Fourth Circuit Cleans Up Damages Award in Paper Towel Dispute and Sets Standard for the Award of Fees in Trademark Cases

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In ***Georgia-Pac. Consumer Products LP v. von Drehle Corp.***, ___ F.3d ___, 2015 WL 1404765 (4th Cir. Mar. 30, 2015), as amended (Apr. 15, 2015), the Fourth Circuit reversed a damages award and clarified the standard for damages and fees in trademark cases. The dispute between Georgia-Pacific and von Drehle over von Drehle's "810-B" paper towel began a decade ago and spilled into litigation in three circuits. The litigation in the Eastern District of North Carolina alone has generated two prior appeals. The Fourth Circuit for a third time heard an appeal, reversing in part and vacating in part a damages award to Georgia-Pacific and vacating and remanding a nationwide injunction that conflicted with rulings of the Sixth and Eighth Circuits.

Background of the Dispute

Georgia-Pacific owns the trademark "enMotion®," which it uses to brand a dispenser that dispenses paper towels when a motion sensor is triggered by the user. Georgia–Pacific designed its enMotion® dispenser to dispense only ten-inch paper towels that it manufactures. von Drehle Corporation, a company that competes with Georgia–Pacific in the sale of paper towels, designed a less expensive paper towel—the 810–B paper towel—that it sold specifically for use in Georgia–Pacific's enMotion® towel dispensers.

In response to von Drehle's practice of selling its 810–B paper towels for "stuffing" into enMotion® towel dispensers, Georgia–Pacific commenced three separate actions against von Drehle and its distributors in the Western District of Arkansas, in the Northern District of Ohio, and in the Eastern District of North Carolina. Each action alleged that von Drehle's "stuffing" practice constituted direct and/or contributory trademark infringement of Georgia–Pacific's enMotion® mark, in violation of the Lanham Act, 15 U.S.C. § 1114(1)(a).

In the Arkansas action, the district court ruled against Georgia–Pacific, concluding that von Drehle's practice of stuffing Georgia-Pacific's dispensers "did not create a likelihood of confusion," *Georgia–Pacific Consumer Prod. LP v. Myers Supply, Inc*

., 2009 WL 2192721, at *8 (W.D. Ark. July 23, 2009), and the Eighth Circuit affirmed, 621 F.3d 771, 777 (8th Cir. 2010) (holding that the district court did not "clearly err in finding that the trademark on a dispenser does not indicate the source of the paper towels inside, and concluding that there was no likelihood of confusion, and thus no trademark infringement").

The district court in the Ohio action also ruled against Georgia–Pacific. There, the court found that the Arkansas judgment precluded Georgia–Pacific from relitigating its trademark infringement claim, *see Georgia–Pacific Consumer Prods. LP v. Four–U–Packaging, Inc.*, 821 F. Supp. 2d 948 (N.D. Ohio 2011), and the Sixth Circuit affirmed, 701 F.3d 1093, 1103 (6th Cir. 2012).

By contrast, the North Carolina action, asserted directly against von Drehle, went to trial, and in January 2012 a jury found that von Drehle's conduct constituted contributory trademark infringement and awarded Georgia-Pacific damages of $791,431, which represented von Drehle's profits from the sale of its infringing paper towels from 2005 to the date of the trial. The district court also entered a permanent, nationwide injunction prohibiting von Drehle from infringing Georgia-Pacific's trademark rights. In addition, the district court found von Drehle's infringement willful and intentional and therefore trebled the jury's award to $2,374,293. The court also awarded attorneys' fees of $2,225,782, prejudgment interest of $204,450, and court costs of $82,758. von Drehle appealed the monetary awards and nationwide injunction to the Fourth Circuit.

The Nationwide Injunction Was Too Broad

The Fourth Circuit vacated the nationwide injunction against von Drehle. As noted, the Eighth and Sixth Circuits had concluded that Georgia–Pacific may not enforce its enMotion® mark to prohibit von Drehle's practice of "stuffing" 810–B paper towels into enMotion® towel dispensers. While as a general matter a district court has authority to issue a nationwide injunction prohibiting trademark infringement, equity requires that injunctions be carefully tailored, especially where questions of inter-circuit comity arise. The Eighth and Sixth Circuits had issued conflicting rulings regarding the legality of von Drehl's practice, and other circuits might later agree with those rulings. Thus, to avoid interfering with rulings of its sister circuits, the Fourth Circuit concluded that principles of comity required it to limit the injunction geographically to states in the Fourth Circuit.

Trebling Damages Was Inappropriate

On treble damages, the court held that the district court erred in applying the "willful and intentional" standard from *Larsen v. Terk Techs. Corp.*, 151 F.3d 140, 150 (4th Cir. 1998), because *Larsen* applied to a recovery under 15 U.S.C. § 1117(b), which requires a court to treble damages for a knowing and intentional use of a counterfeit mark. By contrast, this case involved a recovery of profits under 15 U.S.C. § 1117(a). Under § 1117(a), a plaintiff can recover defendant's profits, the plaintiff's damages, court costs, and, in exceptional cases, attorneys' fees. The court noted that, under the Lanham Act, "damages" are treated separately from "profits." And while a court may award treble damages depending on the circumstances of the case, for an award of profits, the court can adjust the award only if it finds the amount of recovery to be either inadequate or excessive. If the recovery is either inadequate or excessive, recovery is limited only to the extent the adjustment is just and compensatory and not punitive. The court found that the jury gave Georgia-Pacific virtually all it sought for lost profits,

and therefore the jury award was not inadequate.

The *Octane Fitness* "Exceptional Case" Standard

Applies to Lanham Act Attorneys' Fees Claims

One of the more significant rulings was on the standard applied to fees. On attorneys' fees, the appellate court found that the district court improperly found the case exceptional, agreeing with von Drehle that the district court mistakenly conflated von Drehle's purposeful conduct in distributing towels for use in Georgia-Pacific's machines with willful and intentional infringement. Significantly, citing the Third Circuit's decision in *Fair Wind Sailing, Inc. v. Dempster*, 764 F.3d 303 (3rd Cir. 2014)), the court also found that the exceptional case standard the Supreme Court articulated in *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014)) for patent cases under 35 U.S.C. § 285 also applies to cases arising under the Lanham Act. Under *Octane Fitness*, a district court may find a case exceptional and award attorneys' fees to the prevailing party when it determines, in light of the totality of the circumstances, that there is a great disparity in the merits of the parties' positions or that the losing party litigated the case in an unreasonable manner. Because the district court did not have the benefit of the *Octane Fitness* standard when considering whether Georgia-Pacific was entitled to attorneys' fees under 15 U.S.C. § 1117(a), the court found it was necessary to vacate and remand the award of attorneys' fees for further consideration.

Prejudgment Interest Not Available

Finally, the court reversed the district court's award of prejudgment interest to Georgia-Pacific, finding that it was not appropriate in the case because Georgia-Pacific claimed only a disgorgement of von Drehle's profits, and not its own damages. The court also noted that while § 1117(b) expressly authorizes prejudgment interest in counterfeit cases, § 1117 makes no express provision for prejudgment interest in other circumstances.

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