

2010 WL 11601462

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United States District Court, W.D. Tennessee,
Western Division.

MEDISON AMERICA, INC., a California
Corporation, Plaintiff,

v.

PREFERRED MEDICAL SYSTEMS, LLC, a
Tennessee Limited Liability, Jerry K. McGuire,
Gregg Reed, Brian Keith, Mike Buchko, and
General Electric Company, a New York
Corporation, Defendants.

No. 2:05-02390-DKV

|
Signed 11/12/2010

Attorneys and Law Firms

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TN, for Plaintiff.

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Memphis, TN, for Defendants.

ORDER GRANTING DEFENDANT'S MOTION FOR ATTORNEY FEES

DIANE K. VESCOVO, UNITED STATES
MAGISTRATE JUDGE

*1 Before the court is the November 30, 2007 motion of the defendants, Preferred Medical Systems, LLC, Jerry K. McGuire, and Gregg Reed (collectively the "Preferred Medical defendants"), seeking an order awarding them reasonable attorney fees pursuant to 15 U.S.C. § 1117(a). The plaintiff, Medison America, LLC ("Medison"), filed a response and surreply in opposition to the motion. On January 29, 2008, this court ordered the November 30, 2007 motion to be deferred until after the conclusion of Medison's appeal to the United States Court of Appeal for the Sixth Circuit. After the Sixth Circuit affirmed this court's ruling, the Preferred Medical defendants filed a supplemental memorandum requesting that the court bifurcate the proceedings to first make a determination of liability for fees before determining the amount of the

award and to award fees incurred in the appeals process. The parties previously consented to the jurisdiction of the undersigned United States Magistrate Judge. For the reasons stated below, the Preferred Medical defendants' motion for attorney fees is granted.

FACTUAL AND PROCEDURAL HISTORY

Medison sells ultrasound equipment in the United States. The Preferred Medical defendants are manufacturer representatives for ultrasound equipment manufactured by General Electric ("GE") that competes with Medison in the area of OB/GYN practices. On May 26, 2005, Medison filed a complaint, and subsequently its First Amended Complaint, against the Preferred Medical defendants seeking \$28,000,000 and permanent injunctive relief for claims under the Lanham Act and various state laws. (Defs.' Mem. in Opp'n. 1-2; 1st Am. Compl., D.E. 2, July 25, 2005.) Medison alleged that the Preferred Medical defendants made allegedly false and disparaging statements about Medison to its potential customers.

On November 16, 2007, this court entered an order granting the Preferred Medical defendants' motion for summary judgment. (Order Granting Defs.' Mot. Summ. J., D.E. 155, Nov. 16, 2007.) Final judgment was entered in favor of the Preferred Medical defendants on November 19, 2007, and the Preferred Medical defendants then filed the present motion for attorney fees on November 30, 2007. (Clerk's J., D.E. 157, Nov. 19, 2007.) Medison subsequently filed its notice of appeal on December 11, 2007. (Notice of Appeal, D.E. 165, Dec. 11, 2007.) On January 29, 2008, this court ordered the November 30, 2007 motion to be deferred until after the conclusion of Medison's appeal to the United States Court of Appeal for the Sixth Circuit. (Order Deferring Ruling, D.E. 179, Jan. 29, 2008.)

On December 18, 2009, the United States Court of Appeals for the Sixth Circuit affirmed this court's order granting the Preferred Medical defendants' motion for summary judgment. (6th Cir. Order, D.E. 187, Dec. 18, 2009.) Medison subsequently filed a petition for rehearing and for an *en banc* rehearing of the Sixth Circuit's decision on January 4, 2010. After the Sixth Circuit denied Medison's petition, the Preferred Medical defendants filed a supplemental memorandum in support of its November 30, 2007 motion for attorney fees. (Defs.' Supp. Mem., D.E. 195, May 5, 2007.) Three days after the Preferred Medical defendants filed its supplemental memorandum, Medison filed a petition for

writ of certiorari with the United States Supreme Court. On October 4, 2010, the Supreme Court denied Medison's petition for writ of certiorari. (D.E. 203, Oct. 8, 2010.)

*2 In the November 30, 2007 motion for attorney fees, the Preferred Medical defendants argue that Medison filed its action based on claims that lacked any merit and that the suit was intended to harass them. In response, Medison argues: (1) the court lacks subject matter jurisdiction to rule on the motion, (2) the case is not an "exceptional" case that justifies awarding attorney fees, and (3) the Preferred Medical defendants have failed to support the amount claimed as being reasonable. (Pl.'s Resp. 5-6.) This court addressed Medison's first argument in its January 29, 2008 order deferring its ruling on attorney fees and found that the Preferred Medical defendant's motion was both timely and within the subject matter jurisdiction of this court. (D.E. 179 at 4.) Therefore, this court will only address Medison's arguments that remain.

