I. INTRODUCTION

Section 35 of the Lanham Act, 15 U.S.C. § 1117, allows a party to seek monetary redress for trademark infringement, unfair competition, and willful trademark dilution. Under the fee-shifting provision of Subsection 1117(a), the prevailing party in actions brought pursuant to the Act’s provisions may recover reasonable attorneys’ fees in “exceptional cases.”¹ Traditionally, in order to find a case “exceptional,” courts required a threshold determination² that the losing party engaged in some form of

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² See, e.g., Mister Softee of Brooklyn, Inc. v. Boula Vending, Inc., 484 F. App’x 623, 624 (2d Cir. 2012) (requiring “finding of willfulness, fraud, or bad faith [as] a prerequisite to finding a case sufficiently exceptional to warrant an award of fees under section 1117(a)” (internal quotations and citation omitted)); Green v. Fornario, 486 F.3d 100, 103 (3d Cir. 2007) (same); cf. Tamko Roofing Prods., Inc. v. Ideal Roofing Co., Ltd., 282 F.3d 23, 31
culpable conduct such as bad faith, fraud, malice, and knowing infringement.³

However, on the same day in 2014, the Supreme Court decided Octane Fitness, LLC v. ICON Health & Fitness, Inc.,⁴ and Highmark Inc. v. Allcare Health Management System, Inc.,⁵ both of which concerned the identical fee-shifting provision found in section 285 of the Patent Act.⁶ Octane Fitness relaxed the traditional test for what constitutes an “exceptional case” in the patent context, while Highmark emphasized that such determinations are reviewed for abuse of discretion. Taking a hint from the Supreme Court’s opinion in Octane Fitness, Circuit and district courts handling Lanham Act cases have reassessed whether a case is “exceptional,” but with differing results. Even so, several trends have emerged that practitioners should keep abreast of in prosecuting successful fee applications.

II. OCTANE FITNESS AND HIGHMARK

In Octane Fitness, the Supreme Court rejected the Federal Circuit’s “overly rigid” interpretation of “exceptional cases” under Section 285 of the Patent Act.⁷ The Federal Circuit previously held that a case was “exceptional” only when a district court either found “litigation-related misconduct of an independently sanctionable magnitude or determine[d] that the litigation was both ‘brought in subjective bad faith’ and ‘objectively baseless.’”⁸ The Supreme Court decided that under the “inherently flexible” statutory text, “an ‘exceptional’ case is simply one that stands out from others with respect to [1] the substantive strength of a party’s litigating position (considering both the governing law and the

³ See Nat’l Bus. Forms & Printing, Inc. v. Ford Motor Co., 671 F.3d 526, 537 (5th Cir. 2012) (requiring demonstration of bad faith, or that the violative acts were “malicious, fraudulent, deliberate, or willful” in order to find the case “exceptional” (internal citation omitted)); Schwartz v. Rent A Wreck of Am., Inc., 468 F. App’x 238, 254 (4th Cir. 2012) (defining “exceptional cases” in the context of prevailing plaintiffs as those in which “the defendant’s conduct was malicious, fraudulent, willful or deliberate in nature” (internal citation omitted)); Cairns v. Franklin Mint Co., 292 F.3d 1139, 1156 (9th Cir. 2002) (defining “exceptional cases” as those found to be “either groundless, unreasonable, vexatious, or pursued in bad faith” (internal citation omitted)).
⁵ 134 S. Ct. 1744 (2014).
⁷ 134 S. Ct. at 1756 (abrogating Brooks Furniture Mfg. v. Dutailier Int’l, Inc., 393 F.3d 1378, 1381 (Fed. Cir. 2005)).
⁸ Id. (quoting Brooks Furniture Mfg., 393 F.3d at 1381).
facts of the case) or [2] the unreasonable manner in which the case was litigated.”9 This determination, the Court stressed, is a “case-by-case exercise of [a district court’s] discretion, considering the totality of the circumstances.”10 In a footnote, the Court added that, in this exercise, “district courts could consider a ‘nonexclusive’ list of ‘factors,’ including: ‘frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence.’”11 Highmark made clear that, in utilizing the new Octane Fitness standard for Section 285, a district court’s fee award determination is reviewed for abuse of discretion, rejecting the Federal Circuit’s de novo standard.12

