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PAYING THE OPPOSITION'S LEGAL FEES: DID POSNER AND THE SEVENTH CIRCUIT FORMULATE THE CORRECT STANDARD IN THEIR ATTEMPT AT UNIFORMITY?

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I. INTRODUCTION

The Lanham Act provides for the award of attorney fees at the court's discretion.[1] The statute, however, does not provide concrete guidance for courts that are attempting to determine whether attorney fees should be awarded in a trademark dispute. Instead, the statute merely grants attorney fees in "exceptional cases."[2] But what circumstances qualify as exceptional? What standards are the courts to use to determine whether the case just argued was exceptional enough for the imposition of paying the other party's attorney fees?

The circuit courts have attempted to answer this question for more than a decade.[3] As a result, multiple standards that vary substantially have developed throughout the circuits. The variation is not simply a difference in the articulation of what is exceptional. In some circuits a different standard is applied to a prevailing plaintiff than is applied to a prevailing defendant.[4] Late in 2010, Judge Posner and the Seventh Circuit recognized the disparity in tests throughout the nation and attempted to unify the circuits by espousing a new test and calling for its sister circuits to adopt the test.[5]

Given the importance of maintaining and protecting one's business trademark and the vast reach of businesses in our interdependent economy, it is essential that the circuits develop a uniform standard for the award of attorney fees under the Lanham Act. Such a standard would provide national corporations with greater ability to predict the outcome of legal disputes and protect their trademarks.

Part II of this Comment briefly examines the "English Rule" on attorney fees, the history and adoption of the "American Rule," and the various exceptions to the American Rule, including the award of attorney fees in other intellectual property arenas. Part III introduces the statutory language of the Lanham Act that provides for the award of attorney fees, briefly explores the legislative history of the

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[1] 15 U.S.C. § 1117(a) (2006).

[2] *Id.*

[3] *See* Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC, 626 F.3d 958 (7th Cir. 2010); Retail Servs. Inc. v. Freebies Publ'g, 364 F.3d 535 (4th Cir. 2004); Eagles, Ltd. v. Am. Eagle Found., 356 F.3d 724 (6th Cir. 2004); Patsy's Brand, Inc. v. I.O.B. Realty, Inc., 317 F.3d 209 (2d Cir. 2003); Procter & Gamble Co. v. Amway Corp., 280 F.3d 519 (5th Cir. 2002); Lipscher v. LRP Publ'ns, Inc., 266 F.3d 1305 (11th Cir. 2001); Tire Kingdom, Inc. v. Morgan Tire & Auto, Inc., 253 F.3d 1332 (11th Cir. 2001); Reader's Digest Ass'n v. Conservative Digest, Inc., 821 F.2d 800 (D.C. Cir. 1987).

[4] *See Retail Servs.*, 364 F.3d at 550; *Reader's Digest*, 821 F.2d at 808-09; *Eagles*, 356 F.3d at 728-29.

[5] *Nightingale*, 626 F.3d at 963-64.

provision, and then delves into a discussion of the cases that have interpreted the statutory language. Part IV analyzes those cases and formulates an objective test by addressing the policy behind why attorney fees should be awarded, why courts should not differ in the tests for plaintiffs and defendants, and why such an objective approach is essential. Part IV also compares this new formulation to other exceptions to the American Rule, including the common law bad faith exception and other statutory exceptions. Part V concludes by reoffering the final formulation: an objective test that should be adopted uniformly by the federal courts of appeals. Specifically, this Comment argues that a bad faith standard is the proper test for both prevailing plaintiffs and prevailing defendants. Furthermore, courts should examine the conduct of the parties using an objective standard.

II. THE AMERICAN RULE: ITS HISTORY AND EXCEPTIONS

A. The English Rule

To understand the American Rule regarding the award of attorney fees, it is important to see how the rule originated and developed. Much of the American legal system is a carryover from the English legal system, such as the recognition of claims that were derived in equity versus those that were originally claims at law. A part of the English system that did not last long in Colonial America is the English Rule for awarding attorney fees.[6] The English Rule is also known as the "'loser pays' rule."[7] The English Rule formulates a two-way, fee-shifting system that results in the losing party paying the attorney fees of the prevailing party.[8] This fee shifting, however, is not automatic, as English courts retain broad discretion in determining the actual amount of the award.[9]

Proponents of the English Rule argue that a major benefit is that prevailing parties receive "the full compensation to which they are entitled."[10] Specifically, a prevailing defendant will be reimbursed for the costs of his or her defense.[11] Likewise, a prevailing plaintiff gets his or her attorney's fees reimbursed in addition to any damages

[6] Christopher R. McLennan, *The Price of Justice: Allocating Attorneys' Fees in Civil Litigation*, 12 FLA. COASTAL L. REV. 357, 365-66 (2011) (discussing the colonial dissatisfaction with the English rule and formulating laws limiting the pay of attorneys).

[7] *Id.* at 369.

