

Lanham Act Lesson: Dropbox Drop Kicks Opponent and Scores Attorneys' Fees Award

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As the sun set on 2016, the 9th Circuit Court of Appeals in *Sunearth, Inc. v. Sun Earth Solar Power, Co.* embraced a new standard for awarding attorneys' fees in Lanham Act cases. Adopting the U.S. Supreme Court's rationale in *Octane Fitness*, the 9th Circuit held that an exceptional case no longer required "malicious, fraudulent, deliberate or willful" conduct. Instead, the Court held that an exceptional case would now be gauged by a less stringent "totality of the circumstances" test. This test focuses on two

considerations: (i) "the substantive strength of a party's litigating position (considering both the governing law and the facts of the case)"; and (ii) whether the vanquished party litigated the case in an "unreasonable manner."

This new standard was brought to bear in a recent trademark dispute between DropBox and Thru, Inc. It all started when Thru petitioned the USPTO to cancel the trademark registration for "DropBox," which resulted in DropBox filing a declaratory judgment action in the U.S. District Court for the Northern District of California. Thru filed counterclaims for infringement and also moved to dismiss DropBox's DJ action, which the Court denied. Discovery proceeded, and the Court ultimately granted summary judgment to DropBox on all of Thru's counterclaims. Seeking to box Thru in even further, DropBox sought recovery of its attorneys' fees and costs.

Perhaps Thru believed its petition to cancel at the USPTO and subsequent

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counterclaims in federal court were just clever episodes of thinking outside the box, but the Court thought otherwise. In fact, the Court found that Thru's conduct--both before and during the federal litigation--showed "bad faith," supporting an award of attorneys' fees and costs to DropBox in excess of \$2,000,000.

How did Thru get boxed in like this? Here's what troubled the Court:

1. Thru's counterclaims were barred by laches. The evidence developed during discovery showed that Thru knew of the allegedly infringing use of the DropBox mark as far back as 2009--earlier than Thru initially represented to the Court-- and there was no valid justification for waiting several years until 2014 before pursuing the infringement claims.
2. The evidence showed Thru intentionally delayed asserting its claims. The Court also found that Thru's delay in asserting the infringement claims was motivated by bad faith. Internal emails showed that Thru wanted to "slow walk" its infringement claims and would wait until DropBox's initial public offering. Once the IPO was announced, Thru would "be prepared to file suit that day and make as much noise as we can about it." The Court did not look favorably upon such tactics.
3. Thru's motion to dismiss was brought in bad faith. At the outset of the litigation, Thru moved to dismiss DropBox's claims for declaratory relief by asserting there was no "case in controversy." The Court denied the motion to dismiss, and ultimately found that Thru's assertions "we're not credible" because "[b]oth emails and deposition testimony show that Thru had been contemplating litigation for years, opting to wait until DropBox was closer to its IPO."

Based on the above, the Court closed the lid on Thru's claims and awarded DropBox a sizable fee award.

What are the take-aways from this decision? Three things: First, the new *Octane Fitness* standard for awarding fees in Lanham Act cases is alive and well in the 9th Circuit. Second, an exceptional case can be found based on a party's litigation conduct as well as its pre-litigation activities. Third, counsel should be careful to not just check the box in bringing infringement claims, but should also carefully consider whether pre-filing evidence exists that may undermine the party's litigation stance. Failure to consider these types of things may get counsel and client boxed into a corner.