

Attorneys' Fees—Seventh Circuit Defines “Exceptional Cases” Under the Lanham Act

Under the Lanham Act, a prevailing party can obtain an award of attorneys' fees in “exceptional cases.” 15 U.S.C. § 117(a). Parties in Lanham Act litigation are keen to recover their attorneys' fees, of course. But what constitutes an “exceptional case” is not defined in the statute, and the rulings on what “exceptional case” means and how to prove it have been inconsistent. In *Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC.*, decided Nov. 23, 2010, the Seventh Circuit reviewed the relevant cases and announced that an “exceptional case” is one in which a losing plaintiff is guilty of abuse of process in bringing the suit, or in which a losing defendant has no defense, but persists

in the trademark infringement or false advertising for which he is being sued in order to impose costs on his opponent.

The opinion, written by Judge Posner, focuses on claims or defenses that are pursued to inflict economic harm or to wrest an unfair advantage in some matter not involved in the suit from the opposing party. An example of an “exceptional case,” according to Judge Posner, is the owner of a trademark bringing suit against a new entrant into its market, alleging infringement, but really trying to drive the new competitor out of the market by imposing heavy litigation costs. Another example is

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Federal Circuit Court of Appeals Holds that Rejected Patent Claim Construction Does Not Render Case “Objectively Baseless” in Exceptional Case Analysis.

In a patent infringement lawsuit, a finding that that plaintiff's claim is objectively baseless and brought in subjective bad faith can lead to a court finding the case “exceptional” and awarding attorneys' fees, costs, and expenses to the defendant. In *iLOR, LLC v. Google, Inc.* the Federal Circuit (CAFC) overturned the district court's exceptional case finding, holding that the plaintiff's rejected patent claim construction does not necessarily render the case “objectively baseless.”

In *iLOR* the district court rejected the plaintiff's proposed claim construction and denied the sought-after preliminary injunctive relief. In an earlier appeal, the Federal Circuit approved the district court's claim construction and held that the denial of the injunctive relief was not in error. Upon disposition of the appeal Google moved the district court to find the case “exceptional” and award attorneys' fees, costs and expenses. The district

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Righthaven, LLC – Copyright Troll or Necessary Enforcement?

Righthaven LLC, a copyright holding company established to seek out unauthorized online postings of articles from the Las Vegas Review-Journal and Denver Post and file copyright infringement lawsuits, is now targeting individual bloggers, without any prior warning. The company has filed at least 203 lawsuits against website operators and individuals since March 2010, causing some to question whether copyright law is currently working to create an incentive to litigate rather than to create.

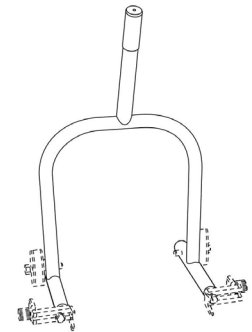
Righthaven, reportedly part-owned by Stephens Media LLC, an affiliate of the Review-Journal, operates in an unusual manner. It uses its technology to locate unauthorized copying of news articles, after which it obtains a transfer of copyright from the owner and files a lawsuit alleging infringement. What is most unusual is that Righthaven proceeds with a lawsuit without giving any prior warning to defendants. With regard to website operators, most newspapers and content providers

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Functionality in Product Configuration before the Trademark Trial and Appeal Board

The Trademark Trial and Appeal Board (TTAB) rendered its first precedential decision for 2011, denying registration to a product configuration in *In re Charles N. Van Valkenburgh, Serial No. 77025789* on January 7th. The Board held that Mr. Van Valkenburgh's (the Applicant) design was functional, and alternatively failed to meet the acquired distinctiveness test under Section 2(f) of the Trademark Act.

The Applicant filed an application to register the following mark for “motorcycle stands” in International Class 12:



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ICANN Planning to Ignore Government Advisory Committee Even Before Meeting Occurs?

As previously reported, ICANN has delayed the timeline for the projected start of applications for new gTLD domain names. The extended period for comments on the Proposed Final Applicant Guidebook for new gTLDs just closed on January 15, 2011, and ICANN has yet to disclose when its Board will be meeting with the Government Advisory Committee (GAC) to hash out various concerns voiced by a number of governments.

The meeting between ICANN and GAC is likely to occur in February, with the next scheduled ICANN full meeting planned for mid-March in San Francisco. ICANN has

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a large corporate defendant mounting a scorched-earth defense to a valid claim of infringement, in order to burden a small plaintiff with litigation costs. The rules are the same for plaintiffs and defendants—both “predatory initiation of suit” and “predatory resistance of valid claims” may result in an award of attorneys’ fees.

In the actual case, Nightingale, a provider of home healthcare services, sued Anodyne, a manufacturer of infrared lamps, claiming that Anodyne’s sales representative had falsely represented that the lamps were approved by the FDA for treatment of peripheral neuropathy. In fact, the lamps were approved by the FDA for other uses and peripheral neuropathy was an “off-label” accepted usage of the product. The District Court found that Nightingale made the claim in order to coerce a price reduction from Anodyne, and not because of any lack of FDA approval. The Seventh

Circuit upheld the District Court’s award of attorneys’ fees, and awarded Anodyne fees and costs related to the appeal, as well.