[8] *Id.*

[9] *Id.*

[10] *Id.*

[11] *Id.*

awarded at trial, thus making the plaintiff truly whole.[12] Another benefit is that the risk of having to pay another's legal fees deters the filing of frivolous suits.[13] Lastly, it is widely claimed that the English Rule fosters settlement because of the threat of paying the opposing party's legal fees.[14] Despite these benefits, the United States has rejected this approach for one of its own.

B. The Advent of the American Rule

Originally, the American colonies and a young United States followed the English rule.[15] This rule, however, began to lose favor with the public as attorneys started charging more for their services.[16] The public began to view awarding attorney fees as an unjust penalty imposed on the losing party.[17]

The Supreme Court first faced the issue of awarding attorney fees in *Arcambel v. Wiseman* in 1796.[18] The Court overturned an award of $1,600 for attorney fees,[19] reasoning that the English Rule was against the "general practice of the United States."[20] The Court further stated that the American Rule is entitled to respect from the courts until it is changed by statute, thereby crafting a judicially defined standard of not awarding attorney fees.[21]

The American Rule, unlike the English Rule, provides that parties pay their own litigation costs regardless of the outcome of the dispute.[22] There are two policy reasons for this rule.[23] First, the underlying rationale is that parties should not be punished for merely bringing a suit.[24] Second, adding a dispute over what constitutes reasonable attorney fees places an additional burden on courts and presumably wastes judicial resources.[25] Several exceptions to the

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[12] *Id.*
[13] *Id.* at 369-70.
[14] *Id.* at 370.
[15] Jacob Singer, *Bad Faith Fee-Shifting in Federal Courts: What Conduct Qualifies?*, 84 ST. JOHN'S L. REV. 693, 695 (2010).
[16] McLennan, *supra* note 6, at 366.
[17] *Id.*
[18] John F. Vargo, *The American Rule on Attorney Fee Allocation: The Injured Person's Access to Justice*, 42 AM. U. L. REV. 1567, 1575 (1993).
[19] *Id.*
[20] Singer, *supra* note 15, at 695 (quoting Arcambel v. Wiseman, 3 U.S. 306, 306 (1796)).
[21] *Id.* at 695.
[22] *Id.* at 693.
[23] *Id.* at 695.
[24] *Id.*
[25] *Id.* at 696.

American Rule, which have developed over time, will be examined next.

C. Exceptions to the American Rule

Federal courts have always recognized numerous exceptions to the American Rule.[26] Statutory exceptions began to emerge during the twentieth century.[27] There are three major areas of exceptions to the American Rule: (1) sanctions for bad faith; (2) contractual agreements that provide for fee shifting; and (3) statutory exceptions based on the underlying claim.[28] A brief examination of these exceptions will be of assistance later when formulating a workable standard for awarding attorney fees under the Lanham Act.

First, the Supreme Court has long recognized the bad faith exception for awarding attorney fees to plaintiffs or defendants that have been the victims of bad faith conduct.[29] Qualifying bad faith conduct includes circumstances in which a party denies his or her opponent's legal rights prior to the inception of the litigation or where a party to the litigation attempts to avoid jurisdiction by selling relevant property and then proceeding to file meritless motions in an attempt to delay the litigation.[30] The exception is broader and covers more conduct than Rule 11 of the Federal Rules of Civil Procedure, which only covers pleadings and other papers offered to the court for an improper purpose.[31] The bad faith exception was crafted by courts in an attempt to ensure that plaintiffs would be made completely whole when they were successful in their suit.[32] Thus, the exception is meant to further justice.[33] The bad faith exception, in addition to making the plaintiff whole, is meant to deter illegitimate behavior of litigants both inside and outside of the courtroom.[34]

The bad faith exception awards attorney fees for bad faith conduct

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[26] *Id.* at 693.

[27] McLennan, *supra* note 6, at 366.

[28] *Id.*

[29] Vargo, *supra* note 18, at 1584.

[30] Singer, *supra* note 15, at 703-04.

[31] *Id.* at 699. Specifically, the author argues that Rule 11 is narrower in that the sanctions do not cover acts that "degrade the judicial system," such as attempts to avoid jurisdiction by fraud or other conduct that would occur outside of court. *Id.* Secondly, it only applies to papers offered to the court by the attorney. *Id.* The bad faith exception, on the other hand, applies to all conduct involved, whether it was prior to or concurrent with the litigation. *Id.*

[32] *Id.* at 696.

[33] *Id.* at 693.

