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THIRD CIRCUIT TAKES THE WIND OUT OF FRIVOLOUS LITIGATORS’ SAILS IN FAIR WIND SAILING, INC. V. DEMPSTER

TRAVIS DUNKELBERGER*

“The U.S. has more costs of litigation per person than any other industrialized nation in the world, and it is crippling our economy.”

I. LEARNING THE ROPES: DETERMINING ATTORNEYS’ FEES IN INTELLECTUAL PROPERTY LITIGATION

$700,000. According to a 2007 survey, this figure represents the average cost incurred by parties litigating trade dress claims.1 Unsurprisingly, this high price has a huge impact on whether companies are capable of defending—or even initiating—trade dress claims.2 For some, these numbers could mean risking the entire company’s viability for the sake of protecting its trade dress rights.3 Such risk comes with a silver lining, however, as litigants may seek

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3. See, e.g., Ashlee Kieler, Deal with Hershey’s Puts an End to Import of Cadbury Chocolates, CONSUMERIST (Jan. 26, 2015), http://consumerist.com/2015/01/26/deal-with-hersheys-puts-an-end-to-import-of-cadbury-chocolates/ [http://perma.cc/5DEB-P5P7] (“It is important for Hershey to protect its trademark rights and to prevent consumers from being confused or misled when they see a product name or product package that is confusingly similar to a Hershey name or trade dress.” (quoting Jeff Beckman, Hershey representative) (internal quotation marks omitted)). The lawsuit by Hershey prohibits the import of British-produced Cadbury Chocolate and threatens to put businesses that sell those products out of business. See Partij Kavilanz, Trademark Wars Heat Up. Be Ready., CNNMONEY (Dec. 1, 2011, 11:50 AM), http://money.cnn.com/2011/12/01/smallbusiness/trademark/ [http://perma.cc/25YQ-UA2K] (examining manner in which trade dress litigation can substantially affect small businesses). Matthew Swyers, founder of the Trademark Company, offered advice on costs to potential litigants stating “[I]f [litigation] fees start exceeding your returns, maybe it’s better to settle and change the trademark and still keep the business.” Id. (internal quotation marks omitted).

attorneys’ fees against frivolous claims to help recoup expenditures associated with trade dress lawsuits.5

Even for successful litigants, winning the suit does not automatically guarantee the court will award attorneys’ fees.6 Until 2014, trade dress litigants in the Third Circuit could only recover attorneys’ fees if the court found the case to be “exceptional” after application of a two-step process.7 This fee- assessment method—which the court applied restrictively, awarding fees in only narrow, limited circumstances—considered (1) whether the parties exhibited culpable conduct; and (2) whether the culpable conduct was exceptional under the Lanham Act.8

The Third Circuit, however, steered away from its restrictive standard in Fair Wind Sailing v. Dempster9 and instead adopted a broader definition of exceptional for trade dress claims under the Lanham Act.10 In Fair Wind

the trade dress of Apple products and ordered Samsung to pay $1.05 billion dollars in damages. See id. However, due to technical issues with the jury’s calculations, a new trial was set with both parties seeking adjustments to the amount. See id. Despite Samsung remaining in business, the case demonstrates the huge risks associated with litigating trade dress rights. See, e.g., Kavilanz, supra note 3 (describing risks inherent in trademark dress matters).


7. See Fair Wind Sailing, Inc. v. Dempster, 764 F.3d 303, 314 (3d Cir. 2014).

First, the District Court must decide whether the defendant engaged in any culpable conduct. We have listed bad faith, fraud, malice, and knowing infringement as non-exceptional examples of the sort of culpable conduct that could support a fee award. Moreover, the culpable conduct may relate not only to the circumstances of the Lanham Act violation, but also to the way the losing party handled himself during the litigation. Second, if the District Court finds culpable conduct, it must decide whether the circumstances are “exceptional” enough to warrant a fee award.

Id. (quoting Green v. Fornario, 486 F.3d 100, 103 (3d Cir.2007)). The two-step analysis from Green was used by the Third Circuit to “find culpability before awarding attorneys’ fees under the Lanham Act” for the past twenty years. See id.

8. See Ferrero U.S.A., Inc. v. Ozak Trading, Inc., 952 F.2d 44, 47, 48 (3d Cir. 1991) (noting failure of lower court to articulate “explicit finding” that other party “acted willfully or in bad faith” before awarding fees), abrogated by Fair Wind Sailing, 764 F.3d 303 (3d Cir. 2014). The court in Ferrero found awarding attorney fees appropriate only in cases that “involve[d] deliberate attempts by the defendant to pass off its goods as those of the plaintiff by applying plaintiff’s trademark to defendant’s goods.” See id. at 48–49.

9. 764 F.3d 303 (3d Cir. 2014).

10. See id. (importing alternative meaning of exceptional to assess attorneys’ fees in trademark claim); see also id. at 315 (remanding for district court’s determination on whether plaintiff’s claim was exceptional and required attorneys’ fees to be awarded). The Third Circuit provided some guidelines by finding the court “may award fees as a result of either the
Sailing, the Third Circuit imported the definition from a different intellectual property context, relying on the leading Supreme Court precedent in Octane Fitness v. ICON Health & Fitness,11 a patent law case.12 Notwithstanding the involvement of patent law, the Third Circuit determined Octane Fitness’s approach created a more effective policy regarding attorneys’ fees.13 As a result, the Third Circuit’s broader interpretation of exceptional integrates different areas of intellectual property law to reduce frivolous litigation of meritless trade dress claims.14

This Casebrief examines the Third Circuit’s new interpretation of exceptional, which increases the likelihood of awarding attorneys’ fees under the Lanham Act and addresses the benefits that accompany the court’s willingness to import features from other areas of intellectual property law.15 Part II discusses the Lanham Act and the development of awarding attorneys’ fees in the federal courts, and more recently, in the Third Circuit.16 Part III examines the Third Circuit’s decision in Fair Wind Sailing and focuses on the court’s reasoning for applying an alternative meaning of exceptional in the context of trademark claims.17 Part IV discusses the use of sanctions and fee-shifting provisions to provide financial relief for litigants.18 Part V provides a guide for practitioners to avoid fee-shifting provisions by structuring trade dress

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12. See id. 1756–57 (redefining exceptional to determine whether attorneys’ fees should be awarded in Patent Act cases); id. at 1756 (noting fee-shifting provisions in both Patent Act and Lanham Act contained identical language regarding attorneys’ fees (citing Noxell Corp. v. Firehouse No. 1 Bar-B-Que Rest., 771 F.2d 521, 526 (D.C. Cir. 1985))); The Supreme Court also removed the clear and convincing evidence standard for parties seeking attorneys’ fees under the Patent Act. See id. at 1758.
14. See id. (acknowledging new meaning of exceptional was imported from different area of intellectual property law). Although patent and trademark claims are litigated under separate Acts, the identical statutory language in each Act’s attorneys’ fees provision allowed the court to apply the new, Patent-Act meaning of exceptional to the Lanham Act. See id. at 315 (“We believe that the Court was sending a clear message that it was defining ‘exceptional’ not just for the fee provision in the Patent Act, but for the fee provision in the Lanham Act as well.”).
15. See id. at 315 (explaining that Congress referenced § 285 while passing Lanham Act); see also S. REP. NO. 93-1400, at 7133 (1974), reprinted in 1974 U.S.C.C.A.N. 7132, 7133 (“[A]lthough the patent law and the copyright law provide for reasonable attorney fees, this remedy is not now available in the trademark area. The Department of Commerce believes and the Committee agrees that the remedy should be available in exceptional cases . . . .”).
16. For a discussion of the Lanham Act and development of awarding attorneys’ fees in exceptional cases, see infra notes 25–57 and accompanying text.
17. For a discussion of the Third Circuit’s decision to adopt a new meaning of exceptional, see infra notes 92–96 and accompanying text.
18. For a discussion of motions for sanctions and fee-shifting provisions as avenues for recovering court costs, see infra notes 97–120 and accompanying text.
Finally, Part VI concludes that *Fair Wind Sailing* demonstrates the unique ability of intellectual property to blend different areas of the law together.  

