

Procedural Missteps Cause Fifth Circuit to Affirm Judgment, Fee Award

Article By:

Elisabeth Morgan

M2 Tech., Inc. v. M2 Software, Inc.

In an unpublished decision, the U.S. Court of Appeals for the Fifth Circuit held that a federal district court did not abuse its discretion in issuing a default judgment and fee award against a registered trademark owner based in part on the owner's procedural missteps. *M2 Tech., Inc. v. M2 Software, Inc.*, Case No. 13-4106014 (5th Cir., Oct. 20, 2014) (per curiam).

David Escamilla and his company, M2 Software, Inc., provide information-technology management services under the mark M2. In 1995, the parties registered the mark M2 with the U.S. Patent and Trademark Office (USPTO) in M2 Software's name. In 2008, plaintiff M2 Technology, unaffiliated with Escamilla and M2 Software, applied to register M2 and M2 TECHNOLOGY with the USPTO. Escamilla opposed the applications before the USPTO's Trademark Trial and Appeal Board, and M2 Technology withdrew the applications. However, M2 Technology kept using the M2 marks in connection with its business.

In 2011, Escamilla sued M2 Technology for trademark infringement and appeared pro se. M2 Technology moved to dismiss the case for failure of Escamilla to join M2 Software (the trademark registrant) as a necessary party. As non-natural persons cannot appear before the court pro se, and Escamilla did not want to hire counsel to represent M2 Software, Escamilla failed to join M2 Software and the case was dismissed without prejudice. Escamilla appealed and the Fifth Circuit affirmed.

In July 2012, M2 Technology sued M2 Software for a declaratory judgment that its use of the M2 marks did not infringe M2 Software's rights. Escamilla filed a motion to intervene and a motion to dismiss, but M2 Software never entered an appearance. In October 2012, Escamilla once again sued M2 Technology raising the same claims as the 2011 action. The district court denied Escamilla's motion to intervene in the July 2012 case, reasoning M2 Software adequately represented Escamilla's interests, and granted M2 Technology's request for a declaratory judgment based on M2 Software's default. The court awarded M2 Technology attorney's fees and costs related to the declaratory judgment case on the grounds that M2 Software's conduct was "exceptional." Escamilla and M2 Software appealed.

On appeal, the Fifth Circuit affirmed that denying Escamilla's motion to intervene was proper

because M2 Software would have adequately represented Escamilla's interests. Escamilla is sole shareholder of M2 Software with exclusive control over the company, and the fundamental objective of the company is to derive profit benefiting Escamilla. Thus, the Court held there was no "clear abuse of discretion" in denying Escamilla's motion.

The Fifth Circuit also upheld the district court's declaratory judgment holding based on M2 Software's default. Even though Escamilla's motion to intervene was timely filed, M2 Software failed to appear until nearly one year after the relevant deadline, and such appearance was a notice of appearance of counsel, not a substantive pleading. Because M2 Software failed to explain its non-participation in the case, the Court held that the default judgment was not an abuse of discretion.

Finally, the Fifth Circuit held that the district court's fee award to M2 Technology was "reasonable," because "exceptional" circumstances governed the series of cases between the parties. Escamilla repeatedly attempted to litigate the cases on behalf of M2 Software pro se, despite being informed multiple times that counsel must represent non-natural persons. The Court held that this provided a "plausible basis" for determining that the case is exceptional, and there was no clear error by the district court in awarding M2 Technology attorney's fees.

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