[34] *Id.* at 696-97.

that occurs in three circumstances.[35] The first circumstance pertains to the prelitigation period.[36] This period includes bad faith conduct that occurs during the actions that are the basis for the cause of action, as well as bad faith conduct that occurs when the injured party is attempting to assert its legal right.[37] Prelitigation conduct that rises to the necessary level of bad faith to result in awarding attorney fees to the prevailing parties includes: fraud; failure to follow the results of arbitration; breach of a fiduciary duty; failure to abide by the law; or multiple attempts to bring suits barred by res judicata.[38] Second, attorney fees can be awarded for bad faith conduct that occurs during the litigation,[39] which is malicious or attempts to "unnecessarily prolong[] or delay[] the litigation."[40] Lastly, a party can be awarded attorney fees when his opponent refuses to recognize a clear legal right that he had prior to trial.[41]

A second exception to the American Rule that the courts have recognized is the ability to contract for a fee shifting between the parties, such that one party will pay the legal fees of the opposing party.[42] This occurs when a contract provides that one of the contracting parties will pay for the other's attorney fees should a dispute arise over the contract itself.[43] Though such provisions are disfavored, they are generally allowed unless the provisions are found to be contrary to public policy.[44]

The last major exception to the American Rule is statutory fee shifting.[45] "There are over 200 federal statutes and almost 2,000 state statutes that provide for the shifting of attorney's fees" in certain types of disputes.[46] Such provisions commonly involve public interest litigation, such as suits under the Civil Rights Act.[47] These provisions, however, are also found in other areas, such as trademarks and copyrights.[48] Thus, the very issue that this Comment explores is a product of the statutory exception to the American Rule.

A specific example of a statutory exception to the American Rule

[35] *Id.* at 700.
[36] *Id.*
[37] *Id.* at 700-01.
[38] Vargo, *supra* note 18, at 1585.
[39] Singer, *supra* note 15, at 700.
[40] Vargo, *supra* note 18, at 1586.
[41] Singer, *supra* note 15, at 700.
[42] Vargo, *supra* note 18, at 1578.
[43] *Id.*
[44] *Id.* at 1579.
[45] *Id.* at 1587.
[46] *Id.* at 1588.
[47] *Id.*
[48] *See, e.g.*, 15 U.S.C. § 1117(a) (2006); 17 U.S.C. § 505 (2006).

is found in the realm of copyrights. Section 505 of the Copyright Act provides that courts can award reasonable attorney fees to the prevailing party in a civil copyright suit.[49] In determining whether attorney fees should be awarded under this statute, courts look at the following factors: the frivolousness of the claim, the reasonableness of the claim, the motivation of the plaintiff, and the goal of deterring frivolous claims.[50] These factors are very similar to some of the factors courts use in determining whether fees should be awarded under the Lanham Act.

III. SECTION 1117(A), ITS HISTORY, AND COURTS' INTERPRETATIONS

A. Statutory Language of §1117

Section 1117 of the Lanham Act governs the recovery for violation of rights under the Lanham Act.[51] In addition to governing the award of attorney fees, Section 1117 provides for treble damages and the ability to recover wrongful profits and sustained damages.[52] Section 1117(a) specifically gives courts the following power in civil suits under the act: "The court in exceptional cases may award reasonable attorney fees to the prevailing party."[53] The statute fails to provide any further guidance for courts in determining whether to award attorney fees to the prevailing party because of its failure to define what an "exceptional" case is. Thus, a look into the legislative history of the provision is necessary.

B. Legislative History of § 1117(a)

One of the main purposes of H.R. 8981, a bill that resulted in the amendment of the Lanham Act, was to allow the award of attorney fees to prevailing parties in trademark disputes when equitable considerations dictated such an award.[54] This was to be the sole substantive addition to the statute.[55]

The Senate Report examines the history of the American Rule,

[49] 17 U.S.C. § 505 (2006).

[50] Fogerty v. MGM Grp. Holdings Corp., Inc., 379 F.3d 348, 357 (6th Cir. 2004).

[51] *See* 15 U.S.C. § 1117 (2006).

[52] *Id.*

[53] *Id.*

[54] S. REP. NO. 93-1400 (1974), *reprinted in* 1974 U.S.C.C.A.N. 7132, 1974 WL 11685.

[55] *Id.*

discussing the fact that early in the United States there was a fear that awarding attorney fees would result in discouraging individuals from bringing suits.[56] The report then recognizes that exceptions began to develop as people began to realize that judges were fully capable of determining what constituted reasonable attorney fees and when they should be awarded.[57]

The amendment allowing the award of attorney fees was in direct response to *Fleischmann Distilling Corp. v. Maier Brewing Co*.[58] Prior to that case, the courts had formulated an equitable doctrine allowing the imposition of attorney fees for successful plaintiffs in trademark infringement and unfair competition cases.[59] The Supreme Court, however, overruled that tradition in *Fleischmann*.[60] *Fleischmann* specifically held that Congress intended to limit the awards available under the Lanham Act to those specifically enumerated in the Act.[61] Therefore, the Court found that the judiciary could not craft a compensatory remedy in addition to those delineated under the Lanham Act.[62]

The Senate saw a compelling need to provide for awarding attorney fees under trademark and unfair competition suits.[63] Trademarks are important to both the businesses that own and distribute the goods as well as consumers.[64] This is especially true as mass demand, advertising, and distribution has resulted in an exponential number of goods released into the nation.[65] The Senate found a need to protect trademark owners against "deliberate and flagrant infringement" by "unethical competitors" looking to get an advantage in any way possible.[66]

Given that trademark enforcement is left to the trademark owners, those owners should be encouraged to bring suit to protect their trademarks.[67] For the Senate, this encouragement was to take the form of an award of attorney fees that would make plaintiffs whole in cases