ANALYSIS

The Preferred Medical defendants specifically request that the court (1) bifurcate the proceedings on the motion by first making a determination of the liability for fees before receiving submissions by the parties bearing on the amount of the award, and (2) find that Medison is liable for its attorney fees incurred during the underlying case and in the course of the appeal. The Preferred Medical defendants have submitted an affidavit which includes only a "fair estimate" of its attorney fees without including hourly rates and details of the specific work performed. The court grants the Preferred Medical defendants request to bifurcate. The court will consider at this time only whether Medison is liable for the Preferred Medical defendants' attorney fees under the Lanham Act and whether the attorney fees incurred in the course of the appeal can be included in the amount of the award. If the court determines Medison is liable for the Preferred Medical defendants' attorney fees under the Lanham Act, then the Preferred Medical defendants will be permitted to submit additional evidence of the amount claimed. Medison will be given a chance to respond to the reasonableness of the amount of attorney fees claimed after the Preferred Medical defendants make its submissions verifying the amount claimed.

A. Liability for Attorney Fees under the Lanham Act

Under 15 U.S.C. § 1117(a), a district court may in exceptional cases arising under the Lanham Act award

reasonable attorney fees to either party prevailing. 15 U.S.C. 1117(a); see also *Sovereign Order of Saint John of Jerusalem, Inc. v. Grady*, 119 F.3d 1236, 1244 (6th Cir. 1997) ("Trial judges have considerable discretion in handling § 1117 motions for attorney fees.") Although the statute does not define what an "exceptional case" is, the Sixth Circuit, in applying 15 U.S.C. 1117(a) to a prevailing defendant, has held that "an exceptional case" is one that could be described as "oppressive." See *Eagles, Ltd. v. American Eagle Foundation*, 356 F.3d 724, 728 (6th Cir. 2004) (quoting *Balance Dynamics Corp. v. Schmitt Indus., Inc.*, 208 F.3d 212, 212 (6th Cir. 2000)). The test for whether a case is oppressive "requires an objective inquiry into whether the suit was unfounded when it was brought and a subjective inquiry into the plaintiff's conduct during litigation." *Id.* at 729.

The Preferred Medical defendants argue that this is an exceptional case in which they should be awarded attorney fees because Medison's Lanham Act claim was objectively unfounded at the time it was initiated and Medison engaged in oppressive conduct during the litigation. In response, Medison states that this court's discovery rulings "restricted Medison in such a way as to make it virtually impossible for Medison to gather proof to refute Defendants' claim that Medison did not have proof." (Pl.'s Resp., D.E. 168 at 19.) The determination on whether Medison's claim is unfounded is based upon the information available when the suit is filed by the plaintiff. See *Eagles, Ltd. v. American Eagle Foundation*, 356 F.3d 724, 728 (6th Cir. 2004) ("The test requires an objective inquiry into whether the suit was unfounded when it was brought") (emphasis added). Thus, Medison's argument, that the court's discovery orders made it impossible to refute the allegation that its claim is unfounded, is meritless.

*3 In arguing that Medison's claim was unfounded, the Preferred Medical defendants allege that the bulk of the claim was based on statements made by the Preferred Medical defendants that Medison should have known were not literally false or misleading. When Medison filed a complaint on May 26, 2005, it alleged that the Preferred Medical defendants made false and disparaging statements about Medison to potential customers. Medison further alleged that it suffered compensatory damages of six million dollars as a result of those statements. Medison asserted that the Preferred Medical defendants made statements that Medison was in bankruptcy, had poor service, was going "out of business," and was "going under" to prospective customers.

This court already found that Medison failed to provide

sufficient evidence to establish the first two elements required for a Lanham Act claim and, therefore, granted summary judgment for the Preferred Medical defendants. Specifically, this court found that Medison did not present sufficient evidence to show that the Preferred Medical defendants made false statements of fact or that the statements were material, in that the statements did not likely deceive the listed prospective customers. Moreover, the Sixth Circuit stated that a Lanham Act claim requires some proof that the statements caused harm to the plaintiff and found that Medison had no such proof. The Sixth Circuit evaluated two affidavits from prospective customers and Medison's complaint and found that the affidavits did not show harm to Medison and the complaint only offered legal conclusions. Because Medison was unable to show evidence of false or deceptive statements or any proof of the harm it endured, the court agrees with the Preferred Medical defendants that Medison's suit was unfounded when it was brought.