II. **Batten Down the Hatches: Courts Rock the Boat by Broadening Fee-Shifting Provisions**

To understand the significance of *Fair Wind Sailing*’s expansive standard, it is important to consider the development of the term *exceptional* in the broader context of intellectual property law. First, the Lanham Act, specifically Section 35(a), is discussed to explain its impact on trade dress claims by allowing courts to award attorneys’ fees to successful parties in litigation. Second, a comparative overview of the Patent Act—most notably Section 285—is provided to demonstrate its role in shaping fee-shifting provisions within the Third Circuit. Finally, consideration is given to the court’s redefining of the term *exceptional* to allow for greater recovery of attorneys’ fees, and the impact it will have on intellectual property claims moving forward.

A. **The Lanham Act: An Anchor for Trade Dress Claims**

Trade dress claims involve disputes over a product’s physical appearance, the way the product is presented or promoted, or the product’s involvement with marketing strategies. These claims generally are brought when “the trade dress of two businesses is sufficiently similar to cause confusion among consumers,” and they are litigated under the Lanham Act, which regulates the

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19. For a discussion of *Fair Wind Sailing*’s impact on practitioners and guidance for litigating trade dress claims, see infra notes 121–42 and accompanying text.
20. See infra notes 143–45.
21. For a further discussion on the development of exceptional as it relates to awarding attorneys’ fees in patent and trademark claims, see infra notes 25–50 and accompanying text.
24. For a further discussion of the term *exceptional* as it relates to Third Circuit jurisprudence, see infra notes 35–41 and accompanying text.
25. See Rose Art Indus., Inc. v. Swanson, 235 F.3d 165, 171 (3d Cir. 2000) (“Trade dress has been defined as the total image or overall appearance of a product, and includes, but is not limited to, such features as size, shape, color or color combinations, texture, graphics, or even a particular sales technique.”); see also Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 768 (1992) (“A trademark . . . includ[es] ‘any word, name, symbol, or device or any combination thereof’ used by any person ‘to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.’” (quoting 15 U.S.C. § 1127))).
use of trademarks in commercial activity.26

Created in 1946, the Lanham Act established a cause of action for trade dress infringement.27 Most notably, Section 43(a) includes protection for a party’s “trade dress,” which “has been defined as the total image or overall appearance of a product, and includes, but is not limited to, such features as size, shape, color or color combinations, texture, [or] graphics . . . .”28 Trade dress may be anything from distinctive restaurant décor to the shape of various beverage bottles.29 The purpose of trade dress protection is to “secure the

26. See Trade Dress, THEFREE DICTIONARY, http://legal-dictionary.thefreedictionary.com/Trade+dress [http://perma.cc/C5Y5-DJ65] (last visited Nov. 4, 2015) (defining trade dress and describing basic trade dress claims); see also Lauren Krohn, Causes of Action for Trade Dress Infringement Under § 43(a) of the Lanham Act [15 USC § 1125(a)] , 7 CAUSES ACTION 2d 725 (1995) (detailing trade dress claims under Lanham Act provisions). In order to establish a prima facie case in an action under § 43(a) of the Lanham Act the plaintiff must first show that: “[t]he defendant’s use of a similar trade dress design is likely to cause confusion among consumers as to the source of the parties’ goods or services.” Id. (citation omitted); see also Wal-Mart Stores, Inc. v. Samara Bros. Inc., 529 U.S. 205, 209 (2000) (“The Lanham Act provides for the registration of trademarks, which it defines in § 45 to include ‘any word, name, symbol, or device, or any combination thereof [used or intended to be used] to identify and distinguish [a producer’s] goods’ . . . .” (alterations in original)). Some examples of distinctive trademarks include Nike’s “swoosh” symbol in the clothing industry and “Tide” laundry detergent or “Camel” cigarettes in brand marketing. See Samara Bros. Inc., 529 U.S. at 210 (internal quotation marks omitted).


28. See Sweet St. Desserts, Inc. v. Chudleigh’s Ltd., 69 F. Supp. 3d 530, 540 (E.D. Pa. 2014) (internal quotation marks omitted) (describing types of trade dress that are protected under Lanham Act). “Section 43(a) of the Lanham Act [also] prohibits the use of ‘any word, term, name, symbol, or device . . . .’ that is ‘likely to cause confusion, or to cause mistake, or to deceive . . . . as to the origin, sponsorship, or approval of his or her goods.’” Id. (third alteration in original) (citation omitted).


[A]n exposed glassed-in butcher shop for meat preparation, which includes an area for hanging beef and for cutting and processing beef; a beef showcase; an exposed on-premises bakery for the preparation of bread and dessert products; a bakery showcase for the bakery products; a fresh vegetable condiment island with stacked vegetables, in part, in original shipping cartons; an open display of bags of potatoes, onions, flour and sugar; cases of beverages stacked to form aisles and tables; the extensive use of white tile on counters and walls; dark brown and white checkerboard asbestos tile flooring; and interior green bands of neon lights and neon beer signs.

Id.; see also Ex parte Haig & Haig Ltd., 1958 Dec. Comm’r Pat. 89 (finding shape and style of glass bottle to be properly labeled as trade dress of scotch liquor company); see also Two Pesos, 505 U.S. at 765–67 (noting jury finding in district court that trade dress claim exists because of unique theme of restaurant décor). The restaurant chain in Two Pesos had a
owner of the [trade dress] the goodwill of his business and to protect the ability of consumers to distinguish among competing producers.”

In order to prevail in a trade dress infringement case a plaintiff must prove three elements: “(1) the allegedly infringing design is non-functional; (2) the design is inherently distinctive or has acquired secondary meaning; and (3) consumers are likely to confuse the source of the plaintiff’s product with that of the defendant’s product.”

B. Same Ocean, Different Tides: Courts Provide Direction for Litigants Seeking Attorneys’ Fees

Because enforcing trade dress rights is expensive, some jurisdictions allow fee-shifting provisions to offset the risks of bringing a claim. The Third Circuit has historically allowed fee-shifting through contractual provisions and statutes such as the Lanham Act. However, in earlier cases, the Third Circuit

“festive eating atmosphere having interior dining and patio areas decorated with artifacts, bright colors, paintings and murals.” See id. at 765 (quoting Taco Cabana Int’l, Inc. v. Two Pesos, Inc., 923 F.2d 1113, 1117 (5th Cir. 1991)) (internal quotation marks omitted). The appellate court emphasized the visual aspects of the restaurant chain, including the “vivid color scheme using top border paint and neon stripes” and “[b]right awnings and umbrellas [to] continue the theme.” See id. (internal quotation marks omitted). 30. See Shire U.S., Inc. v. Barr Labs., Inc., 329 F.3d 348, 353 (3d Cir. 2003) (alteration in original) (quoting Two Pesos, 505 U.S. at 774) (internal quotation marks omitted) (noting similarity between trademark rights and patent protection). However, the Shire court distinguished trade dress protection from patent protection because trade dress “does not foster innovation by preventing reverse engineering or copying of innovative product design features.” See id. The court understood the reality that “there is no prohibition against copying goods and products.” See id. (internal quotation marks omitted). Rather, “’[t]rade dress’ refers to the design or packaging of a product which serves to identify the product’s source.” See id.

