Conduct prior to the commencement of the suit meeting the exceptional circumstance requirement should be malicious, fraudulent, deliberate or willful. Conduct during litigation that gives rise to exceptionality must meet any of the aforementioned factors, viewed through the prism of “abuse of process” as outlined by Judge Posner in a 2010 Seventh Circuit opinion.<sup>16</sup> Secondly, this paper argues that the election of statutory damages under 15 U.S.C. § 1117(c) does not prohibit an award of attorney fees in exceptional cases as that would run counter to the legislation’s intent in enacting the statutory damages provision.

## II. BACKGROUND

### A. TRADEMARK LAW

Before examining how attorney fees should be awarded in trademark infringement cases, it is necessary to outline the various causes of action for infringement. There are separate causes of action depending upon whether the mark is registered, whether it is famous, and whether the infringement was so great as to result in counterfeiting. Following the discussion of trademark litigation, this Part will look at how the law treats attorney fees in both copyright and patent law. The extensive body of case law in these two areas of intellectual property provide guidance as to what a more efficient scheme for awarding attorney fees in trademark should look like.

1. *Trademark Infringement Causes of Action.* The Lanham Act provides for three distinct federal causes of action for trademark owners who believe that their mark has been infringed.<sup>17</sup> First, under § 32(1), a trademark owner has protection for his registered mark against any reproduction, counterfeit, copy, or colorable imitation of the mark in connection with its use in commerce relating to any goods or services likely to cause confusion, mistake, or

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<sup>16</sup> *Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC*, 626 F.3d 958 (7th Cir. 2010).

<sup>17</sup> 15 U.S.C. § 1114(1) (2012); *id.* § 1125(a); *id.* § 1125(c).

deception.<sup>18</sup> A second cause of action is available to trademark owners whose marks are not registered within the United States, and they find similar protections available to them under § 43 of the Lanham Act.<sup>19</sup>

A third cause of action is provided to a specific subset of trademarks whose characteristics provide for special protection. Under § 43 of the Lanham Act, famous marks may bring actions for dilution or tarnishment regardless of whether confusion or economic injury is present.<sup>20</sup> A famous mark is one that is widely recognized by the general consuming public of the United States as an indicator of the goods or services source or owner.<sup>21</sup> A dilution claim arises when a similarity between the contested mark and the famous mark exists, and that similarity impairs the distinctiveness of the famous mark.<sup>22</sup> Tarnishment means association that harms the reputation of a famous mark.<sup>23</sup>

2. *Counterfeiting.* Counterfeiting is a subset of trademark infringement: “All counterfeits infringe, but not all infringements are counterfeit.”<sup>24</sup> A counterfeit mark is a spurious mark that is substantially indistinguishable from a valid registered mark.<sup>25</sup> The counterfeit industry is not just a threat to producers of luxury goods.<sup>26</sup> It also affects many other industries, and ties have been established linking the sale of counterfeit goods to terrorist organizations.<sup>27</sup>

In 1996, Congress amended § 35 of the Lanham Act to introduce statutory damages as an alternative to actual damages in counterfeit mark cases.<sup>28</sup> The legislative history indicates that Congress was particularly concerned with the growth of the counterfeit goods market, especially of emerging industries.<sup>29</sup> The current version of § 1117(c) provides statutory damages of not less than \$1,000 or more than \$200,000 per counterfeit mark per type of goods sold, and allowing for damages to be increased to \$2 million in cases of willful infringement.<sup>30</sup>

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<sup>18</sup> *Id.* § 1114(1).

<sup>19</sup> *Id.* § 1125(a).

<sup>20</sup> *Id.* § 1125(c).

<sup>21</sup> *Id.*

<sup>22</sup> *Id.*

<sup>23</sup> *Id.*

<sup>24</sup> 1 ANNE GILSON LALONDE, GILSON ON TRADEMARKS § 5.19 (Matthew Bender).

<sup>25</sup> A counterfeit mark is “a spurious mark which is identical with, or substantially indistinguishable from, a registered mark.”

<sup>26</sup> [http://www.semiconductors.org/issues/anticounterfeiting/anti\\_counterfeiting/](http://www.semiconductors.org/issues/anticounterfeiting/anti_counterfeiting/).

<sup>27</sup> <http://www.interpol.int/News-and-media/News/2003/PR019>.

<sup>28</sup> *See supra* note 12.

<sup>29</sup> H.R. REP. NO. 104-556, at 2 (1996) (referencing the growth in the counterfeit market from \$5.5 billion in 1982 to \$200 billion in 1996 and industry estimates that counterfeit sales exceeded 40% of the software industry’s total revenues).

<sup>30</sup> 15 U.S.C. § 1117(c) (2006).

## B. AWARDS OF ATTORNEY FEES TO SUCCESSFUL LITIGANTS IN OTHER AREAS OF INTELLECTUAL PROPERTY

It is helpful to examine how the Supreme Court has treated attorney fees under the copyright and patent statutes when determining the proper test for attorney fees under trademark. Copyright case law in particular provides insight into how the Supreme Court might rule on a hypothetical trademark attorney fee case where plaintiffs and defendants were held to differing burdens.<sup>31</sup> Supreme Court jurisprudence in patent law regarding attorney fees is especially useful, as the patent<sup>32</sup> and trademark<sup>33</sup> statutes authorizing attorney fees are virtually identical.

1. *Attorney Fees in Copyright.* Attorney fees are explicitly allowed at the court's discretion under § 505 of the Copyright Act.<sup>34</sup> As in trademark law, failure to register a copyright will preclude a party from receiving an award of statutory damages or attorney fees.<sup>35</sup>

The decision to award attorney fees in a copyright infringement action hinges upon whether such an award would further the purposes of the Copyright Act.<sup>36</sup> The most important aim of the Act is the promotion of artistic creativity for the public good,<sup>37</sup> and that aim is also furthered by defendants engaging in meritorious copyright defenses.<sup>38</sup> The court in *Mattel v. MGA Entertainment, Inc.* noted that despite MGA's status as a defendant, it had made important contributions to copyright law because the failure to vigorously defend the claims could have resulted in a new era of copyright litigation centered on stifling competition rather than promoting expression.<sup>39</sup> Defendants who engage in meritorious defenses add to the body of copyright case law. Without these defendants' contributions, future defendants could be deterred from litigation and ultimately settle a case that they may have been able to litigate successfully.

The Supreme Court provided insight into whether a dual standard system in attorney fee shifting was constitutional in a 1994 case.<sup>40</sup> The dual standard can

<sup>31</sup> *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 519–35 (1994).

<sup>32</sup> 35 U.S.C. § 285 (2000) (quoting “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party”).

<sup>33</sup> 15 U.S.C. § 1117(a)(3) (2006) (quoting “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party”).

<sup>34</sup> 17 U.S.C. § 505 (2011) (“[T]he court may also award a reasonable attorney’s fee to the prevailing party as part of the costs.”).

<sup>35</sup> *Id.* § 412.

<sup>36</sup> *Mattel, Inc. v. MGA Entm’t, Inc.*, 705 F.3d 1108, 1111 (9th Cir. 2013).

<sup>37</sup> *Id.* (quoting *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975)).

<sup>38</sup> *Id.* (quoting *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 527 (1994)).

<sup>39</sup> *Id.* (referencing the district court’s reasoning for awarding attorney fees).

<sup>40</sup> *Fogerty*, 510 U.S. 517.

be defined as awarding prevailing plaintiffs' attorney fees as a matter of course, while prevailing defendants were required to show that the suit was frivolous or brought in bad faith.<sup>41</sup> In *Fogerty v. Fantasy*, a successful defendant in a copyright infringement action appealed the denial of his claim for reasonable attorney fees.<sup>42</sup> At issue was the conflict between the dual standard approach of the Ninth Circuit and the evenhanded approach of the Third Circuit.<sup>43</sup> Those favoring the dual standard advanced four arguments. First, the language of § 505, when read in light of previous decisions, supports implementation of the dual standard system. Second, treating prevailing plaintiffs and defendants differently comports with the overarching purpose of the Copyright Act. Third, legislative history indicates that Congress ratified the dual standard. Lastly, the dual standard has been followed uniformly by the lower courts.<sup>44</sup>

The court rejected any notion that the statutory language of § 505 supports treating prevailing plaintiffs and defendants differently and disregarded the claim that previous decisions supported a differentiation in the treatment of parties.<sup>45</sup>

In discussing the second argument for the dual standard, the court noted that the purposes of the Copyright Act were far more complex than simply maximizing the number of meritorious infringement actions and that encouraging defendants to litigate meritorious infringement claims furthers the goal of copyright by working to establish clear boundaries.<sup>46</sup> This is consistent with previous rulings, specifically in *Feist Publications v. Rural Tel. Serv. Co.*, where the Court said, "[t]he primary objective of copyright is not to reward the labor of authors . . . . [C]opyright assures authors the right to their original expression, but encourages others to build freely upon the ideas and information conveyed by a work."<sup>47</sup> The court also rejected the third argument for the dual standard, disagreeing with the defendant's notion that the principle of ratification led to the adoption of a dual standard.<sup>48</sup>

Ultimately, the *Fogerty* Court rejected the dual standard and the petitioner's argument for adopting the British rule, awarding attorney fees to both parties as

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<sup>41</sup> *Id.* at 520–21.