Abuse of process is an intentional tort, of course, but the opinion indicates that it may not be necessary to prove the entire tort in order to obtain an award of attorneys’ fees:

“An elaborate inquiry into the state of mind of the party from whom reimbursement of attorneys’ fees is sought should be avoided. It should be enough to justify the award if the party seeking it can show that his opponent’s claim or defense was objectively unreasonable—was a claim or defense that a rational litigant would pursue only because it would impose disproportionate costs on his opponent.”

Punishing abusive claims and scorched-earth defenses is obviously good for the justice system, but the decision is somewhat disturbing because it might limit creative thinking in settlement negotiations. Sometimes a price reduction or other economic incentive not directly related to the litigation is just the way to resolve a knotty extended conflict. If discussing one can come back to haunt a litigant as evidence that an award of attorneys’ fees is in order, parties and their attorneys may steer clear of proposing incentives that could result in settlement. In most cases such creative solutions should be fine—and encouraged. Settlement discussions can be shielded from use in the litigation by “no prejudice” agreements. But if your client wants to bring a weak Lanham Act claim in order to get some “leverage” over a competitor, tread carefully. It could wind up costing much more than you think.

—Carolyn Knecht

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Applicant sought registration under Section 2(f) (acquired distinctiveness) of the Trademark Act, claiming first use of the mark in commerce on August 20, 1994. The TTAB affirmed the refusal to register, concluding that the mark was functional and, alternatively, if not functional, that the mark lacked acquired distinctiveness.

Functionality

The TTAB affirmed that the mark was functional based upon the *Morton-Norwich* analysis factors. The TTAB first determined that the existing design patent disclosed the utilitarian advantages of the intended product’s design. Despite Applicant’s arguments to the contrary, the TTAB noted that Applicant did not explain why the design of the supporting base of the stand is not essential to the function or purpose of the stand. Given this, Applicant failed to meet the “heavy burden of showing that the feature is not

functional.” *Traffix*, 58 USPQ2d at 1005. The existing patent weighed heavily in favor of functionality.

Second, advertising by Applicant’s competitors also supported a finding of functionality. Applicant had no advertising on which to rely, so the Examiner turned to examples from Applicant’s competitors. This advertising described, in detail, the utilitarian aspects of similar product designs with statements such as “designed to allow a superb sturdy, non-flex performance,” and “universal design to fit all standard swing arm sportbikes.” The TTAB concluded that these advertisements touting the utilitarian advantages of similar motorcycle stands support a finding of functionality.

Third, in analyzing the availability of alternative designs for the stand, Applicant claimed that over 85 alternative designs existed for this particular stand type. The TTAB noted, however, that the availability

of alternative designs does not transform a functional design into a non-functional design. In this case, “registration of the claimed matter could well hinder competitors who would not know if the features they used in the supporting base of their motorcycle stands, whose overall configurations are not dissimilar from those of applicant, might well subject them to a suit for trademark infringement.”

Finally, the TTAB looked at whether the design resulted in a comparatively simple or cheap method of manufacturing the product, noting “the cost and complexity of manufacturing applicant’s product design is comparable to some of his competitors. Nevertheless, even if applicant’s motorcycle stands with this design are more costly to produce, a higher cost does not detract from its functionality.”

The TTAB concluded that the product configuration was, indeed, functional, but

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will first send a warning letter firmly requesting the content be taken down. Pursuant to the Digital Millennium Copyright Act (DMCA), so long as a website operator adheres to certain guidelines and immediately blocks or removes allegedly infringing content upon such a take-down notice, it cannot be held contributorily liable for copyright infringement.

Righthaven, however, appears to be taking advantage of the fact that the DMCA does not make it mandatory to send a take-down request prior to bringing a lawsuit against a website operator unless the operator has complied with all provisions of the DMCA, including posting information as to where take-down notices should be sent. Further, even if the website operator has complied with all requirements, it may still have to undergo months of discovery and the financial burden that goes along with it to prove that it has, once a lawsuit is brought. Thus, while Righthaven did begin by targeting the website operators, it did not first send a warning, but proceeded immediately with a lawsuit. Now, however, it is proceeding with lawsuits directly against the individuals that actually post the content, to which the DMCA is inapplicable. Most recently, it targeted an individual who posted a Review-Journal article on airport pat-downs which credited the author, but did not credit the Review-Journal. In many cases, the postings also link back to original periodical, but so long as the Review-Journal or Denver Post is not properly credited, a lawsuit is filed. In each case, Righthaven is demanding \$150,000 in damages and control of the domain on which the content was posted. Many of the lawsuits filed to date have already settled and others are in various states of litigation. One case, however, has already been dismissed on fair-use grounds.

Righthaven argues that its strategy is absolutely necessary to stop online infringe-

ment of newspaper articles and editorials. It claims that typical cease-and-desist letters are largely ineffective. Considering the economy is becoming increasingly information-based, it claims that it is necessary that copyrights be enforced with greater ferocity.