Significantly, in defining “exceptional” in accordance with its ordinary meaning, Octane Fitness conspicuously cited approvingly of then-Judge Ginsburg’s opinion (joined by then-Judge Scalia) in Noxell v. Firehouse No. 1 Bar-B-Que Restaurant,13 in which the D.C. Circuit “interpret[ed] the term ‘exceptional’ in the Lanham Act’s identical fee-shifting provision, 15 U.S.C. § 1117(a), to mean ‘uncommon’ or ‘not run-of-the-mill.’”14 Nonetheless, both Octane Fitness and Highmark left unsettled whether the Court’s interpretation of “exceptional cases” applies with equal force to Section 1117(a) of the Lanham Act. Federal appellate courts, however, were quick to read between the lines.

III. THE THIRD CIRCUIT TAKES THE LEAD

Little more than four months after the high court handed down Octane Fitness/Highmark, the Third Circuit decided Fair Wind Sailing v. Dempster, and, consequently, became the first federal Circuit Court of Appeals to hold that the Octane Fitness standard to determine “exceptional cases” applies to Subsection 1117(a) of the Lanham Act.15 In so holding, the Third Circuit relied on the fact that Section 285 of the Patent Act is identical to Subsection 1117(a) of the Lanham Act, Congress referenced Section 285 in passing Subsection 1117(a), and Octane Fitness relied on Noxell in determining when a case is “exceptional.”16 The Fair Wind Sailing panel further explained that the Octane Fitness standard relieved a district court of having to make a threshold determination that the losing

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9 Id.
10 Id.
11 Id. at 1756 n.6 (internal citation omitted).
14 Octane Fitness, 134 S. Ct. at 1756.
16 Id.
party engaged in culpable conduct. Instead, “[t]he losing party’s blameworthiness may well play a role in a district court’s analysis of the ‘exceptionality’ of a case.”

Early in 2015, the Fourth Circuit followed suit in Georgia-Pacific Consumer Products LP v. Von Drehle Corp. Based on the reasoning of Fair Wind Sailing, the Georgia-Pacific panel determined that “there is no reason not to apply the Octane Fitness standard when considering the award of attorneys’ fees under [Subsection] 1117(a).” The Fourth Circuit delineated a “totality of the circumstances” standard for an award of attorneys’ fees under the Lanham Act that, to date, remains the most comprehensive:

(1) there is an unusual discrepancy in the merits of the positions taken by the parties . . . based on the non-prevailing party’s position as either frivolous or objectively unreasonable;

(2) the non-prevailing party has litigated the case in an unreasonable manner; or

(3) there is otherwise “the need in particular circumstances to advance considerations of compensation and deterrence.”

And quite recently, the Sixth Circuit in Slep-Tone Entertainment Corp. v. Karaoke Kandy Store, Inc., strongly suggested to the district court on remand that it determine whether the Lanham Act case at hand was “exceptional” under the Octane Fitness standard.

While both the Supreme Court and Circuit courts have stressed the importance of considering Lanham Act attorneys’ fee award applications on a case-by-case, totality of the circumstances basis, notable trends have emerged in the considerations used by district courts; we proceed to spotlight such trends. In addition, we have identified several simple, but critical practice tips to bolster arguments on both sides of fee award applications. Moreover, not all district courts are convinced that Octane Fitness applies to the Lanham Act’s fee-shifting provision, thus requiring practitioners to keep up with trends in particular Circuits.

17 Id. at 315.
18 Id.
19 781 F.3d 710 (4th Cir. 2015).
20 Id. at 721.
21 Id. (quoting Octane Fitness, 134 S. Ct. at 1756 n.6; Fair Wind Sailing, 764 F.3d at 315).
22 782 F.3d 313, 317 (6th Cir. 2015).
IV. DISCREPANCY IN THE MERITS

Perhaps the most significant aspect of Octane Fitness is that it permits a district court, for the first time, to award attorneys’ fees based on the strength of the losing party’s litigating position. The recent case of Renna v. County of Union, which emerged from the District of New Jersey, is a prime example.23 Although a rather unique case, Renna provides valuable insight into how Octane Fitness will be applied to future cases.