31. McNeil Nutritionals, LLC v. Heartland Sweeteners, LLC, 511 F.3d 350, 357 (3d Cir. 2007) (laying out framework for assessing trade dress infringement claim); see also Clicks Billiards, Inc. v. Sixshooters, Inc., 251 F.3d 1252, 1260–61 (9th Cir. 2001) (allowing trade dress claim to survive summary judgment when business’s nonfunctional features were unique to industry). In Clicks, the Ninth Circuit allowed separate functional features to aggregate into trade dress infringement when, taken as a whole, the “composite tapestry of visual effects” was unique to a certain industry or business. See Clicks Billiards, 251 F.3d at 1259, 1260–61. See generally 15 U.S.C. § 1125(a) (providing relevant framework for trade dress claims).

32. See Bijani, supra note 5, at 817 (highlighting circuit split on application of exceptional standard under Lanham Act). The language in the Lanham Act is deceptively simple. See id. Application of the standard, on the other hand, has been unclear, and the federal circuits are deeply split on the requisite showing to prove exceptionality under the Act. See id. At least six circuit courts require the moving party to prove a bad faith requirement before allowing fee-shifting. See id. at 817–19. Six other circuits do not require the plaintiff to demonstrate the defendant’s bad faith or fraud, but rather consider both as factors in awarding fees. See id. at 820–22.

33. See Kevin P. Allen, Contractual Fee-Shifting Clauses—How to Determine “Prevailing Party” Status, 74 Pa. B. Ass’n Q. 178, 179 (2003) (“[T]here are exceptions to the American rule that permit the successful litigant to recover its attorneys’ fees from the vanquished. Two common exceptions are (1) statutory fee-shifting provisions and (2)
applied different standards to fee-shifting provisions.\textsuperscript{34}

1. \textit{Fee-Shifting in the Third Circuit}

Prior to \textit{Fair Wind Sailing}, the Third Circuit used a two-step inquiry under Section 35(a) of the Lanham Act to assess possible attorneys’ fees awards.\textsuperscript{35} Under Section 35(a), parties could receive attorneys’ fees in exceptional trademark cases, which required both culpable conduct and exceptional circumstances.\textsuperscript{36} Culpable conduct is a threshold requirement and includes factors such as “bad faith, fraud, malice, and knowing infringement.”\textsuperscript{37} If the district court finds culpable conduct, it then considers the circumstances surrounding the case to determine if the party’s actions constituted an exceptional finding.\textsuperscript{38}

This exceptional determination is difficult for parties seeking fees to meet; the court has construed it quite narrowly and has seldom awarded attorneys’ fees—even in cases of intentional misconduct and negligence.\textsuperscript{39} Applying this two-step analysis, the Third Circuit occasionally has not awarded attorneys’ fees even after finding a party’s actions were exceptional.\textsuperscript{40} Although

\textsuperscript{34} For a further discussion on the Third Circuit’s two-step analysis for awarding attorneys’ fees prior to \textit{Fair Wind Sailing}, see infra notes 35–41 and accompanying text.

\textsuperscript{35} \textit{See} \textit{Green v. Fornario}, 486 F.3d 100, 103–04 (3d Cir. 2007) (requiring two-step analysis to determine merits of attorneys’ fees under Lanham Act); \textit{Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.}, 393 F.3d 1378, 1381 (Fed. Cir. 2005) (detailing Federal Circuit’s application of exceptional in patent cases), abrogated by \textit{Octane Fitness, LLC v. ICON Health & Fitness, Inc.}, 134 S. Ct. 1749 (2014). The two-step process from \textit{Green} was consistent with patent cases in the Federal Circuit, which assessed whether the litigation was both “brought in subjective bad faith” and “objectively baseless.” \textit{See id.}

\textsuperscript{36} \textit{See} \textit{Green}, 486 F.3d at 103–04 (providing examples of culpable conduct and objectively baseless litigation). The Third Circuit described culpable conduct as that conduct which “relate[s] not only to the circumstances of the Lanham Act violation, but also to the way the losing party handled himself . . . .” \textit{See id.} at 103. In addition, the court further explained how to assess whether litigation is objectively baseless, listing “closeness of the liability question and whether the plaintiff suffered damages” as factors to consider. \textit{See id.} (citing \textit{Ferrero U.S.A., Inc. v. Ozak Trading, Inc.}, 952 F.2d 44, 49 (3d Cir. 1991)).

\textsuperscript{37} \textit{See id.} (listing various factors used to determine whether party engaged in culpable conduct). However, these factors are “non-exclusive,” because the court has considerable discretion to determine whether a party has engaged in culpable conduct. \textit{See id.}

\textsuperscript{38} \textit{See id.} (acknowledging several factors that go into exceptional determination).

\textsuperscript{39} \textit{See Salton Inc. v. Cornwall Corp.}, 477 F. Supp. 975, 992 (D.N.J. 1979) (expressing reluctance to award attorneys’ fees under Lanham Act despite intentional infringement of trademark rights). Interestingly, the New Jersey District Court in \textit{Salton} held that the plaintiff was entitled to attorneys’ fees for intentional infringement of their trademark rights, but not under the Lanham Act. \textit{See id.} Instead, the court relied on New Jersey Supreme Court precedent to award fees under a lower culpability requirement. \textit{See id.} at 992–93. The court used this broader standard as a punitive measure to deter companies from infringing on trademark rights. \textit{See id.} at 992.

\textsuperscript{40} \textit{See Birthright v. Birthright Inc.}, 827 F. Supp. 1114, 1144 (D.N.J. 1993) (refusing to award attorneys’ fees because dispute involved two non-profit organizations motivated by “[p]olitical and social concerns”). In \textit{Birthright}, the New Jersey District Court held that
attorneys’ fees provisions are subject to judicial discretion, the Third Circuit has rarely used this power to discourage meritless, retaliatory, or bad faith claims.\footnote{See \textit{Jones Apparel Grp., Inc. v. Steinman}, 466 F. Supp. 560, 564 (E.D. Pa. 1979) (denying attorneys’ fees to plaintiff despite record that might support finding that defendant intentionally sold goods two months after learning it was prohibited). For other examples of courts within the Third Circuit that have refused to award plaintiffs attorneys’ fees despite showings of the defendant’s intentional negligence or misconduct, see supra notes 38–39 and accompanying text.}

2. \textit{All Aboard: Federal Courts Apply Fee-Shifting Provisions in Patent Cases}

Fee-shifting provisions are not unique to trade dress claims, as they are also used to award attorneys’ fees in patent infringement cases.\footnote{See \textit{Jones Apparel Grp., Inc. v. Steinman}, 466 F. Supp. 560, 564 (E.D. Pa. 1979) (denying attorneys’ fees to plaintiff despite record that might support finding that defendant intentionally sold goods two months after learning it was prohibited). For other examples of courts within the Third Circuit that have refused to award plaintiffs attorneys’ fees despite showings of the defendant’s intentional negligence or misconduct, see supra notes 38–39 and accompanying text.} Historically, the Patent Act has substantially influenced how courts have awarded attorneys’ fees in trade dress claims.\footnote{See \textit{Jones Apparel Grp., Inc. v. Steinman}, 466 F. Supp. 560, 564 (E.D. Pa. 1979) (denying attorneys’ fees to plaintiff despite record that might support finding that defendant intentionally sold goods two months after learning it was prohibited). For other examples of courts within the Third Circuit that have refused to award plaintiffs attorneys’ fees despite showings of the defendant’s intentional negligence or misconduct, see supra notes 38–39 and accompanying text.} In fact, the Third Circuit’s two-step analysis prior to \textit{Fair Wind Sailing} was consistent with how other federal courts assess exceptionality under the Patent Act.\footnote{See \textit{Jones Apparel Grp., Inc. v. Steinman}, 466 F. Supp. 560, 564 (E.D. Pa. 1979) (denying attorneys’ fees to plaintiff despite record that might support finding that defendant intentionally sold goods two months after learning it was prohibited). For other examples of courts within the Third Circuit that have refused to award plaintiffs attorneys’ fees despite showings of the defendant’s intentional negligence or misconduct, see supra notes 38–39 and accompanying text.}