<sup>42</sup> *Id.* at 519–20.

<sup>43</sup> *Id.* at 521.

<sup>44</sup> *Id.*

<sup>45</sup> *Id.* at 522–25 (holding that arguments based on fee shifting decisions under the Civil Rights Act must fail).

<sup>46</sup> *Id.* at 526–27.

<sup>47</sup> *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 349–50 (1991).

<sup>48</sup> *Fogerty*, 510 U.S. at 533 (holding that there was no settled construction in favor of the dual standard under the 1909 Copyright Act which would support the dual standard system under the principle of ratification).

a matter of course.<sup>49</sup> The court held that prevailing plaintiffs and defendants were to be treated alike, but that the award of attorney fees came at the court's discretion.<sup>50</sup> Most importantly, the court noted the closely related statutes in the patent and trademark fields supported a party-neutral approach.<sup>51</sup>

2. *Attorney Fees in Patent.* The attorney fee shifting statute in patent simply states, “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.”<sup>52</sup> While the Supreme Court has not addressed the exceptionality requirement in the trademark sphere, it has done so in the patent field, most notably in *Octane Fitness LLC v. ICON Health & Fitness, Inc.*<sup>53</sup> *Octane Fitness* dealt with the Federal Circuit's statutory interpretation of § 505 in *Brooks Furniture Mfg., Inc. v. Dutilier Int'l, Inc.*<sup>54</sup> There, the Federal Circuit held that a case is deemed exceptional in two limited circumstances: first, when there has been some material inappropriate conduct relating to the matter in litigation,<sup>55</sup> and second, if “the litigation was brought in subjective bad faith and was objectively baseless.”<sup>56</sup> The court also noted that the “objectively baseless” standard was determined not by the plaintiff's state of mind when the action began, but on an objective assessment of the merits.<sup>57</sup> “There is a presumption that the assertion of infringement of a duly granted patent is made in good faith.” Because of this presumption, exceptionality is determined by a clear and convincing evidence standard.<sup>58</sup>

In *Octane Fitness*, the Supreme Court held that the *Brooks Furniture* framework for exceptionality was inconsistent with the statutory text of § 285.<sup>59</sup> The Court noted that for decades, the proper method for determining exceptionality under § 285 was applied in a discretionary manner assessing various factors.<sup>60</sup>

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<sup>49</sup> *Id.* at 534.

<sup>50</sup> *Id.*

<sup>51</sup> *Id.* at 525 n.12.

<sup>52</sup> 35 U.S.C. 285 (2012).

<sup>53</sup> 134 S. Ct. 1749 (2014).

<sup>54</sup> 393 F.3d 1378 (Fed. Cir. 2005) (providing examples of inappropriate conduct and defining material inappropriate conduct as conduct that violates FED. R. CIV. P. 11 or similar statutes).

<sup>55</sup> *Id.* at 1381 (providing examples of inappropriate conduct and defining material inappropriate conduct as the type of conduct to violate FED. R. CIV. P. 11 or like infractions).

<sup>56</sup> *Id.* (outlining the two specific conditions in which a patent holder would be required to pay attorney fees to an alleged infringer).

<sup>57</sup> *Id.* at 1382.

<sup>58</sup> *Id.*

<sup>59</sup> *Octane Fitness*, 134 S. Ct. at 1752–53.

<sup>60</sup> *Id.* at 1753–54 (referencing that this approach was applied both before and after the Federal Circuit was granted sole jurisdiction of patent claims in 1982 under 28 U.S.C. § 1295); *see, e.g.*, *True Temper Corp. v. CF & I Steel Corp.*, 601 F.2d 495, 508–09 (10th Cir. 1979) (examining good faith and the patentee's conduct in originally obtaining the patent); *Kearney & Trecker Corp. v. Giddings & Lewis, Inc.*, 452 F.2d 579, 597 (7th Cir. 1979) (analyzing the “nature of the plaintiff's wrongdoing and its potential impact upon the public”); *Siebring v. Hansen*, 346 F.2d

The Court then defined an exceptional case as one that “stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and facts of the case).”<sup>61</sup> It found that the *Brooks Furniture* framework “superimpose[d] an inflexible framework onto statutory text that is inherently flexible.”<sup>62</sup> The Court then discussed why both of the Federal Circuit’s categories for awarding attorney fees were unduly restrictive.<sup>63</sup> Lastly, the Court rejected *Brooks Furniture* for being so demanding that it would render § 285 superfluous.<sup>64</sup> In regards to the standard of proof, the Court noted lower standards in comparable fee shifting statutes,<sup>65</sup> and that patent infringement litigation had generally been governed by the preponderance of the evidence standard.<sup>66</sup>

### III. ATTORNEY FEES IN TRADEMARK

The Lanham Act is the federal statute for trademark protection and was signed into law on July 5, 1946.<sup>67</sup> The idea of federal trademark protection can be traced back to 1791 when Thomas Jefferson was serving as Secretary of State.<sup>68</sup> A sail cloth maker in Boston petitioned Congress to allow him to register his trademark.<sup>69</sup> Jefferson favored trademark protection and stated, “permi[t] the owner of every manufactory to enter in the record of the court of the district . . . the name with which he chooses to mark or designate his wares, and rendering it penal to others to put the same mark on any other wares.”<sup>70</sup> It would not be until 1881 that Jefferson’s vision would come to fruition.<sup>71</sup> The first federal trademark statute and a statute on counterfeiting were found

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474, 480–81 (8th Cir. 1965) (discussing the procedural posture of the case and the patentee’s lack of good faith).

<sup>61</sup> *Octane Fitness*, 134 S. Ct. at 1756.

<sup>62</sup> *Id.*

<sup>63</sup> *Id.* at 1756–57 (stating that conduct may be unreasonable enough to be defined as rare while not rising to the level of sanctionable, and stating that subjective bad faith or exceptionally meritless claims on their own could sufficiently differentiate a case from typical actions).

<sup>64</sup> *Id.* at 1758 (noting that the standard would be so difficult to meet, it would rarely be used in practice).

<sup>65</sup> *Id.* See, e.g., *Fogerty*, 510 U.S. at 519.

<sup>66</sup> *Octane Fitness*, 134 S. Ct. at 1758. See, e.g., *Bene v. Jeantet*, 129 U.S. 683, 688 (1889).

<sup>67</sup> 15 U.S.C. § 1051 (2015).

<sup>68</sup> 62 TRADEMARK REP. 239.

<sup>69</sup> *Id.*

<sup>70</sup> *Id.*

<sup>71</sup> *Id.*

unconstitutional.<sup>72</sup> Ultimately, a federal statute was passed in 1881,<sup>73</sup> replaced with the 1905 act,<sup>74</sup> supplanted by the 1920 act,<sup>75</sup> and in 2015 the Lanham Act remains in place with various amendments.<sup>76</sup>

Common law preceding the Lanham Act, from the Seventh Circuit, favored the recovery of attorney fees in special cases.<sup>77</sup> The court in *Aladdin Manufacturing Co. v. Mantle Lamp Co.* held that counsel's fees were properly recoverable as compensatory damages due to the finding of willful and fraudulent conduct by the defendant.<sup>78</sup> However, in *Fleischmann Distilling Corp. v. Maier Brewing Co.*, the Supreme Court held that the award of attorney fees under the Lanham Act was improper because there was no statutory basis for such an award.<sup>79</sup> In his dissent, Justice Stewart argued that the fact that Congress elected not to interfere with the judicial power to award attorney fees was equally as persuasive as the majority's argument.<sup>80</sup> He wrote, "[t]he failure to amend the statute to do away with this judicial power speaks as loudly for its recognition as the failure to pass the bills referred to by the Court speaks for the contrary conclusion."<sup>81</sup>

After eight years under the *Fleischmann Distilling* rule, Congress passed the 1975 amendments to the Lanham Act. The relevant addition was to 15 U.S.C. § 1117, reading "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party."<sup>82</sup>

The legislative history of the 1975 amendment makes note of the attorney fee remedy's availability in both copyright and patent law.<sup>83</sup> The purpose of the bill states that it would "[a]uthorize award of attorney fees to the prevailing party in trademark litigation where justified by equitable considerations."<sup>84</sup> The Senate Committee on the Judiciary stated that the remedy should be available in exceptional cases, "[w]here the acts of infringement can be characterized as 'malicious,' 'fraudulent,' 'deliberate,' or 'willful.'"<sup>85</sup> In addition, it was noted

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<sup>72</sup> Trade-Mark Cases, 100 U.S. 82 (U.S. 1879) (holding that the Commerce Clause prevented Congress from enacting legislation regarding the registration of trademarks not used in interstate commerce, rendering the counterfeiting provision of the law unconstitutional).

<sup>73</sup> 21 Stat. 502.