In Renna, the plaintiff produced a local public-access television show geared towards criticizing the Union County government.24 On her show, the plaintiff displayed a graphic of the Seal of Union County.25 The County applied to the U.S. Patent and Trademark Office (USPTO) to trademark the seal.26 The County then sent plaintiff a cease-and-desist letter, claiming the seal was “a pending trademark” and its use violated the County’s trademark rights.27 Thereafter, the County’s application was denied after the USPTO found that Section 2 of the Lanham Act,28 prohibited registration of a United States municipality’s insignia like the seal.29 The County did not timely appeal this decision, and the USPTO later sent a Notice of Abandonment of the County’s application.30

Nevertheless, four months after the application’s denial, the County sent the plaintiff a second letter asserting that the “[s]eal is in fact now trademarked” and its use violated federal and state trademark law.31 The letter also suggested that the seal’s usage by the plaintiff might constitute a crime under New Jersey state law.32 The plaintiff thereafter filed—and won on summary judgment—a declaratory judgment as to the County’s rights with respect to the seal.33 The district court found that the County could never sustain a claim of infringement under Section 32 of the Lanham Act because the seal was an unregistered (and essentially unregisterable) mark under Section 2, and was not a protectable

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25 Id.
26 Id.
27 Id. at *2–3.
30 Id.
31 Id. at *4.
32 Id.
33 Id. at *5–7; see also Renna v. Cnty. of Union, No. 2:11-3328, 2014 U.S. Dist. LEXIS 74112, *37 (D.N.J. May 29, 2014) (Renna I) (granting summary judgment to plaintiff).
unregistered mark under Section 43(a). The plaintiff then moved for attorneys’ fees under the Lanham Act.

The magistrate Judge recommended that attorneys’ fees be awarded under Octane Fitness and Fair Wind Sailing, finding the case exceptional because of the “significant disparity in the merits of the parties’ respective litigation positions.” Specifically, the magistrate found that the County “litigated this case by asserting that [plaintiff] violated a registered trademark which [the County] knew, or should have known, did not exist,” given the USPTO’s rejection and the express parallel federal and state statutory bars to registration of the seal. The magistrate further noted that it was hard-pressed to find any purpose, “other than general intimidation,” for the County’s citation to an inapplicable criminal statute in official correspondence with a citizen. In sum, attorneys’ fees were warranted under Subsection 1117(a) because the County maintained a meritless position prior to and during litigation.

Adopting the magistrate’s recommendation, the district court remarked that exceptionality is not confined to a party that asserts a “wholly meritless or frivolous” position, but can apply to a position that has a “sliver of merit,” as did the County’s Section 43(a) claim. The court also emphasized that “pre-litigation conduct,” here the County’s letters that contained “baseless threats,” was a factor in its “totality of the circumstances” analysis.

First and foremost, Renna demonstrates that district courts will not shy away from wielding their new power under Octane Fitness and Fair Wind Sailing to award attorneys’ fee when the losing party takes a largely meritless position. Renna expressly declined to find bad faith, fraud, or maliciousness on the County’s part—a finding that could have previously precluded fee recovery—but held the relative discrepancy in the merits of the parties was enough to justify an award. Additionally, Renna shows

34 Renna II, 2015 U.S. Dist. LEXIS 1370 at *6. Quite notably, at least one leading treatise disagrees with the district court’s reasoning; it observed that “there is no authority allowing the Section 2 standards to be grafted onto questions of trademark validity under Section 43(a) or denying trademark protection to otherwise distinctive trademarks that are ‘inappropriate.’” 1 Anne Gilson LaLonde, Gilson on Trademarks § 3.04 (Matthew Bender ed., 2015); see also id. at § 7.02.
36 Id. at *20.
37 Id. at *20–21.
38 Id. at *21–22.
39 Id. at *22.
41 Id. at *11–12.
42 Again, at least one leading treatise did not believe that the County’s position was meritless. See Anne Gilson LaLonde, supra note 34, at §§ 3.04, 7.02.
that district courts will consider pre-litigation events. Even in communications initially outside the purview of courts, there is a need for civility and reasonable legal judgment. Had the County simply acquiesced to letting the plaintiff use the seal once it realized the mark could not be registered and had little-to-no chance of being protected as an unregistered mark, it could have avoided time-intensive and costly litigation.