Despite being enacted in 1790, the Patent Act did not allow for recovery of attorneys’ fees until 1946, when Congress amended it to include a discretionary provision based on the court’s addition of the exceptional standard.\footnote{See \textit{Octane Fitness}, 134 S. Ct. at 1749, 1753 (2014) (providing historical overview of attorneys’ fees awards in Patent Act claims). The Supreme Court connected its past reluctance to award fees to a narrow interpretation of what actions qualified as exceptional. See \textit{id}.} Courts have possessed the power to award attorneys’ fees since 1946, although they have rarely exercised it because “[t]hey viewed the award of fees . . . as appropriate ‘only in extraordinary circumstances.’”\footnote{See \textit{Octane Fitness}, 134 S. Ct. at 1749, 1753 (2014) (providing historical overview of attorneys’ fees awards in Patent Act claims). The Supreme Court connected its past reluctance to award fees to a narrow interpretation of what actions qualified as exceptional. See \textit{id}.}

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\footnote{See \textit{Octane Fitness}, 134 S. Ct. at 1749, 1753 (2014) (providing historical overview of attorneys’ fees awards in Patent Act claims). The Supreme Court connected its past reluctance to award fees to a narrow interpretation of what actions qualified as exceptional. See \textit{id}.}
After the fee-shifting provision was codified in Section 285, however, courts began to acknowledge and apply it more frequently. For example, use of Section 285 became increasingly common as federal courts abandoned the narrow, more limited approach to attorney fee awards in Brooks Furniture Manufacturing, Inc. v. Dutailier International, Inc. In Brooks, the United States Court of Appeals for the Federal Circuit took a more expansive view of exceptionality and allowed recovery of attorney fees if two criteria were met: “(1) the litigation was brought in subjective bad faith, and (2) the litigation was objectively baseless.” The Brooks standard controlled attorney-fee case law for nine years until the Supreme Court provided a new definition of exceptional in 2014.

C. Changing Course: The Supreme Court Redefines Exceptional in Octane Fitness

In 2014, the Supreme Court found the Brooks standard was “unduly rigid” attorneys’ fees under previous interpretation). Rather, the fee-shifting provisions evolved over time as the courts changed the meaning of exceptional and would not become an “ordinary thing” in patent and trademark cases until decades later. See id. at n.1 (internal quotation marks omitted) (“This provision did ‘not contemplat[e] that the recovery of attorney’s fees [would] become an ordinary thing in patent suits...’” (alterations in original) (quoting S. REP. NO. 79-1503, 2 (1946))).

47. See id. (“Six years later, Congress amended the fee-shifting provision and recodified it as § 285.”). The revised language of the provision instructs that “[t]he court in exceptional cases may award reasonable attorney’s fees to the prevailing party.” See id. at 1752 (alteration in original) (quoting 35 U.S.C. § 285 (2012)). Although the recodification “did not substantively alter the meaning of the statute” it would be interpreted narrowly in future cases. See id. at 1753 (noting courts still applied § 285 in discretionary manner following recodification).

48. 393 F.3d 1378 (Fed. Cir. 2005), abrogated by Octane Fitness, 134 S. Ct. 1749 (2014) (creating rigid framework for finding exceptional circumstances in Patent Act cases). Some factors listed by the court include material inappropriate conduct, willful infringement, fraud, inequitable conduct, and unjustified litigation. See id. at 1381. Under Brooks, these factors must be proven by a clear and convincing standard. See id. at 1382 (applying old standard of exceptional in patent claim).

49. See id. at 1381–82 (providing framework to assess whether case was exceptional in Federal Circuit patent case). This rigid framework required the plaintiffs to prove both criteria to win attorneys’ fees. See id. In heightening the standard, the Brooks court provided some guidance on the application of both requirements. See id. First, a court should presume that a case was brought in good faith; the improper conduct needs to “be established by clear and convincing evidence.” Id. at 1382. Second, the objectively baseless requirement “does not depend on the state of mind of the plaintiff at the time that the action was commenced, but rather requires an objective assessment of the merits.” Id.

50. See Octane Fitness, 134 S. Ct. at 1751 (“Because the Patent Act does not define ‘exceptional,’ the term is construed ‘in accordance with [its] ordinary meaning.’” (alteration in original) (quoting Sebelius v. Cloer, 133 S. Ct. 1886, 1893 (2013))). The Court explained a new definition, different from that used in Brooks, was appropriate because “as in all statutory construction, use otherwise defined, ‘words will be interpreted as taking their ordinary, contemporary, common meaning.’” See id. at 1756 (alteration in original) (quoting Bilski v. Kappos, 130 S. Ct. 3218, 3226 (2010)) (internal quotation marks omitted).
and “encumber[ed]” the district courts’ discretion to award attorneys’ fees. In Octane Fitness, the Supreme Court held that it was more effective to construe the term exceptional based on its ordinary meaning and found an exceptional case to be “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.” Because exceptional was not actually defined in the statute, the Court relied on the word’s ordinary meaning in crafting its interpretation. The Court chose to construe fee-shifting provisions broadly to avoid unwarranted fee awards and allow for more effective use by the district courts.

To meet the new threshold requirement established in Octane Fitness, a court must find “(a) there is an unusual discrepancy in the merits of the positions taken by the parties or (b) the losing party has litigated the case in an ‘unreasonable manner.’” Under this standard, the district court is allowed to consider the losing party’s blameworthiness. In Octane Fitness, the Supreme Court provided further clarification to judges and litigators by directing them to consider, on a case-by-case basis, whether litigation tactics meet the definition of exceptional in order to merit an award of attorneys’ fees.

III. Fair Wind Sailing, Inc. v. Dempster: The Third Circuit Adopts an Expansive Definition of Exceptional and Leaves

51. See id. at 1755–8 (rejecting Brooks standard). The Court relied on the plain text of § 285 to strike down the two-step approach because the statute “imposes one and only one constraint on district courts’ discretion to award attorneys’ fees in patent litigation: The power is reserved for ‘exceptional’ cases.” See id. at 1755–56.

52. See id. at 1756 (determining substantive strength of litigation position requires consideration of both case facts and governing law). The Court leaves considerable discretion to the district courts because “[t]here is no precise rule or formula for making these determinations” and “equitable discretion should be exercised in light of the considerations we have identified.” See id. (alteration in original) (quoting Fogerty v. Fantasy, 510 U.S. 517, 534 (1994)) (internal quotation marks omitted).


54. See Octane Fitness, 134 S. Ct. at 1758 (“[Brooks would] appear to render § 285 largely superfluous.”).

55. See Fair Wind Sailing, 764 F.3d at 315 (providing framework for new definition of exceptional under Lanham Act) (citing Octane Fitness, 134 S. Ct. at 1756). However, this new framework was left to the discretion of the district courts as they have “unparalleled knowledge of the litigation and the parties.” See id.

56. See id. (“The losing party’s blameworthiness may well play a role in a district court’s analysis of the ‘exceptionality’ of a case, but Octane Fitness has eliminated the first step in our two-step test for awarding fees under § 35(a) of the Lanham Act.”). This elimination obviates an initial finding of culpability. See id. (“Importantly, that discretion is not cabined by a threshold requirement that the losing party acted culpably.”).