<sup>74</sup> 33 Stat. 724.

<sup>75</sup> 41 Stat. 533.

<sup>76</sup> 15 U.S.C. § 1051 (2006).

<sup>77</sup> See *Aladdin Mfg. Co. v. Mantle Lamp Co.*, 116 F.2d 708, 717 (7th Cir. 1941).

<sup>78</sup> *Id.*

<sup>79</sup> *Fleischmann Distilling Corp. v. Maier Brewing Co.*, 386 U.S. 714, 720 (1967).

<sup>80</sup> *Id.* at 723.

<sup>81</sup> *Id.*

<sup>82</sup> 1975 Trademark Act Amendment, Pub. L. No. 93-600, 88 Stat. 1955 (1975).

<sup>83</sup> S. REP. NO. 93-1400, at 2 (1974).

<sup>84</sup> *Id.* at 1.

<sup>85</sup> *Id.* at 2.

that the attorney fee remedy would work in conjunction with existing provisions for treble damages and that attorney fees would be available to defendants as well.<sup>86</sup> The report noted that the fee-shifting provision would provide a complete remedy for plaintiffs, while also providing a remedy to a defendant faced with an unfounded suit.<sup>87</sup>

The report noted that mass demand and advertising can work to make trademark infringement and acts of unfair competition especially appealing to unethical competitors.<sup>88</sup> The Department of Commerce also stated that the availability of treble damages<sup>89</sup> could not be regarded as a substitute for the recovery of attorney fees.<sup>90</sup> It noted that in some instances, actual damages can be nominal if the suit is brought promptly against an infringer.<sup>91</sup> Lastly, the report explicitly states that, as amended, § 35 of the Lanham Act “makes clear that a court has discretion as to whether to award treble damages, attorney fees, or both, or neither.”<sup>92</sup>

#### A. CIRCUIT CONFUSION OVER TRADEMARK’S “EXCEPTIONAL” STANDARD FOR ATTORNEY FEES

An examination into all of the various ways that circuit courts differ from one another in applying the attorney fee shifting statute is beyond the scope of this Note. The purpose of providing information on the confusion regarding the award of attorney fees is meant to highlight specific instances of confusion, primarily those that appear to be in conflict with Supreme Court decisions in other areas of intellectual property. Circuit approaches that are needlessly confusing or vague will also be discussed. Before examining the courts’ divided approaches on how to define an “exceptional case,” one must investigate the burden placed on either party for proving exceptionality. The definition of an “exception case” breaks down into several sub-issues. First, courts have varied approaches to the proper evidentiary standard for defining an “exceptional case.” Second, there is division over whether equal standards are to be applied to both parties, a party neutral approach, or if differing burdens are required. Lastly, it is unclear what characteristics of a case will lead to a finding of exceptionality. For example, should courts require willful infringement or bad faith for a finding of exceptionality, or something less?

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<sup>86</sup> *Id.*

<sup>87</sup> *Id.* at 5.

<sup>88</sup> *Id.*

<sup>89</sup> *See* 15 U.S.C. § 1117(b).

<sup>90</sup> S. REP. NO. 93-1400, at 2 (1974), *reprinted in* 1974 U.S.C.C.A.N. 7132, 7136.

<sup>91</sup> *Id.*

<sup>92</sup> *Id.*

The Fifth Circuit has held that a party seeking fees must demonstrate exceptionality by clear and convincing evidence.<sup>93</sup> In a 2012 trademark infringement case, the First Circuit held that preponderance of the evidence was the proper standard for willfulness.<sup>94</sup> When the Supreme Court interpreted an identical attorney fees statute in patent law, the Court rejected the Federal Circuit's requirement of establishing entitlement to attorney fees by clear and convincing evidence.<sup>95</sup> The Court held that preponderance of the evidence was the proper standard for determining exceptionality in patent matters.<sup>96</sup>

Circuit courts have differing approaches for when plaintiffs and defendants may receive attorney fees. Examples of a party-neutral approach can be found in the Second,<sup>97</sup> Third,<sup>98</sup> and Ninth<sup>99</sup> Circuits. The party neutral approach is consistent with Supreme Court decisions in the copyright realm.<sup>100</sup>

There is also support for a dual standard from a number of circuits. A Massachusetts' District Court opinion articulates the case for a differing standard on the premise that "infringement of a trademark is only sometimes deliberate, [whereas the] prosecution of a lawsuit" is always deliberate.<sup>101</sup> The Fourth Circuit requires prevailing plaintiffs to show bad faith by the defendant, whereas prevailing defendants must show something less than bad faith, such as "[e]conomic coercion, groundless arguments, and failure to cite controlling law" by the plaintiff.<sup>102</sup> The D.C. Circuit has taken a similar stance, holding that "a court must find willful or bad faith infringement"<sup>103</sup> to award attorney fees to a

<sup>93</sup> *Pebble Beach Co. v. Tour 18 I*, 155 F.3d 526, 555–56 (5th Cir. 1998).

<sup>94</sup> *Fishman Transducers, Inc. v. Paul*, 684 F.3d 187, 193 (1st Cir. 2012) (noting that the discussion on willfulness was strictly related to infringement and not a discussion concerning an award of attorney fees).

<sup>95</sup> *Octane Fitness*, 134 S. Ct. 1749, 1758 (2014).

<sup>96</sup> *Id.*

<sup>97</sup> *Conopco, Inc. v. Campbell Soup Co.*, 95 F.3d 187, 195 (2d Cir. 1996) (holding that there was no precedent within the circuit for applying a different standard to prevailing plaintiffs and defendants).

<sup>98</sup> *Securacomm Consulting, Inc. v. Securacom*, 224 F.3d 273, n.1 (3d Cir. 2000) (referencing the evenhanded approach adopted in *Ferrero U.S.A., Inc. v. Ozak Trading, Inc.*, 952 F.2d 44 (3d Cir. 1991)).

<sup>99</sup> *Stephen W. Boney, Inc. v. Boney Servs.*, 127 F.3d 821, 827 (9th Cir. Cal. 1997) (holding that the exceptional circumstance requirement was equally applicable to prevailing plaintiffs and defendants).

<sup>100</sup> *See, e.g., Fogerty v. Fantasy, Inc.*, 510 U.S. 517.

<sup>101</sup> *Yankee Candle Co. v. Bridgewater Candle Co.*, 140 F. Supp. 2d 111, n.7 (D. Mass. 2001) (stating that applying deliberateness as a factor would result in awarding prevailing defendants attorney fees as a matter of course, which runs counter to the meaning of exceptional).

<sup>102</sup> *Retail Servs. v. Freebies Publ'g*, 364 F.3d 535, 550 (4th Cir. 2004) (quoting *Ale House Mgmt. v. Raleigh Ale House*, 205 F.3d 137, 144); *see also Scotch Whisky Ass'n v. Majestic Distilling Co.*, 958 F.2d 594, 599 (4th Cir. 1992) (adopting the dual standard endorsed by the D.C. Circuit).

<sup>103</sup> *Reader's Digest Assoc. v. Conservative Digest*, 821 F.2d 800, 808 (D.C. Cir. 1987).

plaintiff and something less than bad faith is sufficient for the prevailing defendant.<sup>104</sup> A prior D.C. Circuit decision stated that it was unlikely Congress wanted to limit prevailing defendants' recovery of attorney fees to situations where the plaintiff acted vexatiously or in an oppressive manner. Rather, Congress intended the plain meaning of exceptional, i.e., "uncommon or not-run-of-the-mill."<sup>105</sup>

In two separate opinions, the Fourth Circuit opined that its dual standard under the Lanham Acts fee shifting provision "may have been called into doubt"<sup>106</sup> and "was called into considerable doubt"<sup>107</sup> in the wake of the *Fogerty v. Fantasy, Inc.* decision. However, the court has not provided a definitive answer on how this decision will affect the Fourth Circuit's application of this dual standard. The Seventh Circuit has made reference to this possible conflict between the Fourth Circuit and *Fogerty*, noting that the Supreme Court has moved away from an analysis giving consideration to the status of a prevailing party as a plaintiff or defendant.<sup>108</sup> Despite *Fogerty* controlling within the copyright context, the Tenth Circuit has held that there should not be perfect harmony between requisite standards for an award of attorney fees to a prevailing plaintiff or defendant.<sup>109</sup> The Tenth Circuit defended this reasoning by explaining that attorney fees are awarded against defendants for their acts of infringement, and are awarded against a plaintiff for conduct concerning the manner in which the lawsuit was brought and prosecuted.<sup>110</sup>

The Second,<sup>111</sup> Fifth,<sup>112</sup> and Eleventh<sup>113</sup> Circuits require a showing of bad faith as prerequisite for an award of attorney fees to a prevailing plaintiff or

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<sup>104</sup> *Id.* at 809 (citing *Noxell Corp. v. Firehouse No. 1 Bar-B-Q Rest.*, 77 F.2d 521, 526).

<sup>105</sup> *Noxell*, 771 F.2d at 526.

