

10th Circuit Declines to be the Exception and Follows Patent Act Standard for Prevailing Party Attorney's Fees in "Exceptional Cases" under Lanham Act

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Since the Supreme Court’s 2014 decision in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, district courts have had expanded discretion to award prevailing party attorney’s fees in “exceptional cases” under the Patent Act, pursuant to 35 U.S.C. § 285. Section 35 of the Lanham Act (15 U.S.C. § 1117) also permits attorney’s fees awards in exceptional cases, and so courts have increasingly applied the *Octane* standard to Lanham Act litigation. This month, the U.S. Court of Appeals for the Tenth Circuit became the latest to follow this approach, in *Derma Pen, LLC v. 4EverYoung Limited*. The appellate court also described the ongoing role of older judicial tests for finding exceptional cases under the Lanham Act, holding district courts are still permitted to look to those tests, so long as they remain cognizant of their broad discretion under *Octane*.

Courts have used various tests for exceptionality over the years, typically focusing on the merits of the losing party’s claims and that party’s conduct in the litigation. By 2014, the test courts used to define exceptional cases in patent law had (in the U.S. Supreme Court’s view) become “unduly rigid” such that it impermissibly encumbered district courts’ statutory discretion. That year, in *Octane*, the Court reset the test and held that an exceptional case is “simply one that stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.” Although emphasizing discretion, this test lacks the more specific guidance that earlier, circuit-level cases provided.

In *Derma Pen*, the Tenth Circuit focused its analysis on whether the district court was correct to rely on *Octane*, instead of *King v. PA Consulting Group, Inc.*, a 2007 Tenth Circuit decision describing the standard for exceptional case attorney’s fees under the Lanham Act. This question—which several circuit courts have faced—has two levels: (1) should the same “exceptional cases” phrase in the Patent Act and Lanham Act be

interpreted the same way (all circuit courts to date have said yes), and (2) if so, what becomes of older circuit-level Lanham Act precedents that pre-date *Octane? King*, for example, held that “[a]lthough no one factor is dispositive, a case may be deemed exceptional because of ‘(1) its lack of any foundation, (2) the plaintiff’s bad faith in bringing the suit, (3) the unusually vexatious and oppressive manner in which it is prosecuted, or (4) perhaps for other reasons as well.’” *King* summarized this test as looking “to both the objective strength of a plaintiff’s Lanham Act claim and the plaintiff’s subjective motivations.” Is this test reconcilable with *Octane?* (Spoiler alert—yes it is.)

The Tenth Circuit’s decision in *Derma Pen* is the latest chapter in a long-running dispute. Plaintiff Derma Pen, LLC sold micro needling and skin treatment products. In pure layperson terms, informed only by the author watching an online demo video, Derma Pen’s product seems to repeatedly and quickly jab a rotating array of tiny needles into a patient’s facial skin in connection with dermatological treatments. In 2013, Derma Pen brought trademark infringement and other claims against its one-time business partner 4EverYoung Limited, 4EverYoung’s principal Stene Marshall, and two other business entities he had formed. In May 2017, after multiple law firms withdrew from representing 4EverYoung, citing (you guessed it) 4EverYoung’s failure to pay attorney’s fees, the U.S. District Court for the District of Utah entered a default judgment in favor of Derma Pen. The judgment awarded damages and entered an injunction against 4EverYoung, Stene Marshall, as well as “anyone in active concert or participation with, aiding, assisting or enabling” the named defendants. Among other things, the injunction barred infringement of Derma Pen’s DERMAPEN mark.

In November 2017, Derma Pen moved the court to hold Stene Marshall—as well as non-parties Joel and Sasha Marshall and DP Derm, LLC—in contempt for violating the injunction. Joel and Sasha Marshall are Stene Marshall’s brother and sister-in-law, and they own DP Derm. DP Derm told the district court that it sold skin creams, not devices. After eighteen more months of litigation, the district court held Stene Marshall in contempt, but denied Derma Pen’s motion as to Joel and Sasha Marshall and DP Derm.

Derma Pen’s case appears to have unraveled during the contempt litigation. The district court observed that Derma Pen had violated its discovery obligations, including by failing to produce a qualified corporate representative for a deposition. The court concluded that Derma Pen had produced no evidence of damages, and that Derma Pen’s evidence “was not clear; it was muddled,” “not convincing,” and “unpersuasive.”

After defeating the contempt motion, Joel, Shasha, and DP Derm successfully moved for an award of attorney’s fees. Applying *Octane* (not *King*), the district court held that Joel, Shasha, and DP Derm were entitled to exceptional case attorney’s fees. The district court based its decision on the totality of five factors: (1) Derma Pen’s failure to prove damages, (2) evidence showing Derma Pen did not have the right to enforce the injunction because it no longer held rights in the DERMAPEN mark, (3) evidence showing the DERMAPEN mark had been abandoned, (4) Derma Pen’s discovery misconduct, and (5) Derma Pen’s failure to obtain any relief against Joel, Shasha, and DP Derm. The court ordered Derma Pen to pay \$190,328 in attorney’s fees to Joel,

Shasha, and DP Derm. Derma Pen appealed, asserting the district court abused its discretion.

Dashing Derma Pen's hopes of prevailing on appeal, the Tenth Circuit had no trouble concluding that the district court's decision satisfied the test under *King*. The court rejected what it saw as Derma Pen's "attempt to dissect the factors the district court cited in support of its decision," given that the district court had made clear it was ruling based on the "totality of the circumstances." The district court was in the best position to assess those circumstances and make the fee determination after overseeing more than six years of contentious litigation.

The Tenth Circuit then turned its analysis to whether *Octane* or *King* supplied the correct standard of decision to identify exceptional cases in Lanham Act litigation. Joining every other circuit that has addressed the issue, the Tenth Circuit held that the *Octane* standard applies to fee-shifting disputes under the Lanham Act. The Tenth Circuit described the decisions in *King* and *Octane* as "twin sons of different mothers," citing the 1978 album of the same name by Dan Fogelberg and Tim Weisberg. (Disclosure: The author listened to the album while writing this post and found the jazz flute a little overpowering, although the court should be commended for avoiding the obvious musical reference in a case involving a party named "4EverYoung.") Musical tastes aside, the Tenth Circuit is right that *King* and *Octane* imbue district courts with the same discretionary authority over identifying exceptional cases warranting awards of attorney's fees.

King, however, is slightly more specific than *Octane*'s "one that stands out from others" standard. Perhaps for that reason, the Tenth Circuit made clear that it was not overturning its earlier decision in *King* and that the factors identified in *King* continue to provide worthwhile considerations in determining when a case is "exceptional" under the Lanham Act. Given that, prevailing parties remain free to rely on totality of the circumstances tests for exceptionality and the various factors courts have used to analyze those circumstances, so long as they avoid "unduly rigid" approaches that place too much weight on any single factor.

So how does a trademark litigant avoid being on the losing end of an attorney fee motion? It helps to bear in mind the two areas of focus under *King*—the strength of a litigant's case and the way that litigant behaves in litigation. Having at least a fair case and fighting in a fair manner will go a long way towards avoiding losing twice—once on the merits and again by paying the other side's fees.