57. See Octane Fitness, 134 S. Ct. at 1756 (explaining “totality of the circumstances” approach should be used to determine whether litigation tactics are appropriate).
The Supreme Court’s determination in *Octane Fitness* provided a new path for attorney fee recovery when the opposing party litigates in an “unreasonable manner” or brings a meritless claim.\(^5\) Given the high costs associated with intellectual property litigation, easing the standards for seeking attorneys’ fees is an important development.\(^6\) A few months after *Octane Fitness* was decided, the Third Circuit raised the stakes even higher by introducing a new standard for seeking attorneys’ fees from a different area of intellectual property.\(^7\)

In *Fair Wind Sailing*, the Third Circuit imported the Supreme Court’s alternative meaning of exceptional to trade dress claims.\(^8\) The attorneys’ fees provision in the Lanham Act directly mirrors the language in the Patent Act, which allowed the court to easily convey the new meaning.\(^9\) The Third Circuit considered the identical provisions and held that exceptional should be interpreted broadly under the Lanham Act to allow parties to recover attorneys’ fees based on the merits of the claim and the litigation tactics employed.\(^10\)

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\(^5\) See *id.* (discussing attorneys’ fees in patent cases); see also *Fair Wind Sailing*, 764 F.3d at 315 (discussing Third Circuit approach to awarding attorneys’ fees in trademark claims under Lanham Act).

\(^6\) See infra note 60.

\(^7\) See *Fair Wind Sailing*, 764 F.3d at 305–06 (applying alternative interpretation of exceptional to trademark claims under Lanham Act). The Third Circuit took inspiration from the Supreme Court’s *Octane Fitness* decision, which redefined exceptional for Patent Act claims. See *id.* (“[T]he case controls our interpretation of § 35(a) of the Lanham Act”). Despite that the *Octane Fitness* and *Fair Wind Sailing* decisions dealt with different aspects of intellectual property, the two courts applied the same definition of exceptional to fee shifting provisions. See *id.* (“We believe that the Court [in *Octane Fitness*] was sending a clear message that it was defining ‘exceptional’ not just for the fee provision in the Patent Act, but for the fee provision in the Lanham Act as well.”).

\(^8\) See *id.* at 315 (“We therefore import *Octane Fitness*’s definition of ‘exceptionality’ into our interpretation of § 35(a) of the Lanham Act. Under *Octane Fitness*, a district court may find a case ‘exceptional,’ and therefore award fees to the prevailing party . . . .”); see also *Octane Fitness*, 134 S. Ct. at 1756 (providing Patent Act framework for discretionary awarding of attorneys’ fees). The Court in *Octane Fitness* thought “that an ‘exceptional’ case is simply 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.” See *id.* The change in standard helps to bring some uniformity to decisions regarding attorneys’ fees regardless of the type of intellectual property case, that is, whether it is a patent, trademark, or copyright claim. See *id.*


\(^10\) See Perry Viscounty et al., *Ruling Gives IP Fee-Shifting Provision More Teeth*, LAW 360 (Dec. 8, 2014, 10:17 AM), https://www.lw.com/thoughtLeadership/ruling-gives-ip-fee-shifting-provision-more-teeth (indicating that district court’s broad discretion relies on considering totality of the circumstances). This standard is important for litigators because it “can only be overturned for an abuse of discretion—the most deferential standard of review and the most difficult to overturn.” See *id.*
A. Facts & Procedure of Fair Wind Sailing

Since 2005, Fair Wind owned and operated sailing schools throughout the United States and Virgin Islands. In July 2007, Fair Wind hired Larry Bouffard as a sailing instructor at its St. Thomas location, which exclusively used catamarans. Bouffard signed an employment contract with Fair Wind that contained a two-year non-compete provision.

Three years later, Bouffard introduced the company to the defendant, H. Scott Dempster, and helped Dempster obtain employment as an instructor. After a probationary period, Fair Wind chose not to retain Dempster for performance reasons. As a result of this decision, Bouffard left Fair Wind to open a rival sailing school with Dempster in another part of St. Thomas. Their school, Virgin Island Sailing School (VISS), became a direct competitor of Fair Wind and allegedly caused Bouffard to violate the non-compete provision in his prior employment contract. Fair Wind also claimed that VISS copied several features of its business, including use of 45-foot catamarans, similar teaching curriculum, procedures for student feedback, and photographs, thus infringing on its trade dress.

Following the loss of considerable business and reputation, Fair Wind filed an action against Dempster and VISS for alleged trade dress infringement under...
the Lanham Act, tortious interference, and unjust enrichment. The district court found that Fair Wind failed to state a claim for either trade dress infringement or unjust enrichment because the facts did not reach the necessary level of “precise product features” to make the companies sufficiently similar. In addition, the district court found that the complaint did not raise any allegations that its business features were “inherently distinctive or have acquired any secondary meaning.” Rather, the district court found that the product features were “functional” and “beyond the protections of the Lanham Act.”

Immediately after the district court’s decision, defendants Dempster & VISS moved for $41,783 in attorneys’ fees under Section 35 of the Lanham Act. The district court held that a portion of the fees were unreasonably expended, but still awarded the defendants $36,347.00.

B. The Third Circuit Throws the Two-Step Standard Overboard and Extends the Logic of Octane Fitness to Trade Dress Claims

On appeal, the Third Circuit affirmed the district court’s dismissal, but

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72. See id. at 307 (indicating several flaws in Fair Wind’s trade dress claim). The court noted three main “dispositive flaws” in the complaint. See id. First, Fair Wind failed to show any facts about its business practice that totaled a trade dress claim. See id. Second, the complaint lacked any “inherently distinctive” features that “acquired any secondary meaning.” See id. (internal quotation marks omitted). Finally, Fair Wind’s product features were “functional” so they were not available for protection from the Lanham Act. See id. at 310.

73. See id. at 307 (internal quotation marks omitted) (noting that Rule 12(b)(6) inquiry necessitates precise product features).

74. See id. (alteration in original) (internal quotation marks omitted) (recognizing that Fair Wind’s claim failed prong two under Lanham Act analysis). Under the second prong, “the design [must be] inherently distinctive or have acquired secondary meaning . . . .” See id. (internal quotation marks omitted); see also Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 776 (1992) (holding that inherently distinctive trade dress is protected without proof of secondary meaning); Duraco Prods., Inc. v. Joy Plastic Enters., Ltd., 40 F.3d 1431, 1434 (3d Cir. 1994) (recognizing plaintiff’s product as being “inherently distinctive”). The Duraco court found a product was distinctive because of the “high probability that [the] product configuration serves a virtually exclusively identifying function for consumers . . . .” See id. at 1434.

75. See Fair Wind Sailing, 764 F.3d at 310–11 (“A functional feature is one that is ‘essential to the use or purpose of the article,’ ‘affects the cost or quality of the article,’ or one that, if kept from competitors, would put them at a ‘significant non-reputation-related disadvantage.’” (quoting TrafFix Devices, Inc. v. Mktg. Displays, Inc., 532 U.S. 23, 33 (2001))).

76. See id. at 307 (indicating that defendants sought $41,783 in attorneys’ fees). This amount was the “total amount of legal fees incurred by Defendants in this matter.” See id. (internal quotation marks omitted).

77. See id. at 312 (explaining why defendants did not receive full amount of attorneys’ fees requested from district court). The district court’s reason for reducing the fees centered on “excessive billing and vague time entries.” See id.
reassessed the standard for awarding attorneys’ fees to Dempster. Ultimately, the court concluded “Fair Wind’s claim does not hold water” and remanded the issue of whether an awarding of attorneys’ fees would be appropriate under the new standard to the district court.

1. Analysis of Trade Dress Claim

In assessing Fair Wind’s trade dress infringement claim, the Third Circuit found that the company’s trade dress was “a hodgepodge of unconnected pieces of its business, which together do not comprise any sort of composite visual effect.” For example, the court mentioned that the company’s teaching curriculum was a non-visual aspect of the business. Sensing blood in the water, the court rejected Fair Wind’s last-ditch effort to save its trade dress claim by focusing on the company’s website. Fair Wind argued that VISS copied several elements of its website, which taken together constituted a trade dress violation. This “web design” argument failed because Fair Wind’s complaint did not discuss the design of its website at all, but rather made vague comments regarding the identical content placed on VISS’s website. In short, Fair Wind failed to demonstrate how its website design was victim to any sort of trade dress violation by VISS. The court found Fair Wind’s trade dress to be functional in nature and not business practice for which protection was available.

