In a fight involving sales of mattresses and alleged trash talking pertaining to those mattresses, the US Court of Appeals for the Second Circuit joined the Third, Fourth, Fifth, Sixth, Ninth and Federal Circuits in holding that the Supreme Court of the United States’ decision in *Octane Fitness*—the case setting the standard for determining whether an award of attorneys’ fees under the Patent Act is permissible (*IP Update, Vol. 18, No. 8*)—also applies to the Lanham Act. *Sleepy’s LLC v. Select Comfort Wholesale Corp., et. al.*, Case Nos. 15-3560; 16-3595 (2d Cir. Nov. 27, 2018) (Sack, J).

Sleepy’s, a mattress retailer, entered into a retail partnership with mattress manufacturer and retailer Select Comfort, to sell Select Comfort’s “Personal Preference” line of “Sleep Number” beds. During the arrangement, Select Comfort retained an exclusive right to sell its “core” line of the Sleep Number beds. Not long into the relationship, Sleepy’s became dissatisfied with its poor sales of the Personal Preference line, and started to suspect that the poor performance was due
to Select Comfort’s disparagement of Sleepy’s stores and the Personal Preference mattress line sold by Sleepy’s.

Sleepy’s suspicions were confirmed through secret shopping efforts during which Select Comfort salespeople made statements to Sleepy’s secret shoppers stating that the Personal Preference line was inferior to Select Comfort’s core line in certain respects and was not protected by warranty. Sleepy’s then brought a lawsuit against Select Comfort alleging:

- Breach of contract
- Breach of good faith and fair dealing
- Unfair competition
- Slander *per se*
- Fraudulent inducement
- Violation of the Lanham Act due to false and misleading descriptions of Sleepy’s products

The district court decided in favor of Select Comfort and granted an award of attorneys’ fees to Select Comfort under the “exceptional case” provision of the Lanham Act, finding “overtones” indicating that plaintiff’s case was filed as a “competitive ploy.” Sleepy’s appealed.

On appeal, Sleepy’s argued that the district court improperly dismissed each of its claims and that attorneys’ fees should not have been granted. Out of the six theories of liability alleged, the Second Circuit found that the district court erred only in dismissing the slander cause of action and remanded the slander claims for the district court to determine whether Sleepy’s consented to the allegedly defamatory statements. The Court also vacated the fee award judgment on grounds that the *Octane Fitness* standard should have been applied in determining whether the fees were, in fact, warranted. The Court noted that, on remand, the district court must also provide adequate justification for its apportionment of the fees.

With respect to the slander claims, the Second Circuit agreed with Sleepy’s that the district court erroneously determined that the publication element of the slander cause of action could not be satisfied under New York law if the defamatory statement was made only to the defamed company’s representatives. Instead, the Court concluded that Select Comfort’s statements could meet the publication element despite the fact that they were made to Sleepy’s representatives. However, the Court instructed that the district court should consider on remand whether Sleepy’s consented to the defamatory statements by eliciting them largely for the purpose of enabling the lawsuit.

Finally, the Second Circuit concluded that the district court erred in its fee determination, both as to whether the fees were warranted as an “exceptional” Lanham Act case and as to the amount. While the district court relied on older Second Circuit cases in granting the fee award, the 2014 decision by the Supreme Court in *Octane Fitness* ruled that an “exceptional case” under the Patent Act’s attorneys’ fees provision is one that stands out from others with respect to the substantive strength of a party’s litigating position or the unreasonable manner in which the case was litigated. Joining the majority of the circuits, the Court held that *Octane Fitness* also applies to the Lanham’s Act identically worded attorneys’
fees provision, and thus remanded the issue to the district court for a new
determination under the *Octane Fitness* standard. The Court noted that if the district
court again decided that the case was “exceptional” under the Lanham Act and thus
warranted attorneys’ fees, it must properly apportion the fees specific to only the
Lanham Act claims. In particular, the Second Circuit noted that the district court’s
initial decision failed to provide a rationale for its prior apportionment to enable a
reviewing court to determine whether the apportionment properly aligned with the
Lanham Act claims alleged.

In sum, the Second Circuit affirmed the majority of the district court’s rulings, but
nevertheless vacated and remanded the issues of slander *per se* and the award of
attorneys’ fees under the Lanham Act.

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