<sup>106</sup> *Bubba's Bar-B-Q Oven, Inc. v. Holland Co.*, 1999 U.S. App. LEXIS 6124, \*6 n.4 (4th Cir. Apr. 5, 1999).

<sup>107</sup> *Brenco, Inc. v. Roller Bearing Indus.*, 1996 U.S. App. LEXIS 18171, \*14 n.9 (4th Cir. July 23, 1996).

<sup>108</sup> *FASA Corp. v. Playmates Toys*, 108 F.3d 140, 143 (7th Cir. 1997).

<sup>109</sup> *National Ass'n of Prof'l Baseball Leagues, Inc. v. Very Minor Leagues, Inc.*, 223 F.3d 1143, 1148 (10th Cir. 2000) (doubting the feasibility of an identical standard for plaintiffs and defendants).

<sup>110</sup> *Id.*

<sup>111</sup> *Patsy's Brand, Inc. v. I.O.B. Realty, Inc.*, 317 F.3d 209, 221 (2d Cir. 2003) (holding exceptional cases to be "instances of 'fraud or bad faith' (citing *Twin Peaks Prods. v. Publ'ns Int'l, Ltd.*, 996 F.2d 1366, 1383 (2d Cir. 1993) or 'willful infringement' (citing *Bambu Sales, Inc. v. Ozak Trading Inc.*, 58 F.3d 849, 854 (2d Cir. 1995)"))).

<sup>112</sup> *Procter & Gamble Co. v. Amway Corp.*, 280 F.3d 519, 527 (5th Cir. 2002) (using bad faith as a shorthand for a "high degree of culpability" (citing *Pebble Beach Co. v. Tour 18 I Ltd.*, 155 F.3d 526, 556 (5th Cir. 1998))).

<sup>113</sup> *Lipscher v. LRP Publ'ns, Inc.*, 266 F.3d 1305, 1320 (11th Cir. Fla. 2001) (holding the correct standard for exceptionality in the 11th Circuit to be fraud or bad faith).

defendant. Bad faith is defined as “dishonesty of belief or purpose.”<sup>114</sup> *Patsy’s Brand, Inc. v. I.O.B. Realty, Inc.*, a Second Circuit case, is a typical representation of litigating in bad faith.<sup>115</sup> *Patsy’s* dealt with a dispute between two Italian restaurants and the sale of their tomato sauces.<sup>116</sup> The plaintiff began a retail sauce business in 1993, and had annual sales in excess of \$1 million at the time the case was decided.<sup>117</sup> The defendant could not provide the specific date it began selling sauce in its restaurant.<sup>118</sup> Originally, it claimed that sales began in 1993, which would have preceded the plaintiff’s sale of sauce.<sup>119</sup> However, the evidence proffered for defendant’s claimed 1993 sales was a printer’s invoice for a label that contained a bar code that was not created until 1998 and an area code for a phone number that did not exist until sometime after 1993.<sup>120</sup> Ultimately, the court upheld the award of attorney fees for the plaintiff. However, the court also noted that in the absence of the misconduct concerning the creation of illegitimate evidence, fees would not have been warranted because the defendant had a good faith basis for defending the suit.<sup>121</sup>

On the contrary, the First,<sup>122</sup> Third,<sup>123</sup> and Ninth<sup>124</sup> Circuits do not require a showing of bad faith as a prerequisite for attorney fees. The First Circuit stated, “[w]illfulness short of bad faith or fraud will suffice when equitable considerations justify an award and the district court supportably finds the case exceptional.”<sup>125</sup> The First Circuit also made note of the legislative history and declined to “strip ‘deliberate’ and ‘willful’ of meaning.”<sup>126</sup> *Tamko Roofing Prods. Inc. v. Ideal Roofing Co.* provides a typical example of pre-litigation conduct giving rising to exceptionality.<sup>127</sup> In closing, the court noted that the totality of

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<sup>114</sup> BLACK’S LAW DICTIONARY 159 (9th ed. 2009).

<sup>115</sup> *Patsy’s*, 317 F.3d 209.

<sup>116</sup> *Id.*

<sup>117</sup> *Id.* at 213.

<sup>118</sup> *Id.*

<sup>119</sup> *Id.*

<sup>120</sup> *Id.* at 214.

<sup>121</sup> *Id.* at 222.

<sup>122</sup> *Tamko Roofing Prods., Inc. v. Ideal Roofing Co.*, 282 F.3d 23, 32 (1st Cir. 2002).

<sup>123</sup> *Securacomm Consulting, Inc. v. Securacom, Inc.*, 224 F.3d 273, 280 (3d Cir. 2000) (stating that culpable conduct by the losing party is necessary but can be present in various forms).

<sup>124</sup> *Stephen W. Boney, Inc. v. Boney Services, Inc.*, 127 F.3d 821, 827 (9th Cir. 1997) (holding that circumstances other than bad faith may suffice for an award of attorney fees).

<sup>125</sup> *Tamko Roofing*, 282 F.3d at 32.

<sup>126</sup> *Id.*

<sup>127</sup> *Id.* at 33 (noting that Ideal adopted Tamko’s mark without doing a trademark search, Ideal’s other choices for names were substantially similar to competitor’s marks, and chose a cursive script very similar to one the Plaintiff had used in 1996).

circumstances, rather than one specific action, determines exceptionality and an award of attorney fees.<sup>128</sup>

The Third Circuit case involved a dispute over the trademark “SecuraComm” between two competing security-consulting firms.<sup>129</sup> The Court noted that while a defendant’s willful infringement is often the grounds for fee shifting in infringement suits, it is not the only time that an award of fees may be appropriate.<sup>130</sup> The defendant’s litigation conduct supported the award of attorney fees, as the defendant had deliberately tried to overwhelm the plaintiff financially.<sup>131</sup>

The Ninth Circuit case involved a dispute between two brothers over the use of the family name in conjunction with grocery stores.<sup>132</sup> The Ninth Circuit noted that absence of bad faith on the plaintiff’s part would not exclude an award of attorney fees.<sup>133</sup> Ultimately, fees were not awarded because the suit “raised colorable legal and factual issues” and “raised debatable issues of law and fact.”<sup>134</sup>

A 2010 Seventh Circuit case provides a practical approach to determining exceptionality, specifically examining conduct in litigation.<sup>135</sup> The Seventh Circuit held that an exceptional case sufficient for an award of attorney fees to the prevailing party is present when an unsuccessful plaintiff is guilty of abuse of process in suing, or a losing defendant persisted in the infringement for which he was being sued in order to impose costs on his opponent.<sup>136</sup> Judge Posner outlined abuse of process as “the use of the litigation process for an improper purpose, whether or not the claim is colorable.”<sup>137</sup> While noting that abuse of process is not used to describe defendants’ behavior, Judge Posner analogized a plaintiff’s abuse of process to a defendant whose infringement is blatant and yet who insists on mounting a costly defense.<sup>138</sup> Both plaintiffs and defendants can act as aggressors leading to a finding of exceptionality as “[p]redatory initiation of suit is mirrored in predatory resistance to valid claims.”<sup>139</sup>

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<sup>128</sup> *Id.*

<sup>129</sup> *Securacom Consulting, Inc. v. Securacom, Inc.*, 224 F.3d 273, 274 (3d Cir. 2000).

<sup>130</sup> *Id.* at 280.

<sup>131</sup> *Id.* at 282.

<sup>132</sup> *Stephen W. Boney, Inc. v. Boney Services, Inc.*, 127 F.3d 821, 823 (9th Cir. 1997).

<sup>133</sup> *Id.* at 827.

<sup>134</sup> *Id.*

<sup>135</sup> *Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC*, 626 F.3d 958 (7th Cir. 2010).

<sup>136</sup> *Id.* at 963–64.

<sup>137</sup> *Id.* at 963.

<sup>138</sup> *Id.*

<sup>139</sup> *Id.*

The Seventh Circuit approach favors treating plaintiffs and defendants the same because Lanham Act claims are almost always between corporations.<sup>140</sup> In addition, the Seventh Circuit's approach avoids a subjective inquiry into a party's state of mind.<sup>141</sup> The court specifically noted that it would be sufficient to show that an opponent's claim or defense was objectively unreasonable for a case to be deemed exceptional.<sup>142</sup>

#### B. CONSIDERING ATTORNEY FEES AND STATUTORY DAMAGES FOR INFRINGEMENT

In 1996 Congress passed the Anti-Counterfeiting Consumer Protection Act and amended the Lanham Act to provide statutory damages as a possible remedy to prevailing plaintiffs.<sup>143</sup> The amendment specifically states that cases involving counterfeit marks, as defined in 15 U.S.C. § 1116(d), are eligible for an award of statutory damages instead of actual damages and profits, as outlined under subsection (a) of § 1117.<sup>144</sup> The accompanying Senate Report referenced the difficulty in ascertaining actual damages and profits with respect to large-scale counterfeiting operations.<sup>145</sup> The Report noted that the records of counterfeiters are often nonexistent or purposely inaccurate, which makes proving actual damages extremely difficult, if not impossible.<sup>146</sup> Allowing trademark owners an election of statutory damages is necessary to combat counterfeiters, and statutory "damages are reflective of the damage done to business goodwill by infringing trademarks."<sup>147</sup>

1. *Circuit Split on Providing Attorney Fees with Statutory Damages.* Two circuits have examined whether the election of statutory damages under 15 U.S.C. § 1117(c) precludes an award of attorney fees. The Ninth Circuit answered a very narrow question, holding that statutory damages precluded an award of attorney fees under 15 U.S.C. § 1117(b).<sup>148</sup> By contrast, the Second Circuit held that the election of statutory damages does not preclude an award of attorney fees in exceptional cases.<sup>149</sup>

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<sup>140</sup> *Id.* at 964 (noting that despite differences in size between litigants, there is no correlation between the size of a party and the side from which he litigates).