_Renna_ was no fluke. Other district courts in more typical Lanham Act cases have awarded attorneys’ fees under the first _Octane Fitness_ factor, citing a party’s use of specious legal arguments as a claim’s foundation and very weak or non-existent presentation of evidence on a claim element. For example, in _Donut Joe’s, Inc. v. Interveston Food Services, LLC_, a district court in the Eleventh Circuit awarded attorneys’ fees to the prevailing defendant in a trademark infringement suit, citing the plaintiff’s “extremely weak arguments” at the summary judgment stage to rebut the defendant’s position that the plaintiff’s mark fell into the “descriptive” category, as well as the plaintiff’s failure to present evidence that its mark had acquired secondary meaning. The plaintiff relied solely on the roundly rejected legal position that its mark is protected as registered with the USPTO. Moreover, the plaintiff had a comparatively very weak argument on the “likelihood of consumer confusion” prong, given the nature of the mark and the plaintiff’s “presented evidence of, at most, five instances of consumer confusion over a three year period.”

Like _Renna_, _Donut Joe’s_ illustrates the importance of advancing sound legal theories grounded in well-developed factual support. Failure to adhere to these precepts may now result in attorneys’ fees under _Octane Fitness_.

_V. GETTING TO UNREASONABLE_

By and large, district courts are awarding attorney’s fees under the second _Octane Fitness_ factor when the losing party engaged in conduct that would have merited attorneys’ fees under the old standard—for instance, sanctionable conduct, unjustified litigating tactics, and fraud. In awarding attorneys’ fees to the prevailing party, the court in _Cross Commerce Media, Inc. v. Collective, Inc._, pointed to, among other things, the fact the defendant took “unreasonable positions” in discovery, its “manner and timing of its production of documents,” and its erroneous position that one of its officer’s did not possess relevant information.

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44 Id. at *10.
45 Id. at *11.
Nonetheless, not all district courts have been so quick to pull the trigger on attorneys’ fees where one party engaged in questionable—and even sanctionable—conduct during litigation.47

And of course, extreme cases continue to warrant attorneys’ fees, now sailing under the flag of “compensation and deterrence.” When courts seek to award fees under the Lanham Act for purposes of compensation, an “exceptional case” is usually found simply because the losing party has needlessly extended or frustrated the litigation, which in turn required attorneys to expend their time in an otherwise unnecessary manner. However, for purposes of deterrence, courts find a case to be exceptional when the losing party’s core business model or claims made in litigation are to be censured for purposes of public policy.

In River Light V, L.P. v. Lin & J International, Inc., both the defendant’s business model and claims made throughout the action were in need of deterrence.48 There, the defendants were engaged in an enterprise that manufactured and sold merchandise that a district court ultimately found was counterfeit and infringed on the trademarks of the well-known fashion brand Tory Burch.49 However, it was the defendant’s conduct before and during the litigation—not simply the counterfeiting and infringement—that ultimately led the court to conclude that the case was “exceptional.”50 This conduct included: fabricating documents submitted to the USPTO in support of a trademark application, producing false evidence during litigation, engaging in spoliation, and continuing to sell their infringing merchandise even during the litigation.51 Based upon the falsehoods, the defendant pushed even further by filing “spurious counterclaims” for tortious interference with business relations, defamation, and “ironically,” abuse of process.52

The Court found that these actions constituted an “extensive and flagrant fraud” that was done “with the intent to deceive and profit at the expense of the administration of justice” and found the case to be exceptional in order to deter such conduct in the future.53 The court likewise relied on the fact that the plaintiffs should be compensated because the conduct “substantially delayed this litigation, driving up

49 Id. at *3–5.
50 Id. at *29.
51 Id. at *3–5, *8–9, *29.
52 Id. at *4.
53 Id. at *3–4, *29.
discovery costs and clogging the docket with unnecessary applications and motion practice.\textsuperscript{54}