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[56] *Id.*
[57] *Id.*
[58] *Id.*
[59] *Id.*
[60] Fleischmann Distillery Corp. v. Maier Brewing Co., 386 U.S. 714, 714 (1967).
[61] *Id.* at 721.
[62] *Id.*
[63] *Id.*
[64] S. REP. NO. 93-1400 (1974), *reprinted in* 1974 U.S.C.C.A.N. 7132, 1974 WL 11685.
[65] *Id.*
[66] *Id.*
[67] *Id.*

where acts could be described as "malicious, fraudulent, deliberate, and willful."[68] Furthermore, the legislative history makes clear that treble damages awarded under the Act are not a substitute for attorney fees, especially in suits that seek only injunctive relief instead of monetary relief.[69] The bill was also meant to provide defendants with the ability to recover attorney fees in exceptional cases.[70] Thus, defendants are protected against harassing and unfounded suits brought by trademark owners.[71]

Despite what appears to be a clear intent on the behalf of Congress, the various circuits have been unable to develop a consensus on the proper test to use for awarding fees under Section 1117(a) of the Lanham Act.

C. Dual Standards of the Fourth, D.C., and Sixth Circuits

The Fourth Circuit interpreted Section 1117(a) in *Retail Services, Inc. v. Freebies Publishing* in 2004.[72] The case involved claims and counterclaims alleging cybersquatting violations and trademark infringement under the Lanham Act.[73] In holding that the case was not "exceptional,"[74] the court defined an exceptional case as one in which the defendant's conduct could be described as "malicious, fraudulent, willful or deliberate in nature."[75] The Fourth Circuit, which imposes a dual standard for plaintiffs and defendants, allows for a prevailing plaintiff to show that the defendant acted in bad faith, while allowing a prevailing defendant to make a showing of something less than bad faith.[76] Pertinent considerations for a prevailing plaintiff's (or a counterclaim plaintiff's) conduct when looking at the defendant's attorney fees claim include: "economic coercion, groundless arguments, and failure to cite controlling law."[77] Specifically, the court looked into whether the defendants' counterclaims were so lacking that it made the case exceptional, but determined that the defendants had a good faith belief that their claims were viable and the plaintiff (counterclaim defendant) could not meet

[68] *Id.*
[69] *Id.*
[70] *Id.*
[71] *Id.*
[72] *See* Retail Servs., Inc. v. Freebies Publ'g, 364 F.3d 535 (4th. Cir. 2004).
[73] *Id.* at 537.
[74] *Id.* at 551.
[75] *Id.* at 550 (quoting People for the Ethical Treatment of Animals v. Doughney, 263 F.3d 359, 370 (4th Cir. 2001)).
[76] *Id.*
[77] *Id.*

the lesser standard.[78]

The D.C. Circuit examined the issue in *Reader's Digest Association v. Conservative Digest, Inc.*[79] The plaintiff brought various claims under the Lanham Act after the defendant revised its magazine cover to strongly resemble the cover that the plaintiff used.[80] Two of the individual defendants requested attorney fees under section 1117(a).[81] After applying the same test used by the Fourth Circuit, the court found the suit was not exceptional because the defendants' positions at the infringing magazine made them "natural targets" of a lawsuit.[82]

The Sixth Circuit interpreted Section 1117(a) in *Eagles, Ltd. v. American Eagle Foundation*.[83] The plaintiff filed suit for trademark infringement and dilution, among other Lanham Act causes of action.[84] The plaintiff subsequently filed for a voluntary dismissal, which was granted, because many of its key witnesses were on tour overseas.[85] In finding that the case was not exceptional and affirming the district court's decision denying the defendant's motion for attorney fees,[86] the court applied a dual standard test similar to the Fourth Circuit test discussed above.[87] The court found that a prevailing plaintiff can recover attorney fees when "the infringement is malicious, fraudulent, willful, or deliberate."[88] A prevailing defendant, on the other hand, can recover by showing that the plaintiff's suit is oppressive.[89] Thus, unlike the Fourth Circuit, which allows a defendant to show "something less than bad faith,"[90] the Sixth Circuit does not provide a more lenient standard for defendants. Instead, the Sixth Circuit simply provides a different substantive articulation for the qualifying conduct for a defendant. This oppressiveness test requires the court to make an objective inquiry into

[78] *Id.* at 551.

[79] *See* Reader's Digest Ass'n v. Conservative Digest, Inc., 821 F.2d 800 (D.C. Cir. 1987).

[80] *Id.* at 802-03.

[81] *Id.* at 808.

[82] *Id.* at 808-09.

[83] *See* Eagles, Ltd. v. Am. Eagle Found., 356 F.3d 724 (6th Cir. 2004).

[84] *Id.* at 726.

[85] *Id.*

[86] *Id.* at 729-30.

[87] *Id.* at 729.

[88] *Id.* at 728 (citing Hindu Incense v. Meadows, 692 F.2d 1048, 1051 (6th Cir. 1982)).