<sup>141</sup> *Id.* at 965.

<sup>142</sup> *Id.*

<sup>143</sup> *See supra* note 12.

<sup>144</sup> 15 U.S.C. § 1117(c) (2012).

<sup>145</sup> S. REP. NO. 104-177, at 10 (1995).

<sup>146</sup> *Id.*

<sup>147</sup> *Id.*

<sup>148</sup> *K&N Eng'g, Inc. v. Bulat*, 510 F.3d 1079, 1082 (9th Cir. 2007).

<sup>149</sup> *Louis Vuitton Malletier S.A. v. LY USA, Inc.*, 676 F.3d 83, 111 (2d Cir. 2012).

a. *The Ninth Circuit Approach.* The Ninth Circuit addressed the issue of combining statutory damages under 15 U.S.C. § 1117(c) and an award of attorney fees in 2007.<sup>150</sup> The appellee in the case was K&N Engineering, Inc. (K&N), a firm “engaged in the design, manufacture, and distribution of aftermarket automotive air filters, intake kits, and other related products.”<sup>151</sup> In October of 2004, K&N became aware that the appellants were selling unauthorized decals bearing the K&N logo on eBay.<sup>152</sup> K&N had previously distributed similar decals to its customers via an internet promotion.<sup>153</sup> Bulot had created vinyl decals in the shape of the K&N logo and sold eighty-nine sets of decals with two decals in each set.<sup>154</sup> Bulot generated \$267 in revenue from sale of the decals.<sup>155</sup>

K&N filed a complaint in federal court alleging trademark infringement under 15 U.S.C. §§ 1114(1) and 1125(a), trademark counterfeiting under 15 U.S.C. § 1114(1)(a), and trademark dilution under 15 U.S.C. § 1125(c).<sup>156</sup> K&N’s motion for summary judgment was granted and they were awarded statutory damages of \$20,000 and attorney fees of \$100,000 pursuant to 15 U.S.C. § 1117(c)(1) and (b) respectively.<sup>157</sup>

On appeal, Bulot argued that K&N’s decision to receive statutory damages excluded the attorney fees remedy under 15 U.S.C. § 1117(b). The Court held that because § 1117(c) made no provision for attorney fees and § 1117(b) did not authorize legal fees for a plaintiff electing for statutory damages, the attorney fees provision of § 1117(b) was only applicable in cases that had actual damages under § 1117(a).<sup>158</sup> Using the aforementioned framework, the Court determined that an election to receive statutory damages under § 1117(c) precluded an award of attorney fees under § 1117(b). Therefore the district court had abused its discretion in awarding K&N \$100,000 in attorney fees.<sup>159</sup> Notably, the Ninth Circuit made it explicitly clear that they were only holding that the election of statutory damages precluded an award of attorney fees under 15 U.S.C. § 1117(b).<sup>160</sup> The Ninth Circuit declined to answer the broader

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<sup>150</sup> *K&N Eng’g*, 510 F.3d at 1079.

<sup>151</sup> *Id.* at 1080–81.

<sup>152</sup> *Id.*

<sup>153</sup> *Id.*

<sup>154</sup> *Id.*

<sup>155</sup> *Id.*

<sup>156</sup> *Id.* at 1081.

<sup>157</sup> *Id.*

<sup>158</sup> *Id.* at 1082.

<sup>159</sup> *Id.* at 1083.

<sup>160</sup> *Id.* at n.5 (leaving open the question of whether the election of statutory damages allowed for an award of attorney fees under § 1117(a)).

question of combining statutory damages with attorney fees, holding only that it was improper to do so under the authority of 15 U.S.C. § 1117(b).

*b. The Second Circuit Approach.* The Second Circuit answered the broader question concerning whether the election of statutory damages under 15 U.S.C. § 1117(c) precluded an award of attorney fees in 2012.<sup>161</sup> The Second Circuit case dealt with a large scale counterfeiting operation conducted by two defendants, Lam and Chan, that involved the importation of more than 300,000 handbags, wallets, and other products that resembled luxury goods produced by Louis Vuitton.<sup>162</sup> In 2006 Louis Vuitton filed suit against Lam and Chan's corporate entity, asserting various trademark claims under 15 U.S.C. §§ 1114, 1125(a), and 1125(c).<sup>163</sup> Five trademarks owned by Louis Vuitton were at issue in the litigation.<sup>164</sup> Louis Vuitton alleged that the defendants had supplied tens of thousands of items bearing counterfeits and infringements of Louis Vuitton trademarks to wholesalers and retailers throughout the U.S.<sup>165</sup> The district court granted summary judgment to Louis Vuitton on the counterfeiting and infringement claims and then set out to determine appropriate damages.<sup>166</sup> In the order awarding Louis Vuitton \$3 million in statutory damages, the district judge noted the inability to account for the defendants' expenses and profits, and the limited records, accountings, and invoices they produced.<sup>167</sup> The district judge found *Louis Vuitton* request for attorney fees to be reasonable and awarded the entire requested amount of \$556,034.22.<sup>168</sup>

The Second Circuit framed the issue as follows:

does the election of statutory damages under § 1117(c) instead of actual damages per § 1117(a) supplant only the part of § 1117(a) that details the method for determining the amount of damages with the method set forth in § 1117(c), or does it supplant the entirety of § 1117(a) including the provision for attorney's fees in "exceptional cases"?<sup>169</sup>

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<sup>161</sup> *Louis Vuitton Malletier S.A.*, 676 F.3d 83.

<sup>162</sup> *Id.* at 88.

<sup>163</sup> *Id.* at 89 (“[T]he LV Logo mark, three different geometric floral motifs, and a composite pattern consisting of repetitions of the LV Logo Mark centered inside the three Flower Design Marks.”).

<sup>164</sup> *Id.* at 88.

<sup>165</sup> *Id.* at 87.

<sup>166</sup> *Id.* at 92–93.

<sup>167</sup> *Louis Vuitton Malletier, S.A. v. LY USA*, 2008 U.S. Dist. LEXIS 107592, at \*3 (S.D.N.Y. Oct. 3, 2008).

<sup>168</sup> *Id.* at \*4.

<sup>169</sup> *Louis Vuitton*, 676 F.3d at 106.

To put it another way, does subsection (c) stand on its own, or is it to be read as simply replacing everything, save for the last sentence of subsection (a)? Several district courts have concluded that an election of statutory damages precludes an award of attorney fees, even in an “exceptional case.”<sup>170</sup> However, other district courts have taken an opposite position, holding that an award of attorney fees in conjunction with statutory damages is not prohibited.<sup>171</sup>

In determining the issue on appeal, the Second Circuit distinguished its case from the Ninth Circuit’s ruling in *K&N Engineering*, as the attorney fees were awarded under the last sentence of § 1117(a), rather than under § 1117(b).<sup>172</sup> Commentators remain divided on the issue of combining statutory damages and attorney fees.<sup>173</sup>

In conducting its statutory analysis, the Second Circuit held that the election of statutory damages under § 1117(c) replaced the actual damages and profits from § 1117(a), rather than replacing *all* remedies under § 1117(a), including attorney fees in exceptional cases.<sup>174</sup> In its comparison of § 1117(c) to § 1117(a) and § 1117(b) the court noted that because both subsections (a) and (b) include provisions for attorney fees, which suggests that § 1117(c) allows attorney fees for exceptional cases as well.<sup>175</sup> The court then noted that Congress passed the 1996 Act in an effort to ensure that plaintiffs would receive more than de minimis<sup>176</sup> compensation because actual damages were difficult to prove, despite the obvious inference of damage to the plaintiff from defendant’s

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<sup>170</sup> See, e.g., *Global Van Lines, Inc. v. Global Moving Express, Inc.*, No. 06 Civ. 3776 (RJH)(KNF), 2007 U.S. Dist. LEXIS 60794, at \*12–13 (S.D.N.Y. Aug. 20, 2007); *John Wiley & Sons, Inc. v. Kuzin Rukiz Entm’t & Promotions*, No. 06 Civ. 12949 (SAS)(GWG), 2007 U.S. Dist. LEXIS 42095, at \*9–10, 2007 WL 1695124, at \*4 (S.D.N.Y. June 12, 2007); *Gucci Am., Inc. v. Duty Free Apparel, Ltd.*, 315 F. Supp. 2d 511, 522–23 (S.D.N.Y. 2004).

