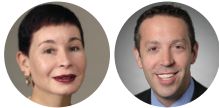


## US: TRADE MARKS

**Fee shifting applied in trade mark dispute**

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In *Dropbox, Inc v Thru Inc*, the US District Court for the Northern District of California applied to a trade mark dispute the Supreme Court's recently adopted test for determining whether reasonable attorney fees should be awarded to the prevailing party. In doing so, the Court found that the defendant's conduct both prior to and during the litigation was in bad faith, rendering the case "exceptional" and justifying the grant to the plaintiff, Dropbox, of an award of attorneys' fees and costs in excess of \$2 million. The ruling serves as a stark reminder of the risks associated with attempting to cultivate opportunistic or unreasonable litigation strategies.

By way of background, following Thru's filing of a petition to cancel a trade mark registration owned by Dropbox, Dropbox filed a motion for declaratory judgment to establish its exclusive right to the Dropbox mark. Thru responded by making counterclaims for trade mark infringement under the Lanham Act. The Court granted summary judgment in favour of Dropbox which subsequently filed a motion for payment of its attorneys' fees, claiming that the case was an "exceptional" one that warranted that its adversary pay its costs and fees.

US law provides that a district court may award reasonable attorney fees to the prevailing party in "exceptional cases". Historically, US courts required that a plaintiff demonstrate that a defendant engaged in "malicious, fraudulent, deliberate or willful infringement" in order to support an award of attorneys' fees. However, according to a recent ruling by the US Supreme Court, 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

this standard was originally articulated in the context of a patent case, recent Ninth Circuit Court of Appeals case law interpreted the fee-shifting provision in the Patent Act and the Lanham Act in tandem, holding that such provisions are "parallel and identical".

In *Dropbox*, the Court determined that the case was "exceptional" for several reasons. First, the Court determined that Thru was guilty of laches as a matter of law because Thru had known about Dropbox's use of the mark at issue for several years without taking action. Second, the evidence demonstrated that Thru acted in bad faith in delaying bringing suit, as it intentionally put off its assertion of rights in an attempt to increase the value of its claims by leveraging an anticipated initial public offering from Dropbox. Third, the Court held that Thru acted in bad faith in moving to dismiss Dropbox's complaint on the ground that there was no controversy between the parties, which position was contrary to that taken in filing its petition to cancel. Finally, the Court ruled that Thru's conduct in discovery was unreasonable as it had engaged in a pattern of inaccurate responses and misrepresentations.

The litigation approach taken by Thru proved to be a costly one as the Court determined that legal fees in excess of \$1.7 million were reasonable, ruling that "given the stakes of this litigation, in which the very brand identity of a multi-billion dollar corporation was at stake, it is not unsurprising that Dropbox was willing to spend aggressively in a 'bet-the-company' litigation effort". The decision provides a stern warning to parties about pursuing questionable claims and acting unreasonably during a dispute.