[89] *Id.* at 728-29.

[90] Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC, 626 F.3d 958, 960 (7th Cir. 2010) (citing Retail Servs., Inc. v. Freebies Publ'g, 364 F.3d 535, 550 (4th Cir. 2004)).

whether the suit was founded when filed and a subjective inquiry in the plaintiff's conduct during the course of the litigation.[91] The court ultimately refused to award attorney fees to the defendant, concluding that the plaintiffs had "colorable" legal arguments and a good reason for seeking dismissal of the case.[92]

D. The Second, Fifth, and Eleventh Circuits' Test

The Second, Fifth, and Eleventh Circuits do not apply a dual standard for plaintiffs and defendants, but instead apply one standard to both. Each circuit articulates a similar substantive standard that it uses to establish whether a prevailing party will recover attorney fees. The Second Circuit interpreted Section 1117(a) in *Patsy's Brand, Inc. v. I.O.B. Realty, Inc.*[93] The plaintiff brought suit for trademark infringement and was granted summary judgment on its claim.[94] The plaintiff was also granted attorney fees because the defendants presented fraudulent documents during the dispute in an attempt to show prior usage of the trademark.[95]

In upholding the award of attorney fees, the court defined an exceptional case as one in which there is fraud or bad faith, and held that fraudulent conduct during the course of litigation can render a case "exceptional."[96]

The Fifth Circuit crafted its standard in *Procter & Gamble Co. v. Amway Corp*.[97] The plaintiff filed a Lanham Act claim based on allegations that the defendant created and spread rumors that the plaintiff had links to Satanism.[98] In reversing the district court's award of fees to the defendant and remanding for further proceedings, the court found that the district court must determine if the plaintiff acted in good faith.[99] The court also explained that plaintiffs must show bad faith on the part of the defendants in order to recover attorney fees.[100]

The Eleventh Circuit examined the issue in *Lipscher v. LRP*

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[91] Eagles, Ltd. V. Am. Eagle Found., 356 F.3d 724, 729 (6th Cir. 2004).
[92] *Id.* at 729-30.
[93] *See* Patsy's Brand, Inc. v. I.O.B. Realty, Inc., 317 F.3d 209 (2d Cir. 2003).
[94] *Id.* at 212.
[95] *Id.* at 221.
[96] *Id.* at 221-22.
[97] *See* Procter & Gamble Co. v. Amway Corp., 280 F.3d 519, 525 (5th Cir. 2002).
[98] *Id.* at 522-23.
[99] *Id.* at 527-28.
[100] *Id.*

Publications, Inc.[101] The district court entered a directed verdict in favor of the defendant on the Lanham Act claims and denied the defendant's request for attorney fees.[102] Like the Second and Fifth Circuits, the court determined that the correct standard for the recovery of attorney fees is a showing of fraud or bad faith.[103] The court found that the plaintiff's claim was not meritless and was able to survive multiple motions to dismiss.[104] Thus, the court held that the plaintiff did not act fraudulently or in bad faith in bringing the suit.[105]

E. The Seventh Circuit's Attempted Solution

In *Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC*, the Seventh Circuit reviewed the grant of attorney fees to a defendant.[106] Judge Posner began by observing an occurrence he called "circuit drift," whereby each circuit develops its own "circuit law," which the courts then follow instead of acting as if each circuit is one part of a single national judicial system.[107] After examining the various formulations of the circuits' tests, Posner conceded that it is unclear whether the different tests result in inconsistent outcomes because of the circuits' use of vague terms and catchall provisions.[108]

The Seventh Circuit attempted to follow legislative intent and examined issues other circuits failed to consider in interpreting Section 1117(a). Posner examined the legislative history of Section 1117(a) and found the threat of a plaintiff using a Lanham Act cause of action to drive a new entrant out of the market to be quite serious.[109] The court likened this to the concept of abuse of process, which uses litigation to serve an improper purpose.[110] Posner said that the equivalent of a plaintiff bringing a frivolous suit would be a defendant insisting on mounting a costly defense when his infringement is blatant.[111] Thus, to Posner, an exceptional case (one in which attorney fees are warranted), is one in which the plaintiff has used litigation for an oppressive purpose or where the defendant had no defense yet

[101] *See* Lipscher v. LRP Publ'ns, Inc., 266 F.3d 1305, 1309 (11th Cir. 2001).
[102] *Id.*
[103] *Id.* at 1320.
[104] *Id.*
[105] *Id.*
[106] Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC, 626 F.3d 958, 959-60 (7th Cir. 2010).
[107] *Id.* at 962.
[108] *Id.*
[109] *Id.*
[110] *Id.* at 963.
[111] *Id.*

persisted in his action to impose litigation costs on the plaintiff.[112] This is different from the other circuit tests, such as the one espoused by the Sixth Circuit, in that it looks into the purpose behind the suit and not just the underlying infringement.