<sup>171</sup> See, e.g., *Louis Vuitton Malletier, S.A. v. LY USA*, 2008 U.S. Dist. LEXIS 107592, at \*7–8 (S.D.N.Y. Oct. 3, 2008); *Nike, Inc. v. Top Brand Co.*, 2006 U.S. Dist. LEXIS 76543, at \*9 (S.D.N.Y. Feb. 27, 2006).

<sup>172</sup> *Louis Vuitton*, 676 F.3d at 107.

<sup>173</sup> Compare 4 LOUIS ALTMAN & MALLA POLLACK, CALLMANN ON UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 23:67 (4th ed. 2011) (“[A] prevailing plaintiff who elects statutory damages under the Lanham Act in a counterfeiting case is not entitled to attorney fees.”), with 5 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 30:95 n.9 (4th ed. 2012) (describing the Ninth Circuit’s *K&N Engineering* decision in the subsection (b) context as “a hyper-technical reading of the statute” and lamenting that it fails “to read Lanham Act § 35 as an integrated whole”).

<sup>174</sup> *Louis Vuitton*, 676 F.3d at 109.

<sup>175</sup> *Id.* at 109 n.25.

<sup>176</sup> See *K&N Eng’g, Inc.*, 510 F.3d at 1081 (sales of decals by defendant amounted to \$267, while attorney fees amounted to \$100,000).

unlawful behavior.<sup>177</sup> Ultimately, the Ninth Circuit affirmed the award of attorney fees based on a finding of willful infringement.<sup>178</sup>

*c. Recent Developments in the Ninth Circuit.* A recent case within the Ninth Circuit has endorsed the Second Circuit's ruling in *Louis Vuitton*.<sup>179</sup> In *Ploom, Inc. v. iPloom, LLC*, the plaintiff produced a vaporizer, under the model name PAX, and registered assorted trademarks for both the brand name and the model name.<sup>180</sup> The defendant, iPloom, was engaged in the business of selling vaporizers under the names "iPloom Pax" and "Pax by Ploom" using counterfeit reproductions of the plaintiff's registered marks.<sup>181</sup> The district court found the Second Circuit's argument in *Louis Vuitton*<sup>182</sup> persuasive and awarded the plaintiff attorney fees in conjunction with statutory damages under 15 U.S.C. § 1117(c).<sup>183</sup>

#### IV. ANALYSIS

Part IV makes four separate arguments. First, the proper standard for proving exceptionality should be a preponderance of the evidence, and the use of the clear and convincing standard should be abandoned. Second, courts should adopt a party-neutral approach, which holds both plaintiffs and defendants to equal burdens when proving exceptionality. Third, the proper criteria for determining exceptionality are whether the losing party's actions are deliberate, malicious, willful, or fraudulent. These criteria are to be applied to both pre- and post-suit conduct. An exceptional case can arise from the facts of the matter, or the party's conduct during litigation. Fourth, successful plaintiffs who elect for statutory damages under § 1116(c) should not be precluded from receiving attorney fees in exceptional cases.

##### A. AN IMPROVED BURDEN FOR PROVING EXCEPTIONALITY

The proper standard for determining whether a case satisfies the exceptionality provision of 15 U.S.C. § 1117(a) should be the preponderance of the evidence. Federal courts should abandon the Fifth Circuit's clear and convincing evidence standard.<sup>184</sup> The similarities between the fee-shifting

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<sup>177</sup> *Louis Vuitton*, 676 F.3d at 110.

<sup>178</sup> *Id.* at 112.

<sup>179</sup> *Ploom, Inc. v. iPloom, LLC*, No. 13-CV-005813 SC, 2014 U.S. Dist. LEXIS 65204, at \*25–26 (N.D. Cal. May 12, 2014).

<sup>180</sup> *Id.* at \*2.

<sup>181</sup> *Id.* at \*3.

<sup>182</sup> See 676 F.3d 83, 111 (2d Cir. N.Y. 2012).

<sup>183</sup> *Ploom*, 2014 U.S. Dist. LEXIS 65204, at \*26 (N.D. Cal. May 12, 2014).

<sup>184</sup> *Pebble Beach Co.*, 155 F.3d at 555.

provision in patent<sup>185</sup> and the fee-shifting provision in trademark<sup>186</sup> lends credibility to the argument that the Supreme Court's holding in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*<sup>187</sup> is persuasive within the trademark realm. A preponderance of the evidence standard is sufficient to ensure that attorney fees are not awarded in cases where pre-suit and post-suit actions are conducted within the realm of acceptable conduct. A higher standard would serve only to burden prevailing plaintiffs and defendants. If potential litigants feel that the recovery of fees is unlikely, they may make the rational economic decision to abstain from litigation. Diligent prosecution of infringement only serves to strengthen trademark law, and creates a general deterrent to would-be infringers. Reserving litigation only for parties flush with cash weakens all of trademark law.

#### B. A PARTY NEUTRAL APPROACH

When determining whether an award of attorney fees is proper under 15 U.S.C. § 1117(a), courts should favor a party-neutral approach. Legislative history of the 1975 amendment, which introduced the fee-shifting provision to the Lanham Act, referenced equitable considerations as justification for a court's award of attorney fees.<sup>188</sup>

From a policy standpoint, Congress appeared to be equally concerned with providing a remedy for the plaintiff whose trademark was infringed and the defendant who must litigate a frivolous suit, despite no wrongdoing on its part. The Senate Report explicitly references that prevailing defendants are eligible for attorney fees to help protect against unfounded suits.<sup>189</sup>

The argument that a party-neutral approach is unworkable, as the Massachusetts district court articulated in *Yankee Candle Co. v. Bridgewater Candle Co.*,<sup>190</sup> represents an inflexible approach. It is given that a plaintiff is always acting deliberately by filing a lawsuit. The argument that prevailing defendants should be granted attorney fees as a matter of course is a hyper-specific reading of the statute that is simply too inflexible to comport with the equitable considerations Congress outlined. Prevailing plaintiffs and defendants can be

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<sup>185</sup> 35 U.S.C. § 285 (2012) (“The court in exceptional cases may award reasonable attorney fees to the prevailing party.”).

<sup>186</sup> 15 U.S.C. § 1117(a) (2012) (“The court in exceptional cases may award reasonable attorney fees to the prevailing party.”).

<sup>187</sup> *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1758 (2014) (holding that preponderance of the evidence was the proper standard for determining an award of attorney fees under 35 U.S.C. § 285).

<sup>188</sup> See *supra* note 84 and accompanying text.

<sup>189</sup> S. REP. NO. 93-1400, at 5 (1974), *reprinted in* 1978 U.S.C.A.N. 7132, 7135.

<sup>190</sup> See *supra* note 101 and accompanying text.

held to the same standard by simply adjusting for the obvious differences between their roles in litigation. Deliberateness on the part of losing defendants would naturally center on their role in the alleged infringement and their conduct during litigation. For losing plaintiffs, the focus is on whether they deliberately brought a suit that was willful, fraudulent or malicious.

Unequal burdens are not a proper solution because they are inherently unfair and fail to give proper respect to the purposes served by prevailing plaintiffs and defendants in litigation. The defendant who successfully defends a malicious suit brought by a plaintiff is just as important to the trademark community as the plaintiff who diligently prosecutes counterfeiters who infringe upon his marks. Both the prevailing defendant and plaintiff are vital to creating strong norms within the trademark community, which ultimately deter would-be infringers. The Fourth Circuit approach of allowing defendants to recover attorney fees with a showing of something less than bad faith<sup>191</sup> characterizes the issue of attorney fees from a fundamentally unfair place. Courts should be just as concerned with a losing plaintiff's conduct as that of an unsuccessful defendant. Under this approach, a losing plaintiff who conducts himself in the same manner as a losing defendant could be required to pay attorney fees solely because of his status as a plaintiff.

The Fourth Circuit has seemingly recognized that its differing burden approach is no longer good law in the wake of *Fogerty*.<sup>192</sup> While *Fogerty* is not binding authority within the trademark realm, it is significantly persuasive authority to amend the trademark statute. An amended trademark statute would make clear that both plaintiffs and defendants are held to equal burdens.

This does not mean that the courts will look for the same type of behavior in determining whether a case qualifies as exceptional. Plaintiffs and defendants naturally play differing roles in the trademark litigation process, and courts must approach their analyses with a nuance that recognizes those differences. Obviously, deliberate conduct on the part of a losing plaintiff may not serve to make a case exceptional. The act of filing a lawsuit is always deliberate, so naturally, courts will not weigh the deliberateness factor very heavily in a case with a losing plaintiff. It is reasonable to entrust the court system with the responsibility to discern what factors are relevant to a given situation. It would be impossible to list out every conceivable action that could lead a court to find a case exceptional. As such, the courts must be provided with a flexible framework that allows judges to interpret each case individually.

The next question to be answered is what an amended attorney fees statute in trademark would look like. The current statute reads, "the court in

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<sup>191</sup> See *supra* note 102 and accompanying text.

