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Abuse of Process in a Lanham Act Suit May Trigger Award Of Attorneys' Fees

A recent opinion from the Seventh Circuit Court of Appeals (*Nightingale Home Healthcare, Inc. v. Andodyne Therapy, LLC*) attempts to clarify when the prosecution or defense of a Lanham Act suit renders the case "exceptional," so as to allow for an award of attorneys' fees to the prevailing party. In doing so, the court addressed the increasing trend of businesses in bringing or defending trademark infringement and false advertising lawsuits against competitors solely to obtain a competitive advantage independent of the outcome of the case. The court held that where a party is guilty of such "abuse of process," an award of attorneys' fees would be warranted. This summary further elaborates upon the court's reasoning and why businesses must exercise caution in bringing or defending against intellectual property claims under the Lanham Act.

The Court's Opinion

Anodyne, the seller of a medical device, was the prevailing party in the underlying false advertising lawsuit brought against it by its customer, Nightingale. The trial court awarded Anodyne the attorneys' fees it incurred pursuant to a specific provision of the Lanham Act, which allows for an award to the prevailing party in "exceptional cases." Nightingale appealed this award to the Seventh Circuit Court of Appeals.

In tackling whether the case was exceptional enough to sustain the award of attorneys' fees, the court was perplexed by the varying standards used by the other circuit courts of appeals to make this determination and that those standards were often too vague to be applied objectively.

Taking a step back to find some clarity, the court looked to the policy behind the Lanham Act's provision for attorneys' fees and found that a "practical concern is the potential for businesses to use Lanham Act litigation for strategic purposes -- not to obtain a judgment or defeat a claim but to obtain a competitive advantage independent of the outcome of the case by piling litigation costs on a competitor."

In light of this policy, the court arrived at the following conclusion as to when a case under the Lanham Act is to be deemed exceptional so as to warrant an award of attorneys' fees:

1. If the defendant prevails and the plaintiff was guilty of abuse of process; or
2. If the plaintiff prevails and the defendant had no defense, but persisted in trademark infringement or false advertising to impose costs on the plaintiff.

In further explaining this standard, the court explained that abuse of process is the use of litigation for an improper purpose, whether or not the claim is colorable, often to compel the victim to yield on some matter not involved in the suit. The court found that predatory initiation of a suit is the same as predatory resistance to valid Lanham Act claims. To justify an award, the party seeking it must show that his opponent's claim or defense was "objectively unreasonable." In other words, the claim or defense was pursued not to obtain a favorable judgment, but only to impose disproportionate costs on his opponent or for purposes of extortion.

In addressing the facts of the case before it, the court noted that Nightingale had brought a Lanham Act claim that had no merit. The court held that what made the case exceptional, however, was the fact that Nightingale had initiated the claim only to coerce Anodyne into reducing the price of its medical devices sold to Nightingale. The court sustained the award of attorneys' fees to Anodyne.

What This Means for You

Though this opinion is binding only in the Seventh Circuit, other jurisdictions may certainly heed its well reasoned approach. Courts do not look kindly upon businesses that use litigation to improperly gain a market advantage. If your business is faced with the prosecution or defense of Lanham Act claims, it would be prudent to take a step back and carefully examine the merits and reasonableness of each side's respective positions to determine whether the case is merely an abuse of process.

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