The court did not opt for a general rule favoring one party over the other, reasoning that parties to a Lanham Act suit are "symmetrically situated" in that they are businesses, even if they are businesses of different sizes.[113] Disparity of size, Posner said, is a factor to be considered in determining whether the suit or defense is legitimate, but not a reason to favor one party over the other.[114] Furthermore, the court favored an objective inquiry over a subjective one.[115] Thus it would be sufficient for the purposes of Section 1117(a) to show that the opposing party's claim or defense was objectively unreasonable or, in other words, one that a rational litigant would pursue only for the purpose of imposing litigation costs on the other party.[116]

In applying this test to the case at bar, the court found that the plaintiff's Lanham Act claim did not have any possible merit.[117] The court concluded that the plaintiff made the claim in an attempt to coerce the defendant to reduce its prices.[118] Consequently, the defendant's motion for attorney fees was granted.[119]

IV. THE FORMULATION OF A NEW STANDARD

It is evident from the preceding background that the circuits are not in agreement over the precise test to use for awarding attorney fees to a prevailing party. The dispute goes even further than the correct standard to apply, with some circuits applying different standards depending on which party is requesting attorney fees.

Even though it is unclear whether this variance in tests actually results in different outcomes, it is imperative that the courts develop a uniform national standard. The uncertainty as to whether different results occur is mostly due to the catchall phrases that many circuits use, such as the Tenth Circuit's use of the phrase "perhaps for other reasons as well" in its "test."[120] Providing a catchall provision at the end of a specific test results in no test at all. Instead, it invites courts

[112] *Id.* at 963-64.
[113] *Id.* at 964.
[114] *Id.*
[115] *Id.* at 965.
[116] *Id.*
[117] *Id.*
[118] *Id.*
[119] *Id.* at 966.
[120] *Id.* at 962.

to decide the issues on a case-by-case basis, which wastes judicial resources and fails to provide litigants with a clear substantive standard. Though the test should depend on the facts of each case, there should still be a set standard for what qualifies as an exceptional case under Section 1117(a). The various tests discussed above fail to do this. Furthermore, not even a remote possibility of different outcomes should exist among the circuits when the guiding principle is a federal statute applicable in all circuits. Posner's "unifying test" will be discussed and critiqued at a later point.

The courts should adopt an interpretation of Section 1117(a) that would allow the award of attorney fees to the prevailing party when the opposing party has acted in bad faith, thereby avoiding a dual standard approach that provides a more lenient test for one of the parties. It is necessary for courts to examine the conduct surrounding the action that caused the initiation of the suit (i.e., the trademark infringement, the infringement of trade dress, etc.). Courts must also examine the conduct of the parties once the litigation has begun, to determine if they have acted in bad faith during the course of the suit. Thus, the test combines the tests of all of the various circuits while remaining faithful to the legislative purpose underlying Section 1117(a). Furthermore, courts should look at the conduct from an objective viewpoint. This test and its various parts are discussed in further detail below.

A. Reasoning Behind Attorney Fees

As previously discussed, courts and legislatures carved out exceptions to the American Rule to ensure that plaintiffs were made completely whole on their claim or that defendants were made whole when a plaintiff brought an unnecessary suit against them.[121] That is the very reasoning behind Section 1117(a) that the Senate espoused in its report. Congress wanted to ensure that individuals or companies, who are left to enforce trademarks themselves, could effectively protect their trademarks without being placed in a worse position financially because of litigation costs.[122]

Posner spends a significant portion of his opinion in *Nightingale* discussing the threat of companies using Lanham Act suits to drive new business entities out of the market. In the same vein, he discusses that the equivalent for a defendant would be to persist in defending an action for which he has no defense for the sole purpose of forcing

[121] *See* Singer, *supra* note 15, at 696.

[122] S. REP. NO. 93-1400 (1974), *reprinted in* 1974 U.S.C.C.A.N. 7132, 1974 WL 11685.

litigation costs on the plaintiff. He seems to focus almost entirely on improper use of the legal system for business purposes as a reason to award attorney fees to the prevailing party. Whereas such an abuse of process is a very important consideration, it neglects to take into account the underlying infringement. Posner only mentions the necessity of remedying a willful and purposeful infringement by awarding attorney fees in passing.[123] A willful or bad faith infringement was one of the concerns that Congress specifically discussed in enacting Section 1117(a) to allow for the award of attorney fees.[124] Posner's formulation and discussion, however, barely regard this as an issue.

Protecting against a blatant and willful infringement (i.e., a bad faith infringement) should be at the forefront of reasons supporting the award of attorney fees under Section 1117(a) instead of being afforded secondary treatment. The Lanham Act was intended to govern trademarks and allow individuals to protect their trademarks.[125] Having to prosecute a suit against a defendant that has purposefully and blatantly infringed on a trademark will not make the plaintiff whole unless he is able to recover the attorney fees incurred in the prosecution of his claim. After all, were it not for the bad faith conduct of the opposing party, the innocent party would not have incurred significant litigation costs.

In sum, when an opposing party has acted in bad faith, the innocent party should be restored to the position he was in prior to the suit, regardless of whether the bad faith conduct occurred prior to, or during the litigation. Thus, a suit brought for an improper purpose and a blatant underlying infringement will result in the award of attorney fees.

