

Second Circuit gives tidy answer on attorneys' fees in SLOPPY TUNA trademark row United States - McDermott Will & Emery

Licensing
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Enforcement

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- Plaintiff sued defendant for using SLOPPY TUNA after licence agreement was terminated
- District court included attorneys' fees in award of costs under Rule 41(d)
- Second Circuit affirmed district court's decision, thus following Eighth and 10th Circuits

In *Horowitz v 148 South Emerson Assocs LLC* (Case No 16-3912-cv (Second Circuit, 20 April 2018)) (Walker J), addressing for the first time whether attorneys' fees should be included in an award of costs under Federal Rule of Civil Procedure 41(d), the US Court of Appeals for the Second Circuit has affirmed the district court's decision to include such fees, but nonetheless vacated and remanded the district court's dismissal of the complaint pursuant to the 'first-filed' rule.

Background

In May 2011 four colleagues opened a restaurant in Montauk, New York, called the Sloppy Tuna. They created various corporate entities, including Montauk USA LLC ('Montauk'), which owned the intellectual property associated with the Sloppy Tuna, and 148 South Emerson Associates LLC ('Associates'), which owns and operates the restaurant. In 2016 Montauk sued Associates in district court alleging Lanham Act violations as a result of Associates' use of the SLOPPY TUNA trademarks after the licence agreement between the parties was terminated.

District court decision

The district court dismissed the complaint without prejudice pursuant to the 'first-filed' rule and ordered Montauk to pay Associates' costs, including attorneys' fees, in defending a Georgia state court action for breach of contract regarding Associates' use of the SLOPPY TUNA trademarks, among other things. Furthermore, the district court rejected the claim that Michael Meyer (one of the four colleagues who created the Sloppy Tuna) did not have a derivative right to act on behalf of Associates.

Second Circuit decision

On appeal, the Second Circuit acknowledged "New York's general disfavour of derivative litigation", but agreed with the district court that, in this case, it would be inequitable to prevent Meyer from acting on behalf of Associates "because it would effectively require the LCC to pay license fees to one 50% member [...] at the expense of the other 50% member [...] who would be barred from appearing in the suit".

The Second Circuit, however, vacated and remanded the district court's dismissal pursuant to the 'first-filed' rule, which requires that, if there are two competing lawsuits, the suit that was filed first should (typically) have priority. The district court dismissed the case, citing a state appellate case in Georgia. However, since that case was subsequently transferred to the same district court and assigned to the same district judge that was presiding over this case, "none of the considerations motivating the district court's application of the 'first-filed' rule remain [...] The able district judge is perfectly capable of consolidating them as necessary".

Finally, the Second Circuit affirmed the district court's decision to require Montauk to pay the costs, including attorneys' fees, incurred by Associates in the Georgia state action. Federal Rule of Civil Procedure 41(d) provides that:

[i]f a plaintiff who previously dismissed an action in any court files an action based on or including the same claim against the same defendant, the court [...] may order the plaintiff to pay all or part of the costs of that previous action.

Despite Montauk's arguments to the contrary, the court found that the instant action was based on the same claims as the Georgia state action (ownership and/or use of the SLOPPY TUNA trademarks), stating that "[t]his is the precise type of litigation tactic that Rule 41(d) is meant to deter", namely "forum shopping and vexatious litigation".

Practice note

The issue of whether attorneys' fees may be included with costs under Rule 41(d) has resulted in a circuit

split: the Sixth Circuit has held that attorneys' fees are never available under Rule 41(d), whereas the Eighth and 10th Circuits have held the opposite. The Fourth, Fifth and Seventh Circuits have decided that attorneys' fees may be included only when the statute that serves as the basis for the original suit allows for attorneys' fees.

In this case, the Second Circuit followed the Eighth and 10th Circuits, noting that "the entire Rule 41(d) scheme would be substantially undermined were the awarding of attorneys' fees to be precluded" because these actions typically only result in "minor costs to the adversary other than attorneys' fees, which may be substantial".

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