The Preferred Medical defendants also argue that this is an exceptional case because Medison engaged in oppressive conduct during litigation. Specifically, the Preferred Medical defendants state that Medison "attempted to introduce false, scandalous and wholly irrelevant testimony about the personal life of one of the [defendants]," made several meritless arguments on appeal, and filed supplemental authority to the Sixth Circuit in order to further delay a final ruling. The Preferred Medical defendants allege that Medison issued subpoenas for the depositions of three witnesses in order to harass the defendant, McGuire, by seeking to obtain testimony regarding his alleged sexual misconduct. This court entered a protective order that quashed one deposition and limited the scope of the other two in order to protect the defendants. Medison challenged the order, and the Sixth Circuit affirmed stating that "[t]he sexual inquiries appeared to have no purpose apart from litigation *in terrorem*; and the district court did not abuse its discretion by prohibiting them."

In addition, the Preferred Medical defendants argue that Medison continued its oppressive litigation tactics by unduly prolonging the litigation. Medison and the Preferred Medical defendants conducted extensive discovery and participated in multiple disputed motions for two years after the complaint was filed in 2005. In 2007, Medison filed a complaint in state court against the Preferred Medical defendants asserting claims identical to those in its May 26, 2005 complaint in the instant federal case. After filing in state court, Medison asked this court to abstain from jurisdiction, which this court denied. The Sixth Circuit affirmed this court's decision and called Medison's conduct "a brazen attempt to forum-shop."

Whether a plaintiff's conduct unreasonably increased the cost of defending the suit is a factor that can be considered when awarding attorney fees. See *Iowa Health System v. Trinity Health Corp.*, 177 F. Supp. 2d 897, 928 (N.D. Iowa 2001) ("A suit is oppressive if it lacked merit, had elements of an abuse of process claim, and plaintiff's conduct unreasonably increased the cost of defending against the suit." (citations omitted)). After considering both party's arguments and the Sixth Circuit's opinion, this court finds that Medison did engage in oppressive conduct during litigation.

*4 Having determined that this suit was unfounded when it was brought and that Medison engaged in oppressive conduct during litigation, this court finds that this is an "exceptional case" and concludes that Medison is liable for the Preferred Medical defendants' attorney fees.

B. Inclusion of Attorney Fees incurred on Appeal

Along with requesting attorney fees for the underlying action, the Preferred Medical defendants also request that the court find that Medison is liable for the attorney fees incurred in the course of the appeal without requiring a separate showing that the appeal itself was also "exceptional." This court has discretionary power to award costs and attorney fees arising from an appeal pursuant to Rule 39 of the Federal Rules of Appellate Procedure. FED.R.APP.P. 38. While the Sixth Circuit has not addressed whether attorney fees should automatically be awarded for the appeal when a Lanham Act case has been deemed "exceptional" at trial level, the Sixth Circuit has automatically awarded attorney fees for the appeal in ERISA cases. See *First Trust Corp. v. Bryant*, 410 F.3d 842, 857 (6th Cir. 2005) ("The analysis [the court] undertook above regarding the appropriateness of awarding [the plaintiff] attorney's fees applies equally to whether [the plaintiff] is entitled to ... attorney's fees on appeal. Accordingly, on remand, the district court is directed to award reasonable attorney's fees ... in connection with this appeal."). Moreover, other circuits have awarded fees and costs incurred on appeal under the Lanham Act without a separate showing that the appeal was frivolous. See *JCW Investments, Inc. v. Novelty, Inc.*, 509 F.3d 339, 342 (7th Cir. 2007) (awarding attorney fees incurred on appeal because the Lanham Act permits an award of attorney fees in the district court's discretion and does not require a finding of frivolity or bad faith); *Committee for Idaho's High Desert, Inc. v. Yost*, 92 F.3d 814, 825 (9th Cir. 1996) ("[T]his case falls within that class of exceptional cases in which courts may award attorney's fees pursuant to § 1117(a). [The plaintiff] is therefore entitled to reasonable attorney's fees on appeal.").

The court finds *Novelty, Inc.* and *Yost* persuasive. The Lanham Act does not distinguish between an “exceptional case” at trial level and an “exceptional case” for appellate purposes. Accordingly, the Preferred Medical defendants are entitled to its attorney fees on appeal.

CONCLUSION

For the reasons stated above, the Preferred Medical defendant’s motion for attorney fees is granted. Counsel for the Preferred Medical defendants’ is directed to submit an affidavit within fourteen days of the date of this

order verifying the amount of attorney fees by itemizing the hours spent and indicating the nature of the particular work done and the hourly rate for that work. Medison shall file a response within fourteen days of receipt of Preferred Medical’s affidavit.

IT IS SO ORDERED this 12th day of November, 2010.

All Citations

Slip Copy, 2010 WL 11601462

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