B. A Uniform Standard for Plaintiffs and Defendants

As previously discussed, the Fourth, Sixth, and D.C. Circuits all have interpretations of Section 1117(a) that vary depending on whether it is the plaintiff or the defendant requesting attorney fees.[126] In contrast, the Second, Fifth, Seventh, and Eleventh Circuits currently

[123] Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC, 626 F.3d 958, 965 (7th Cir. 2010).

[124] S. REP. NO. 93-1400 (1974), *reprinted in* 1974 U.S.C.C.A.N. 7132, 1974 WL 11685.

[125] *See* Retail Servs., Inc. v. Freebies Publ'g, 364 F.3d 535, 538-39 (4th Cir. 2004).

[126] *See id.*; Eagles, Ltd. v. Am. Eagle Found., 356 F.3d 724, 728 (6th Cir. 2004); Reader's Digest Ass'n v. Conservative Digest, Inc., 821 F.2d 800, 808-09 (D.C. Cir. 1987).

all apply a uniform test for both a prevailing plaintiff and a prevailing defendant.[127] These tests are distinctly different, as those Circuits that apply differing tests often provide a higher standard for one of the parties.

An interpretation offering differing tests that upholds a dual standard is diametrically opposed to the underlying principals and concerns discussed in the legislative history of Section 1117(a).[128] The Senate made clear that it was attempting to protect both plaintiffs and defendants when it discussed its reasons behind Section 1117(a).[129] In its discussion, Congress never mentions that it should be easier for one party to recover attorney fees than another.[130] Instead, Congress intended to equally protect both parties from the bad faith conduct of competitors: including willful infringements, and abuses of the judicial system aimed at imposing burdensome litigation costs on an opponent.[131] Thus, it is apparent that Congress did not intend for the courts to apply separate tests to different parties.

Posner refused to adopt a test that would provide a more lenient standard to one of the parties.[132] As previously discussed, Posner reasoned that the parties to a Lanham Act suit are similarly situated in that they are businesses, regardless of the fact that the business may be different sizes.[133] Although it is true that business are similarly situated and a discrepancy in sophistication does exist between individuals and businesses, this reasoning undermines his previous argument and ignores congressional reasoning. Posner's opinion is concerned with large, established businesses using litigation to force new entrants out of the market.[134] This concern lends itself to the belief that defendants should be better protected than plaintiffs and subject to a lesser standard. Posner, however, skirts this result by providing that variations in size should be taken into account when determining the objective reasonableness of the suit in analyzing the conduct of the parties.[135]

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[127] *See Nightingale*, 626 F.3d at 964 (7th Cir. 2010); Patsy's Brand, Inc. v. I.O.B. Realty, Inc., 317 F.3d 209, 222 (2d Cir. 2003); Procter & Gamble Co. v. Amway Corp., 280 F.3d 519, 527 (5th Cir. 2002); Lipscher v. LRP Publ'ns, Inc., 266 F.3d 1305, 1320 (11th Cir. 2001).

[128] *See* S. REP. NO. 93-1400 (1974), *reprinted in* 1974 U.S.C.C.A.N. 7132, 1974 WL 11685.

[129] *See id.*

[130] *See id.*

[131] *See id.*

[132] *Nightingale*, 626 F.3d at 964.

[133] *Id.*

[134] *Id.* at 963.

[135] *Id.* at 964.

The result of having one party better protected than the other through the imposition of a dual standard can be avoided by acknowledging congressional intent and the fact that both plaintiffs and defendants should be protected equally. Both are subject to an abuse of process in suits and other instances of bad faith conduct that cause unnecessary litigation and associated expenses.[136] Thus, both should be afforded the same protection and the same opportunity to recover attorney fees so that they are restored as closely as possible to their pre-litigation position.

C. Why the Standard Should be Bad Faith Conduct

One of the first exceptions to the American Rule at common law was for bad faith conduct of the litigants.[137] The bad faith exception has sought to perform both punitive and restorative functions.[138] This long history of the common law bad faith exception is what makes a bad faith standard the perfect formulation for the Section 1117(a) test.

The history surrounding the bad faith exception provides much precedent for attorneys and litigants to rely on in determining what conduct would suffice under Section 1117(a) for an award of attorney fees. Furthermore, the bad faith exception covers both conduct that is involved in the act that initiates the lawsuit as well as conduct that occurs during litigation.[139] Thus a willful, purposeful, or fraudulent infringement as well as oppressive litigious conduct would suffice for attorney fees under the bad faith standard.[140]

The bad faith standard for awarding attorney fees would also better protect litigants than the sanctions of Rule 11 of the Federal Rules of Civil Procedure. As previously discussed, Rule 11 is defined much more narrowly than bad faith conduct and only applies to documents produced to the court for an improper purpose.[141] Furthermore, courts are often reluctant to impose Rule 11 sanctions. The bad faith standard would serve to protect litigants from conduct motivated by an improper purpose, as well as from willful and blatant trademark infringements that occur prior to litigation. Thus, the bad faith standard would give courts another method to deter improper conduct in litigation without having to resort to Rule 11 sanctions.