Nonetheless, the Third Circuit continued to discuss other alternatives that

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78. See id. at 314 (explaining that Octane Fitness was decided while Fair Wind Sailing was on appeal).
79. See id. at 311 (finding that Fair Wind failed to bring proper trade dress claim because business elements were not protectable under Lanham Act).
80. See id. at 310 (describing Fair Wind’s trade dress claim). Fair Wind claimed to be harmed because VISS “cop[ied] every material element of Fair Wind’s business and present[ed] [it to] the public.” See id. (third alteration in original) (internal quotation marks omitted).
81. See id. (explaining possibility that Fair Wind’s curriculum could be part of business trade dress and failure to indicate any visual impression). The court was unsure if Fair Wind’s curriculum was “something that [could] be seen” at all. See id. at 310 n.6.
82. See id. at 310 (“Perhaps realizing its failure to plead a cognizable trade dress, Fair Wind pivoted at oral argument, placing its ‘web design’ at the center of the trade dress claim.”).
83. See id. (declaring Fair Wind’s complaint void of any mention of website features or specific elements to satisfy requirement).
84. See id. (listing some examples of website features that might qualify).
85. See id. (noting that Fair Wind failed to include details about its own website in complaint). The Third Circuit emphasized Fair Wind’s failure to compare VISS’s website to similar aspects of their own website. See id.
86. See id. at 310–11 (explaining why Fair Wind’s trade dress claim was deemed “not protectable”).
might be available to Fair Wind. Other courts have determined that limited protection exists forfunctional aspects of a business when they “combine to create something nonfunctional.” However, the Third Circuit distinguished Fair Wind’s case by finding that they “ha[ve] not explained how the identified functional elements achieve a nonfunctional ‘composite [] of visual effects.’” Fair Wind did not argue its appearance was unique or distinctive in any way that would deserve protection from potential competitors trying to mirror their company. Instead, the court hinted that Fair Wind was likely aggrieved with VISS for successfully mirroring their company model and competing for business on the same island.

2. Attorneys’ Fees Analysis

Next, the Third Circuit reached the issue of awarding attorneys’ fees under Section 35 of the Lanham Act and in doing so changed course from their traditional attorneys’ fees analysis. Drawing on the Supreme Court’s decision in Octane Fitness, the Third Circuit rejected their prior two-step test in favor of an expansive, more generous standard for awarding attorneys’ fees to successful parties. The Third Circuit believed the Supreme Court was “sending a clear message that it was defining ‘exceptional’ . . . for the fee provision in the Lanham Act . . . .” As a result, the Third Circuit applied the alternate interpretation of exceptional to Lanham Act claims, thus increasing the likelihood that litigants will recover attorneys’ fees. The Third Circuit remanded Fair Wind’s case back to the district court level to determine if this

87. See id. at 311 (citing precedent from Ninth Circuit that applies to functional trade dress claims). For a further discussion of Ninth Circuit precedent and how it applies to trade dress claims, see infra note 88 and accompanying text.
88. See id.; see also Clicks Billiards, Inc. v. Sixshoo, Inc., 251 F.3d 1252, 1259–62 (9th Cir. 2001) (allowing functional features of business to add up to nonfunctional look). The court in Clicks found certain elements of a pool hall company to be protectable. See id.
89. See Fair Wind Sailing, 764 F.3d at 311 (quoting Clicks, 251 F.3d at 1259) (distinguishing Clicks as “inapposite” because Fair Wind did not suggest its business was distinctive).
90. See id. at 309–10 (explaining that only unique business features belonging to Fair Wind were use of 45-foot catamarans and its teaching itinerary).
91. See id. at 310 (“This claim has little to do with trade dress.”); see also id. at 306 (noting that Bouffard and Dempster opened their sailing school in St. Thomas, in violation of a noncompete agreement). Upon opening, VISS “copied Fair Wind’s St. Thomas school in several respects.” See id.
92. For further discussion of the Octane Fitness standard, see supra notes 51–57 and accompanying text. See also 15 U.S.C. § 1117(a) (2012) (providing statutory text for cases under Lanham Act). The provision covering attorneys’ fees states that “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.” Id.
93. See Fair Wind Sailing, 764 F.3d at 314–15 (detailing Third Circuit’s decision to adopt Octane Fitness as binding precedent).
94. See id. at 315 (taking direction from Supreme Court’s Octane Fitness ruling).
95. See id. (allowing more discretion for district court to award attorneys’ fees). With a new definition of exceptional, the court now has more discretion to assess the merits of the claim by removing a culpable conduct requirement. See id.
new approach warranted an attorneys’ fees award in this instance.96

IV. NAVIGATING CHANNELS FOR RECOVERY: FEE-SHIFTING PROVISIONS AND MOTIONS FOR SANCTIONS IN TRADE DRESS LITIGATION

Intellectual property litigants rely on possible recovery of attorneys’ fees to justify engaging in expensive and lengthy litigation.97 Enabling companies to defend intellectual property rights is an important purpose given the rapidly evolving corporate landscape and potential risk of losing customers and profits during litigation.98 These risks are prevalent in trade dress claims where “the pressures of ‘mass demand’ and ‘mass advertising’ could quickly erode a trademark’s value and quality.”99 Thus, the courts need the ability to sanction frivolous litigators to ensure that intellectual property rights are fully protected.100

A. Fee-shifting as New Motion for Sanctions in Intellectual Property Law?

The high cost of trade dress litigation can be offset by several procedural options for attorney fee recovery.101 Among these options are motions for

96. See id. (declining to determine whether awarding attorneys’ fees would be appropriate). The court remanded back to the district level because it has “unparalleled knowledge of the litigation and the parties . . . .” See id.


98. See Bijanki, supra note 5, at 813 (noting increase in trademark litigation following 2008 recession). A potential reason for the increase is the “poor economy, which encouraged companies to be more protective of their intellectual property.” See id.

99. See id. at 815 (alteration in original) (discussing benefits of Lanham Act allowing litigants to seek attorneys’ fees). The ability to recover attorneys’ fees is important in the “‘modern’ day—a time when trademarks are increasingly national and pivotal to a company’s success.” See id. at 814–15.


Effective enforcement of trademark rights is left to the trademark owners and they should, in the interest of preventing purchaser confusion, be encouraged to enforce trademark rights. It would be unconscionable not to provide a complete remedy including attorney fees for acts which courts have characterized as malicious, fraudulent, deliberate, and willful. The proposed amendment would limit attorney fees to ‘exceptional cases’ and the award of attorney fees would be within the discretion of the court.

Id.

sanctions and fee-shifting provisions, which allow successful parties to recover fees for their time and effort and also alleviates the burden of defending trade dress rights.\textsuperscript{102}

Sanctions against frivolous litigators are available under Rule 11 of the Federal Rules of Civil Procedure.\textsuperscript{103} A motion for sanctions is appropriate when the pleading, motion, or other paper is either frivolous or interposed “for any improper purpose.”\textsuperscript{104} These two standards, commonly referred to as the “frivolousness” and “improper purpose” tests, are utilized by courts to consider the underlying merits and purpose for bringing a claim.\textsuperscript{105} However, traditional sanction inquiries under Rule 11 are materially limited by the safe harbor provision; fee-shifting provisions are thus typically a more readily available option for parties seeking attorneys’ fees.\textsuperscript{106}

Unlike sanctions under Rule 11, fee-shifting provisions are driven by policy considerations, such as fully compensating parties for unnecessary litigation expenses.\textsuperscript{107} In contrast, Rule 11 sanctions are focused on “deterrence and punishment rather than compensation.”\textsuperscript{108} Although courts may use either option to award attorneys’ fees, a motion for sanctions under Rule 11 does not guarantee absolute recovery because there is “no ‘entitlement

\textsuperscript{102} For a further discussion of sanctions and fee-shifting provisions as avenues for recovery of attorneys’ fees, see infra notes 103-114 and accompanying text.