Riverlight is an excellent example of the intersection between ethics and case prosecution, particularly in the type of case where a court can grant fees. Practitioners should be wary of answering Lanham Act complaints with specious or impassioned Answers and Counterclaims, even when proud clients demand they do so. In such instances, it is better to counsel the client to litigate in an evenhanded manner, lest the court enter sanctions. Likewise, although it goes without saying, as officers of the court, attorneys are duty-bound to not indulge clients who might seek to purposely mislead the court or their adversaries. After Octane Fitness, courts’ thin patience with such conduct is much more likely to result in the entering of an order awarding fees in Lanham Act cases.

VI. PRACTICE TIPS

1. TOWARDS A MORE CIVIL PRACTICE

As is evident from the aforementioned cases, courts are often swayed in their decision-making process when a party has been particularly vexatious in its litigation tactics. While this is certainly true with respect to cases in which the non-prevailing party is blameworthy, such as in Renna, it is likewise true with respect to cases in which both prevailing and non-prevailing parties were unreasonable in their manner of litigating.

For example, in AFD China Intellectual Property Law (USA) Office, Inc. v. AFD China Intellectual Property Office, the parties were initially associated in a joint venture to provide Chinese-based intellectual property services to clients located in the United States.\textsuperscript{55} After the venture fell apart, the parties filed claims against one another for, among other things, unfair competition and trademark infringement under the Lanham Act.\textsuperscript{56} The court found in favor of the defendant on those issues, but awarded only nominal damages because the defendant had not presented any such evidence.\textsuperscript{57}

When the defendant moved for attorneys’ fees and expenses under the Lanham Act, the court noted the applicability of Octane Fitness, but found that as to the “reasonableness in the manner of litigation,” “both parties were contributors to the unnecessary complication, expense, and length of this litigation,” and therefore denied the defendant’s

\textsuperscript{54} Id. at *4.
\textsuperscript{56} Id.
\textsuperscript{57} Id. at *6.
application. The court pointed to the fact that the parties could not agree on relatively straightforward tasks, such as developing a verdict sheet, refused to confer on issues like the setting of expert witnesses until the court brought them to heel, and were both generally untimely in their motion practice. According to the court, “these [were] but a few examples of the parties’ mutual inability to cooperate with each other and to respond sufficiently to the Court’s orders and inquiries.”

*AFD China* is a model example of a Lanham Act fees case in which the court has imposed the Shakespearean “plague on both their houses.” That is, the court found faults with both sides’ tactics, and determined that the case was not “exceptional” under the “unreasonableness” principle of *Octane Fitness* due to those universal faults. This again shows the need for attorneys to take the proverbial high road with their adversaries and with the court, no matter how difficult it might seem. Though the plaintiff in *AFD China* was awarded nominal damages on its claim for unfair competition and trademark infringement, it might have walked away with its fees and expenses paid if its attorneys engaged the adversary and the court in a competent and timely manner regardless of whether the adversary returned in kind.

2. LOCATION, LOCATION, LOCATION

Like any other matter in which the law remains unsettled, practitioners must remain mindful of the Circuit in which their case is venedued in prosecuting or defending Lanham Act fee applications. While the Third and Fourth Circuits have clarified their views on *Octane*, other Circuits remain less clear, which has led to district courts to come to one of three conclusions. On one end of the spectrum, district courts, particularly in the Second and Sixth Circuits, have eschewed *Octane* in favor of old standards without binding Circuit precedent. Other courts have seesawed; finding that under *Octane* or any other standard, the particular case would or would not be “exceptional.”

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58 Id. at *12–14.
59 Id. at *14–20.
61 Id. at *9, *21.
Finally, still other courts are prescient enough to fully rely upon *Octane Fitness*, often utilizing *Fair Wind Sailing* and *Georgia-Pacific* to craft their ruling even prior to a binding decision from their circuit court. 64 Given the state of the law, many practitioners must either rely upon district court precedent, or the Circuit precedent of other circuits, in drafting their arguments. Nonetheless, the trend toward full adoption in all Circuits is clear.

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