<sup>192</sup> See *supra* notes 106–07.

exceptional cases may award reasonable attorney fees to the prevailing party.”<sup>193</sup> One sentence at the end of a section primarily concerned with recovering profits fails to do justice to an important issue like the recovery of attorney fees. Congress should draft a separate subsection on attorney fees that would be applicable to § 1117(a) and § 1117(c).<sup>194</sup> This amended statute would make clear that the prevailing party must demonstrate the exceptionality of the case by a preponderance of the evidence. Further, in the spirit of equitable considerations, both prevailing plaintiffs and defendants would be held to equal burdens. The amended statute should also provide guidance for determining a finding of exceptionality both in regards to conduct that occurs prior to and during litigation.

### C. CRITERIA FOR DETERMINING EXCEPTIONALITY

The type of conduct that can lead to a finding of exceptionality can be placed into two distinct categories. Conduct that occurs prior to litigation will focus on the actions that gave rise to the lawsuit being filed. Pre-suit conduct giving rise to exceptionality will primarily focus on the defendant’s conduct. The actions of a defendant who has clearly infringed via counterfeiting would be sufficient to deem a case exceptional from the outset of the suit. Conversely, the plaintiff who files a groundless suit for the purpose inflicting economic harm upon the defendant has initiated a case that would qualify as exceptional. Judge Posner characterizes the aforementioned act by a plaintiff as malicious prosecution.<sup>195</sup> He further describes malicious prosecution as the filing of a baseless suit for the purposes of harassing or intimidating a competitor.<sup>196</sup> When courts examine pre-suit conduct, they should do so from an objective point of view. The proper analysis is whether a reasonable person would find the culpable party’s actions to be deliberate, malicious, willful, or fraudulent.

Exceptionality can also be found from conduct that occurs during litigation. Again, Judge Posner articulates this viewpoint in a 2010 Fourth Circuit Opinion.<sup>197</sup> Culpable conduct during litigation that can give rise to a finding of exceptionality should be characterized as an abuse of process. Posner simply defines abuse of process within this context as, “the use of the litigation process for an improper purpose, whether or not the claim is colorable.”<sup>198</sup> It is vital

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<sup>193</sup> 15 U.S.C. § 1117(a) (2012).

<sup>194</sup> It would not be necessary to include § 1117(b) as that section includes a guarantee of attorney fees so long as the other statutory elements are proven.

<sup>195</sup> *Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC*, 626 F.3d 963 (7th Cir. 2010).

<sup>196</sup> *Id.*

<sup>197</sup> *Id.*

<sup>198</sup> *Id.*

that courts consider litigation conduct when making a determination of exceptionality, because culpable acts during litigation can be just as damaging as those that occur prior to litigation. The party that uses the litigation process only to wreak financial damage on the opponent is just as culpable as the party who willfully infringes or files a baseless lawsuit. The fact that a defendant plays a different role than a plaintiff in the litigation process is not a bar to a finding that a losing defendant abused the litigation process. As Posner articulates, “[p]redatory initiation of suit is mirrored in predatory resistance to valid claims.”<sup>199</sup> An excellent example of abuse of process can be found in a 2003 Second Circuit case, *Patsy’s*. The case dealt with trademark infringement concerning tomato sauce sold by two Italian eateries.<sup>200</sup> Attorney fees were ultimately awarded despite the defendant having a colorable defense. The submission of fraudulent documents sufficiently justified an award of attorney fees to the prevailing plaintiff. The defendant used the litigation process for an improper purpose. Rather than defending against the alleged infringement claim, it sought to demonstrate that the plaintiff was actually the one guilty of infringement.

This case is also demonstrative of the fact that given a flexible framework, the four factors from the 1975 Lanham Act legislative history are adequate for determining exceptionality in regard to conduct during litigation. While sparse, the legislative history of the amendment authorizing the award of attorney fees in exceptional cases provides insight into how exceptionality should be defined. The accompanying Senate Report makes specific mention of four different factors to use when determining exceptionality: deliberate, malicious, fraudulent and willful.<sup>201</sup> The proper starting place for analysis is to examine the plain meaning of the aforementioned four factors.

Deliberate is defined as “intentional, premeditated or fully considered.”<sup>202</sup> Deliberate conduct occurring pre-suit that gives rise to a finding of exceptionality will most likely center on culpable defendants. The defendant who deliberately infringes a trademark via counterfeiting is a prime example of a case being exceptional due to deliberate actions.<sup>203</sup> Malicious conduct is defined as “an intentional, wrongful act done willfully or intentionally against another without legal justification or excuse.”<sup>204</sup> This factor encompasses both

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<sup>199</sup> *Id.*

<sup>200</sup> See *supra* notes 115–21 for a detailed discussion of the case.

<sup>201</sup> S. REP. NO. 93-1400, at 2 (1974).

<sup>202</sup> BLACK’S LAW DICTIONARY 492 (9th ed. 2009).

<sup>203</sup> See generally *K&N Eng’g, Inc. v. Bulat*, 510 F.3d 1079 (9th Cir. 2007); *Louis Vuitton Malletier S.A. v. LY USA, Inc.*, 676 F.3d 83 (2d Cir. 2012) (where the defendant was engaged in the sale of counterfeit replicas of the plaintiff’s goods).

<sup>204</sup> BLACK’S LAW DICTIONARY 1043 (9th ed. 2009).

defendants who engage in counterfeiting, as well as plaintiffs who bring baseless suits. Both parties can be guilty of acting maliciously if they seek to abuse the litigation process to inflict financial damage upon the opponent. Willful and fraudulent are also tied into these factors, as a malicious act by definition is willful, and fraudulent acts are more than likely malicious.

There is substantial conflict within the circuits as to whether bad faith is a prerequisite to a finding of exceptionality. The Second, Fifth, and Eleventh Circuits require a finding of bad faith for a determination of exceptionality, whereas the First, Third and Ninth Circuits do not. The addition of a requisite finding of bad faith before a case may be deemed exceptional only further complicates the trial court's task. Bad faith is not mentioned anywhere within the legislative history of the 1975 amendment. Bad faith is a notoriously fickle term to define, and its inclusion as a factor will only heighten the prospect of inconsistent results across the circuits. The four factors from the legislative history are more than sufficient to address the multitude of possible exceptional cases that may arise. Requiring bad faith only serves to increase the "circuit drift" alluded to by Judge Posner.<sup>205</sup>

#### D. AN ELECTION FOR STATUTORY DAMAGES UNDER § 116(C) SHOULD NOT PRECLUDE AN AWARD OF ATTORNEY FEES

The optimal solution for resolving the confusion over whether the election of statutory damages under 15 U.S.C. § 1117(c) precludes an award of attorney fees is to amend the statute. However, in the absence of such an amendment, there is a compelling case to be made for allowing prevailing plaintiffs simultaneously to elect to receive statutory damages and receive reasonable attorney fees in exceptional cases.<sup>206</sup> There is both textual support from the Second Circuit in the 2010 *Louis Vuitton* case, and a persuasive economic argument to be made using figures from the Ninth Circuit's *Keen* decision in 2007.

Before examining the Second Circuit's analysis in *Louis Vuitton*, an analysis of the legislative history of the 1996 Anti-Counterfeiting Consumer Protection Act is necessary. As demonstrated by the 1975 amendment authorizing an award of attorney fees under the Lanham Act, Congress's discussion and analysis of the statutory damages amendment to § 1117(c) would be generously characterized as limited. However, when examining the House Report in

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<sup>205</sup> *Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC*, 626 F.3d 958, 962 (7th Cir. 2010).

<sup>206</sup> The argument for allowing statutory damages and attorney fees will naturally center on prevailing plaintiffs, as the statutory damages provision of 15 U.S.C. § 1117(c) is not relevant to defendants.

totality, it is readily apparent that Congress was concerned with finding ways to curb the growth of the counterfeit market.<sup>207</sup> The Report noted the difficulty in ascertaining the true damage done by a counterfeiter, in large part because counterfeiters rarely keep accurate records.<sup>208</sup> Fifteen U.S.C. § 1117(b)'s provision for treble profits to prevailing plaintiffs is of little use to a plaintiff who brings suit against a defendant whose operation is more akin to a criminal enterprise than a legitimate business with carefully maintained records. The House Report references that the purpose of introducing the statutory damages provision is to provide compensation for the lost goodwill to businesses caused by counterfeiters.

However, the legislative history referencing the statutory damage is quite limited. As such, the analysis of whether the election of statutory damages prohibits an award of attorney fees is best viewed in the context of compensating trademark owners for lost goodwill and disincentivizing would-be counterfeiters. The lack of discussion in the legislative history should not give weight to the argument that the statutory damages provision of 15 U.S.C. § 1117(c) is incompatible with an award of attorney fees. It seems far more logically sound that Congress failed to consider the possible confusion created by the addition of subsection (c) in 1996 than a deliberate intent by Congress to allow for statutory damages and statutory damages only. Such a deliberate intent by Congress would make litigation economically foolish, as in many instances, the statutory damages will not outweigh the costs of litigation. In the *K&N* case, the cost of litigation exceeded the statutory damages by \$80,000.<sup>209</sup> Trademark owners should not be forced into a cost-benefit analysis when their property is clearly infringed, even in cases of small-scale infringement.