\textsuperscript{104} See \textit{Fed. R. Civ. P. 11}.


\textsuperscript{106} For a further discussion of fee-shifting provisions and their ability to fully compensate litigants, see infra notes 107–11 and accompanying text.

\textsuperscript{107} See Leighton, supra note 6, at 860–61 (describing Commerce Department argument in favor of allowing fee-shifting provisions). The Acting Commissioner stated that “[d]eliberate and flagrant infringement of trademarks should be discouraged in view of the public interest in the integrity of marks as a measure of quality of products.” \textit{See id. at 861 (quoting Patent Office Bills: Hearing on H.R. 7599, H.R. 8981, H.R. 9199, and S. 71 Before the H. Subcomm. on Courts, Civil Liberties & the Admin. of Justice of the Comm. on the Judiciary, 93d Cong. 14 (1973) (testimony of Rene Tegtmeyer, Acting Comm’r of Patents, Dep’t of Commerce)).}

to full compensation on the part of the opposing party.”

In many trade dress claims, “[w]ithout attorney-fee shifting, a company may not pursue a small-scale infringement that would cost the company more to litigate than the company would recover in damages.” However, the ability to receive absolute recovery through fee-shifting provisions incentivizes companies to defend their trade dress rights through litigation regardless of the trademark’s value.

The ability to recover attorneys’ fees is important and encourages companies to defend their trade dress rights without being discouraged by cost of litigation. In addition, it is easier to recover under the broad application of fee-shifting provisions than under Rule 11 sanctions. As an initial option, parties can use fee shifting to recover their losses before employing the more restrictive standards under Rule 11.

B. Scallywags Beware: Clients May Seek Recovery Through Malpractice Claims

A significant downside to incentivizing companies to seek attorneys’ fees is the heavy burden placed on counsel, whose losing clients may now seek reimbursement through malpractice claims. Due to fee shifting, thousands

109. See id. at 714 (quoting White v. Gen. Motors Corp., 139 F.R.D. 178, 183 (D. Kan. 1991)) (internal quotation marks omitted); see also id. at 714 n.93 (“[T]he district court on remand adjusted its initial award of $172,382.19, based on the prevailing party’s attorney’s fees, down to $50,000.”). As White demonstrates, courts may not give full recovery to successful parties under a Rule 11 motion for sanctions. See id.

110. See Bijanki, supra note 5, at 815 (explaining congressional intent in providing for attorney-fee shifting).

111. See S. REP. No. 93-1400, at 7135 (1974) (“In appropriate circumstances, a successful party should be entitled to full compensation for the injuries sustained and expenses incurred, since these were necessitated by the acts of the opposing party.”).

112. See id. (illustrating Congress’s policy considerations behind allowing fee-shifting provisions).

113. See, e.g., Renna v. Cnty. of Union, No. 11-3328 (KM), 2015 WL 93800 (D.N.J. Jan. 7, 2015) (demonstrating that parties are more likely to get attorneys’ fees under fee-shifting provisions than motion for sanctions), report and recommendation adopted by Civ. No. 2:11-3328 (KM)(MAH), 2015 WL 1815498 (D.N.J. Apr. 21, 2015). In Renna, the court allowed recovery even though the losing party did not act in bad faith, fraudulently, or maliciously, but rather brought litigation that contained “significant disparity in the merits of the parties’ respective litigation positions . . . .” See id. at *8. Under the Third Circuit’s analysis, the plaintiff’s continuous litigation on a meritless position was unreasonable. See id.

114. See White, 139 F.R.D. at 183 (limiting recovery of attorneys’ fees under Rule 11 motion for sanctions). The court in White put a $50,000 cap on attorneys’ fees, which reduced the defendant’s award by $123,000. See id.

115. See 3 S. Gerald Litvin & Gerald A. McHugh, Jr., Legal Malpractice Arising Out of Civil Representation—Elements of a Cause of Action, PENNSYLVANIA TORTS: LAW & ADVOCACY § 6.9 (1996) (providing framework for bringing civil malpractice claim). In Pennsylvania, the requirements for bringing a claim are: “(1) the employment of the attorney or other basis for imposition of a professional duty; (2) the failure of the attorney to exercise ordinary skill and knowledge; and (3) proof that such failure was the proximate cause of damage to the plaintiff.” See id.
of dollars in litigation costs can potentially fall squarely on the losing parties’ shoulders.\textsuperscript{116} Most clients will try to avoid paying their opponent’s litigation bill, and some go so far as to initiate lawsuits against their own lawyer to mitigate losses from losing their case.\textsuperscript{117} To avoid malpractice claims, lawyers must adequately advise clients on the risk involved and plead the case accurately to avoid fee-shifting provisions.\textsuperscript{118}

Given the broadening standards of exceptionality, lawyers—especially those not familiar with the intricacies of fee-shifting provisions—should take extra precaution before taking cases to recuperate attorneys’ fees.\textsuperscript{119} For relatively new or inexperienced lawyers, seeking out a mentor for advice or staying abreast on how courts apply fee-shifting provisions under the new standard are both viable options.\textsuperscript{120}

V. Toe the Line: Fair Wind Sailing Offers Guidance for Practitioners in Trade Dress Claims

Whether litigating trade dress rights that involve website design or the packaging shape of shipping materials, a Third Circuit practitioner must consider the new, broad standards when bringing a claim.\textsuperscript{121} Litigants can no longer hide behind a restrictive view of what culpable behavior qualifies as exceptional to avoid fee-shifting provisions because now, in light of Fair Wind Sailing, district courts are more willing to award fees to parties defending frivolous claims.\textsuperscript{122} More research is necessary to ensure litigators have

\textsuperscript{116} See Securacom Consulting, Inc. v. Securacom Inc., 224 F.3d 273, 277 (3d Cir. 2000) (affirming Third Circuit’s award of attorneys’ fees due to lawyer’s negligent litigation tactics). The plaintiff’s lawyers were found to have “engag[ed] in bad faith negotiations and then [sought] to destroy a financially weaker adversary through oppressive litigation tactics.” See id. (internal quotation marks omitted).

\textsuperscript{117} See id. at 282 ("The case involved a deliberate effort by Securacom New Jersey to 'bury' Libengood financially and 'take everything he had' by filing multiple suits and complaints against him and his attorneys in a variety of legal fora."). Due to the lawyer’s negligent actions, the Third Circuit affirmed an award of attorneys’ fees. Id. at 283.

\textsuperscript{118} For a further discussion of practitioner tips on bringing an effective trade dress claim, see infra notes 121–26 and accompanying text.

\textsuperscript{119} For a further discussion on the broad application of fee-shifting provisions in the Third Circuit following Fair Wind Sailing, see supra notes 78–96 and accompanying text.

\textsuperscript{120} See McKeon, supra note 44 (emphasizing need for litigators to stay up to date on changes within all areas of intellectual property law).