Under this standard, a prevailing plaintiff can recover when the

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[136] *Id.* at 963-64.
[137] Vargo, *supra* note 18, at 1584.
[138] *See* Singer, *supra* note 15, at 698.
[139] *Id.* at 700.
[140] Vargo, *supra* note 18, at 1584-85.
[141] Singer, *supra* note 15, at 699.

defendant has acted in bad faith. This occurs either when the defendant has willfully and blatantly infringed on the plaintiff's trademark or where the defendant has insisted on defending a claim for the purpose of subjecting the plaintiff to increased litigation expenses. Likewise, a prevailing defendant can be awarded attorney fees when the plaintiff has acted in bad faith. This is likely to occur when the plaintiff has brought a baseless suit for the sole purpose of imposing litigation costs on the defendant. This test combines the Second, Fifth, and Eleventh Circuits' bad faith standard with the concern shared by the Fourth, Sixth, and Seventh Circuits that plaintiffs will bring suits for oppressive and improper purposes.

This standard compiles the concerns of many jurisdictions into a simple test with enough precedent to provide guidance for practitioners and their clients. This solution resolves the issue that was presented by the existence of multiple tests. With a bad faith standard, not only will there be one simple test, but precedent will provide answers to the question of what conduct suffices for bad faith conduct.

D. An Objective Approach is Critical

The law is riddled with tests, the majority of which are objective tests. An objective test serves many purposes. It ensures that the judiciary remains efficient because judges compare the acts of litigants to the objective reasonable man rather than conducting a subjective inquiry into the inner motivations of the litigant. Furthermore, it establishes a standard that can be applied to all instead of one that is formulated for each given circumstance.

An objective standard is the one thing the circuits seem to agree on. It is much more efficient to determine how one should have objectively conducted himself instead of determining what subjectively drove him to act the way that he did. Posner is in agreement that an objective approach is absolutely necessary.[142]

It may seem strange to use an objective approach for a test that is in part meant to protect defendants from plaintiffs that have brought a Lanham Act suit for an improper purpose. Instead it appears that a subjective approach would be necessitated by such an inquiry. As Posner discusses, however, an objective inquiry can be applied to determine the intent of the parties in Lanham Act suits.[143] This can be done by looking at the objective reasonableness of the suit or the

[142] Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC, 626 F.3d 958, 965 (7th Cir. 2010).

[143] *Id.*

defense.[144] If the claim has no merit, and thus no likelihood of prevailing, then it would objectively appear that the suit had no purpose but to impose litigation costs on the defendant. Likewise, if a defendant has blatantly infringed on a plaintiff's trademark, yet persists in levying a baseless defense, then objectively, a court could find that the defendant was conducting his defense for an improper purpose.

Thus, an objective approach suffices to protect all the parties from unnecessary and abusive litigation while preserving judicial efficiency by avoiding subjective inquiries.

E. The Proposed Test Compared with the Copyright Regime

Unlike Section 1117(a) of the Lanham Act, Section 505 of the Copyright Act does not include the phrase "exceptional cases" so the courts have not struggled in interpreting this term.[145] Section 505, however, does not give clear guidance on when to award attorney fees, but simply states that a court may award attorney fees to a prevailing party.[146] Thus, courts formulated a test that took into account the motivation of the plaintiff, the reasonableness of the claim, and the frivolousness of the claim.[147]

Those factors cover the very concerns that have been expounded throughout this Comment. The proposed bad faith standard encompasses those worries, but in a more concise manner. Furthermore, having a unified test for all courts to apply that is similar to the copyright standard will give courts even more guidance since they would be able to compare trademark claims to their copyright counterparts. Additionally, it would make cases that cover trademark and copyright infringement more simple, as courts would be applying a very similar standard in both statutes.

V. CONCLUSION

The circuit drift that the federal circuit courts have experienced has resulted in varying standards for when attorney fees can be awarded under Section 1117(a). Consequently, litigants are left without a clearly formulated test to gauge the potential success of their claims. Though Posner and the Seventh Circuit attempted to formulate a

[144] *Id.*

[145] *See* 17 U.S.C. § 505 (2006).

[146] *Id.*

[147] *See, e.g.*, Fogerty v. MGM Grp. Holdings Corp., 379 F.3d 348, 357 (6th Cir. 2004).

unifying test, that proposal still does not completely embody the legislative intent surrounding Section 1117(a) and the history of the awarding attorney fees.

The proper interpretation of an "exceptional case" under Section 1117(a) encompasses a test that awards attorney fees when either party to the litigation has acted in bad faith. This includes bad faith conduct that occurred during the act underlying the litigation and during the litigation itself. The standard should be the same whether the party requesting attorney fees is the plaintiff or the defendant. Furthermore, the inquiry should be an objective one. This formulation provides a judicially efficient test with a plethora of precedent available to guide courts when deciding whether to award attorney fees.