The Second Circuit in *Louis Vuitton* took the correct stance: subsection (c) merely replaces the actual damages and profits language of 15 U.S.C. § 1117(a) while leaving the language referencing an award of attorney fees in exceptional cases intact.<sup>210</sup> In *Louis Vuitton*, the defendant produced limited sales records that prevented the plaintiff from conducting an accounting that could allow for an accurate estimation of the defendant's sales.<sup>211</sup> Without such an accounting, determining actual damages or lost profits with an acceptable degree of accuracy was an impossibility. *Louis Vuitton* was faced with a choice: attempt to account for actual damages and profits despite inadequate records, or elect for statutory damages under subsection (c). Given the defendant's lack of

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<sup>207</sup> See *supra* note 2 about growth of the counterfeit market.

<sup>208</sup> See *supra* note 29 for a discussion on the House Report.

<sup>209</sup> *K&N Eng'g, Inc. v. Bulat*, 510 F.3d 1079, 1081 (9th Cir. 2007).

<sup>210</sup> *Louis Vuitton Malletier S.A. v. LY USA, Inc.*, 676 F.3d 83, 87 (2d Cir. 2012).

<sup>211</sup> *Id.* at 95 (discussing the inadequate records and the amount of statutory damages and attorney fees awarded).

record keeping, Louis Vuitton's potential estimate of actual damages and profits would have been dubious at best. The only logical choice for Louis Vuitton was to elect for statutory damages. Ultimately, Louis Vuitton was awarded three million dollars in statutory damages and a little over a half a million dollars for attorney fees. Given that it was the defendant's conduct that caused Louis Vuitton to elect for an award of statutory damages, it makes scant sense to prohibit Louis Vuitton from receiving attorney fees as well.

Prevailing plaintiffs in counterfeit cases will choose the cause of action that will result in the largest award of damages. Given that § 1117(b) allows for the recovery of whichever is greater, treble actual damages or treble profits,<sup>212</sup> it follows that Congress wanted to promote as large of a recovery as possible for prevailing plaintiffs. In the instance of Louis Vuitton, actual damages or profits would have been minimal, if they could have been proven with any certainty at all. It follows that Louis Vuitton elected for statutory damages because that presented the opportunity for the largest recovery possible. Lastly, given that Congress provides for an award of attorney fees in subsections (a) and (b) of 15 U.S.C. § 1117, it seems unlikely Congress would purposefully leave subsection (c) without a provision for attorney fees. The legislative history is completely devoid of any comments that articulate the viewpoint that statutory damages should stand alone, whereas actual damages and lost profits can be awarded in conjunction with attorney fees.

The counter argument to the Second Circuit's reasoning stems from an inflexible, strict reading of 15 U.S.C. § 1117(c). Nothing within the actual text of the statute mentions attorney fees. However, Congress referenced equitable considerations when making the decision amend the Lanham Act in 1975 to explicitly allow for the award of attorney fees in exceptional cases under the statute.<sup>213</sup> Disallowing an award of attorney fees because a plaintiff chooses to elect an award of statutory damages runs counter to those equitable considerations. The decision to elect for statutory damages will often hinge upon the defendant's conduct. If a defendant fails to keep adequate records, electing for statutory damages may be the plaintiff's only manner of redress for the infringement. It is overly simplistic to dismiss the idea of awarding attorney fees in exceptional cases based on subsection (c) not referencing attorney fees. Such an inflexible analysis only hinders the law and serves as a disservice to future litigants.<sup>214</sup> Waiting for a legislative solution is unnecessary, and needlessly complicates trademark law.

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<sup>212</sup> 15 U.S.C. § 1117(b) (2012).

<sup>213</sup> S. REP. NO. 93-1400, at 2 (1974).

<sup>214</sup> *Louis Vuitton Malletier S.A. v. LY USA, Inc.*, 676 F.3d 83 (2d Cir. 2012).

The Ninth Circuit's decision in *K&N Engineering* is representative of a strict reading of 15 U.S.C. § 1117, and demonstrates why statutory damages are necessary from an economic perspective. The defendants in *K&N Engineering* had sold decals of the plaintiff's trademark over the Internet. Defendant's sales resulted in revenues of \$267 and no facts were provided as to the costs incurred to achieve that revenue.<sup>215</sup> The district court awarded \$20,000 in statutory damages and \$100,000 in attorney fees,<sup>216</sup> although these awards were ultimately reversed on appeal. However, they perfectly illustrate why the economic argument for allowing statutory damages plaintiffs under 15 U.S.C. § 1117(c) is so persuasive.

If K&N chose to pursue a cause of action under subsection (b), it would have been entitled to three times the profits or damages in addition to reasonable attorney fees. Estimating damages would have been difficult because K&N was not in the business of producing decals of their logo for sale. The only time it had produced such decals in the past was in conjunction with a promotion for K&N enthusiasts. Three times the defendant's profits amounts to a paltry \$901. However, K&N was awarded in statutory damages nearly twenty times the actual profits. If sales records for the defendant were not available or accessible, K&N's only recourse would have been to elect for statutory damages under subsection (c). It would be difficult for K&N management to rationalize \$100,000 in litigation costs if they did not believe there was a strong likelihood of attorney fees upon prevailing. A firm whose trademarks are infringed should not have to consider the economics of litigation when choosing whether to prosecute a clear infringer. To not allow attorney fees in conjunction with statutory damages gives free reign to smaller-scale infringers who keep little-to-no records.<sup>217</sup>

The Ninth Circuit reversed the award of statutory damages because they were awarded under subsection (b). As such, the court failed to answer whether statutory damages in conjunction with attorney fees was ever proper. However, because the Ninth Circuit chose not to elaborate on how the district court could have properly awarded attorney fees or even remand the case, it seems likely the circuit's position is that an award of statutory damages stands alone. Yet, such a stance does not make litigation economically viable. As *K&N Engineering* demonstrated, prosecuting small scale infringers can still lead to a six-figure legal bill. The Ninth Circuit may have a chance to reevaluate its

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<sup>215</sup> *K&N Eng'g, Inc. v. Bulat*, 510 F.3d 1079, 1081 (9th Cir. 2007).

<sup>216</sup> *Id.*

<sup>217</sup> Large scale counterfeiting operations like that found in *Louis Vuitton* may result in statutory damages that make litigation economically viable, but courts should be concerned with decreasing incentives for counterfeiting operations on all scales.

position in the future as district courts in that Circuit have recently endorsed the Second Circuit's reasoning in *Louis Vuitton*.<sup>218</sup>

#### V. CONCLUSION

The determination of whether a trademark infringement case is exceptional is subject to a multitude of analyses across the circuits. An amended 15 U.S.C. § 1117(c) could bring clarity to this issue and ensure equitable results across the court system. This begins by taking cues from Supreme Court jurisprudence, namely using a preponderance of the evidence as the standard for proving exceptionality and holding prevailing plaintiffs and defendants to equal burdens. A finding of exceptionality can be made using four factors: deliberateness, maliciousness, willfulness, or fraud. These factors are considered from an objective point of view during both pre-suit conduct and conduct that occurs during litigation. These factors should be applied from a party-neutral approach, where the plaintiff and defendant are held to equal burdens. The only exception to the party-neutral approach shall be statutory damages, which are not available to defendants for obvious reasons.

A clearer standard for exceptionality will strengthen the law from the perspective of both prevailing plaintiffs and defendants. An amended statute would also make clear what is already logical: prevailing plaintiffs in counterfeiting cases who elect for statutory damages under § 1117(c) are eligible for an award of attorney fees, just as they would be under subsection (b). These amendments serve to clarify the law and institute strong economic incentives to discourage trademark infringement and counterfeiting, while providing necessary resources to trademark owners to prosecute the unlawful use of their property.

Clarifying when a prevailing litigant is eligible for an award of attorney fees will help potential plaintiffs and defendants make more informed decisions during litigation. Parties will be better able to make decisions concerning settlements or proceeding to a trial if they believe an award of attorney fees is likely. A clearer statute will lead to more cases where attorney fees are awarded to the prevailing party. This will work to prevent infringement suits from being used as a weapon to stifle competition. No longer will defendants be forced to acquiesce to unreasonable demands from harassing lawsuits on economic grounds.

Lastly, the ability to elect statutory damages and still receive attorney fees in exceptional cases will allow trademark owners to vigorously defend their marks against infringers of all sizes. There will always be a counterfeit monetary

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<sup>218</sup> See *Louis Vuitton*, 678 F.3d 83 at 109.

incentive for infringers to engage in illicit commerce. Allowing for attorney fees in conjunction with statutory damages will incentivize mark owners to not let infringement go unprosecuted. As more and more infringers face dire financial consequences because of statutory damages and attorney fees, the incentives to engage in such activities will decline.