Critics agree that Righthaven is simply acting as a "copyright troll," comparing its business model to the lawsuits filed by the Recording Industry Association of America (RIAA) against individuals engaged in unlawful music file sharing and also to the lawsuits filed by U.S. Copyright Group against BitTorrent users unlawfully sharing movies. Critics argue that proceeding with the lawsuits without warning the defendants and without allowing for a chance for them to take down the content amounts to an abuse of the court system. Further, critics argue that going after individuals who will not be able to afford court fees unfairly leaves them with no choice but to settle, even where a defendant may have a good chance of winning with a fair-use defense. Already, many of the individuals targeted by the lawsuits have simply shut down their websites in their entirety. Service providers similarly worry that the approach will stifle free speech, making individuals reluctant to comment on materials written by others for fear of a lawsuit. In line with this, for example, Firefox has created a plug-in that will block user's access to Righthaven owned content. The strategy also has opponents urging individuals to petition for an update of the federal copyright statutes to mandate take-down notices prior to bringing a lawsuit.

In all likelihood, these lawsuits will continue for some time. Righthaven's CEO Steve Gibson has already indicated that plans are underway to cover the over 70 other newspapers owned by Stevens Media. Further, Righthaven has reportedly struck a deal with WEHCO Media, an Arkansas company partnering with

Stevens Media that controls 28 newspapers. In any case, the outcome of these lawsuits, at least those that reach merits, will likely go far in further defining the fair use doctrine.

—Carlynn Ferguson Davis

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went further to address Applicant's claim of acquired distinctiveness for completeness.

Acquired Distinctiveness

The TTAB also affirmed that the proposed mark had not acquired distinctiveness under Section 2(f) of the Trademark Act.

To support his arguments, Applicant submitted sixteen years of product use, fourteen declarations from consumers involved in the motorsports industry, twenty-three consumer surveys, and proof of intentional copying. However, the TTAB did not find the evidence convincing.

Though the sixteen years of use was substantial, the TTAB stated that "substantial" and "conclusive" were different. The evidence failed to show that the mark was actually perceived as a mark for the relevant goods. The surveys and declarations were also unpersuasive given that many of the participants overlapped. The TTAB noted that in sixteen years of business in the motorbike industry, Applicant could only find sixteen people who identified Applicant's product design as a trademark, which was not enough to meet the burden for acquired distinctiveness.

Therefore, the mark was ultimately refused on grounds of functionality and on alternative grounds of lack of acquired distinctiveness under Section 2(f) of the Trademark Act.

—Amanda R. Peluse

iLOR (continued from page 1)

court granted Google's motion on grounds that the case was "not close" on the merits (i.e., objectively baseless) and that iLOR had acted in subjective bad faith.

The second appeal to the CAFC focused on the "exceptional case" finding. The CAFC likened the "exceptional case" standard as applied to plaintiff's claims to the "willful infringement" standard applied to alleged infringer's conduct when considering if an award of enhanced damages and attorneys' fees is warranted. Referring to its earlier decision in *In re Seagate Technology, LLC*, the CAFC stated that the exceptional case standard requires an assessment of both objective and subjective prongs. The CAFC went on to state that the objective assessment "is to be determined based on the record ultimately made in the infringement

proceedings. In applying this framework, the CAFC determined that iLOR's proposed claim construction, while not accepted by the district court, was not objectively baseless as it found some support in the patent specification. The CAFC bolstered its finding by recognizing that the first appeal of the district court's claim-construction decision was the subject of a precedential written opinion—a clear indication that the CAFC did not find the case to be trivial or frivolous. In conclusion, the CAFC stated that "simply being wrong about claim construction should not subject a party to sanctions where the construction is not objectively baseless." Because the objectively baseless prong of the analysis was not satisfied, the subjective bad faith prong was moot.

—Sean Swidler

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already announced that former President Bill Clinton will be the featured speaker at the San Francisco meeting, with speculation that the approval of the new gTLDs program will occur at the end of the meeting. In order for that to occur, ICANN and GAC would have to reach full agreement on a number of unresolved issues, such as registry/registrar vertical integration, trademark protection mechanisms, "morality and public order" objections, and geographic strings in domain names.

Alternatively, it is possible for ICANN to attempt to reject the recommendations of the GAC that are still in dispute, and proceed with the new gTLDs program without full agreement. However, ICANN would need to provide a thorough and reasoned explanation of ICANN decisions, the rationale thereof and the sources of data and information on which ICANN relied in order to avoid a firestorm of criticism that it had breached its Affirmation of Commitments.

Interested intellectual property rights holders may be looking at the last opportunity to voice their concerns and influence trademark protections at the meeting with ICANN and GAC. Further concerns should be addressed to the particular country's GAC representatives (<http://gac.icann.org/gac-members>), who seem to be championing intellectual property rights.

In the meantime, brand owners should be evaluating and planning their role in the new gTLD process, whether it be as an applicant for a .BRAND domain name registry, as an objector to third-party applications, and/or as a registrant of domain names within the new gTLDs. While there may be delay in the start of applications for new gTLDs, the strategizing by corporate hierarchy should have already begun.

—Gary Saposnik