\textsuperscript{121} See Fair Wind Sailing, Inc. v. Dempster, 764 F.3d 303, 314–15 (3d Cir. 2014) (creating expansive standard for awarding attorneys’ in Lanham Act cases). The Third Circuit’s expansive standard means litigators should consider their actions and specificity of the pleadings to avoid being stuck paying attorneys’ fees. See id.

adequate knowledge of the case’s facts before initiating suit.\textsuperscript{123} Detailed investigation is important early on in a trademark case to consider the underlying merits of a party’s position and the strategy of litigation.\textsuperscript{124}

In order to avoid responsibility for a significant litigation bill, parties should consider certain characteristics in trade dress, such as functional features of the business and website design.\textsuperscript{125} Despite Fair Wind’s shortcomings, its case offers insight into how litigators should structure their arguments when bringing trade dress claims in the Third Circuit.\textsuperscript{126}

\subsection*{A. Stand Off: Functional Versus Non-Functional Trade Dress}

Under the first prong of the Lanham Act, a plaintiff must establish that the business’s design or features are non-functional in nature.\textsuperscript{127} To meet this burden, the feature must be “unrelated to the consumer demand . . . and serve[] merely to identify the source of the product [or business] . . . .”\textsuperscript{128} In contrast, a functional feature relates “to the use or purpose of the article . . . cost or quality of the article, [or] one [that] . . . would put competitors at a significant non-reputation-related disadvantage.”\textsuperscript{129}

\begin{itemize}
\item \textsuperscript{123} See \textit{id.} at *2 (noting court’s assessment that case was exceptional). The court in \textit{Teal Bay Alliances} held that, considering the totality of the circumstances, plaintiff’s claim was litigated unreasonably. See \textit{id.} The court relied on evidence that Teal Bay did not have exclusive rights to use the name “Shorebilly Brewing Company” before the defendant did. See \textit{id.} (internal quotation marks omitted). However, even assuming Teal Bay did have some trademark rights, they “did not establish that [the defendant] would have infringed its rights by utilizing the name . . . .” See \textit{id.}
\item \textsuperscript{124} See \textit{Linex Techs., Inc. v. Hewlett-Packard Co., No. C 13-159 CW, 2014 WL 4616847, at *3 (N.D. Cal. Sept. 15, 2014) (noting importance of doing factual investigation before suit is filed). The court in \textit{Linex} awarded attorneys’ fees after finding that “Linex knew the limits of the spread spectrum technology that was crucial to the novelty of its patents. Linex exhibited ‘an overall vexatious litigation strategy’ by continuing to hold these groundless claims over Defendants’ heads to increase potential settlement amounts.” See \textit{id.} at *5.
\item \textsuperscript{125} For a further discussion of trade dress characteristics such as functional features and website design, see \textit{infra} notes 127–42 and accompanying text.
\item \textsuperscript{126} See \textit{Fair Wind Sailing}, 764 F.3d at 308–11 (detailing specific requirements necessary to prove trade dress claim). Although Fair Wind lost their claim for trade dress infringement, the case provides an example of the specificity the court looks for in successful claims. See \textit{id.} In fact, the Third Circuit made several comments regarding areas that require greater detail, including website design and lost profits. See \textit{id.} at 310.
\item \textsuperscript{127} See \textit{Shire US Inc. v. Barr Labs., Inc.}, 329 F.3d 348, 353 (3d Cir. 2003) (“To establish infringement of its unregistered trade dress a plaintiff must prove that (1) the allegedly infringing feature is non-functional . . . .”).
\item \textsuperscript{128} See \textit{Prufrock Ltd., Inc. v. Lasater}, 781 F.2d 129, 133 (8th Cir. 1986) (listing common characteristics of non-functional business features). In \textit{Prufrock}, the court gave some insight on assessing the functionality of trade dress, finding that “where the feature or, more aptly, design, is a mere arbitrary embellishment . . . imitation may be forbidden where the requisite showing of secondary meaning is made.” See \textit{id.} (quoting Truck Equip. Serv. Co. v. Fruehauf Corp., 536 F.2d 1210, 1217–18 (8th Cir. 1976).
\end{itemize}
When arguing the functionality of a business feature, it is important to demonstrate how the feature relates to the source or identification of the business, rather than the product’s effect on consumer demand or quality. Without this showing, the feature will not be deemed necessary for establishing the identity of the business, and “the interests in free competition permits its imitation . . . .” By drawing lines between a product’s individuality and its relation to commercial success, the non-functional requirement promotes free enterprise and ensures that imitators will not unduly impede on companies that rely on unique features.

B. Determining When “Web Design” Crosses the Line into Trade Dress Territory

With technology rapidly evolving in the business world, trade dress litigants must adapt and consider potential complications arising in website design. Protecting website design as trade dress of a business can be difficult because entire design layouts are not protectable, which leaves courts.
to interpret the various elements or “feel” of the website. The best argument in favor of website protection—the distinctive “look and feel” of the website—has been notoriously difficult for trade dress parties to litigate. As a result, litigators should still attempt to argue the vague “look and feel” standard, but remain focused on the individual elements of the website claim.

However, some federal courts, including the Third Circuit, offer insight on how to protect website design under the Lanham Act. For instance, litigants should provide the court an extensive and detailed comparison of the websites at issue in the case. The website comparison should separately list any specific similarities in order to demonstrate how these features would confuse

134. See Amber R. Cohen, Note, A Square Peg into a Round Hole: Trade Dress Protection of Websites, the Perspective of the Consumer and the Dilemma for the Courts, 3 S. New Eng. Roundtable Symp. L.J. 137, 154 (2008) (“Legally, to protect a web page layout as a whole is not possible with the law as it stands.”). Instead, the courts have focused on the individual elements of the claim that make the website inherently distinctive. See id. at 158.

135. See id. at 162 (arguing in favor of clearer standards for “look and feel” of website design).

Upon analyzing the case law, the groundwork to protect the “look and feel” of a website is not established. The dispositive factors such as consumer confusion, functionality, and specificity of claims are all infinite yet so limited on a screen of a computer. Trade dress protection of the ‘look and feel’ of a website has not been upheld by any court. The law of trade dress does not fit the requirements needed to protect the ‘look and feel’ of a website. Nevertheless, future cases are imminent and require an active discussion.

136. See Blue Nile, Inc. v. Ice.com, Inc., 478 F. Supp. 2d 1240, 1246 (W.D. Wash. 2007) (allowing factual development before deciding on applicability of “look and feel” standard). The court in Blue Nile came the closest to deciding whether the “look and feel” standard is appropriate for website design claims. See id. The parties agreed to a stipulation of dismissal two weeks later and the question was left unanswered. See Blue Nile, Inc. v. Ice.com, Inc., No. C-06-1002 RSL, 2007 WL 1046368 (W.D. Wash. Feb. 2, 2007) (agreeing to stipulation of dismissal).

137. See Blue Nile, 478 F. Supp. 2d at 1246 (demonstrating willingness to apply “look and feel” standard to trade dress claim). The Blue Nile court held the “presentation of diamond search features is sufficient to support a claim . . . .” See id. at 1244 (internal quotation marks omitted); see also Creative Co-Op, Inc. v. Elizabeth Lucas Co., No. 11-116-S-REB, 2012 WL 761736, at *2–3 (D. Idaho Mar. 7, 2012) (declaring parallel claims under the Copyright Act and Lanham Act are not per se inadmissible). In Creative Co-Op, the Idaho district court allowed the case to continue forward, but required “a specifically-defined list of elements that comprise the trade dress.” See id. at *3. Combining Blue Nile and Creative Co-Op, it appears that some federal courts are willing to address the “look and feel” argument if plaintiffs precisely construct the complaint to specifically list the trade dress elements being copied. See id.

138. See Fair Wind Sailing, Inc. v. Dempster, 764 F.3d 303, 310 (3d Cir. 2014) (demonstrating what happens when party fails to provide adequate comparison of features). The Third Circuit struck down the claim because Fair Wind’s “complaint did not enumerate what specific elements of its website comprise a distinctive trade dress or that its site had any distinctive ornamental features.” See id.
or mislead potential consumers about the business product.\textsuperscript{139} Providing specific examples is extremely important because it is necessary to distinguish trade dress from copyright rights, which are protectable under a separate statute.\textsuperscript{140} Developing a factual basis for the “look and feel” of the website design based on the individual trade dress elements adds substance to an otherwise vague standard.\textsuperscript{141} Finally, although courts have shown a willingness to protect unique website design features, litigators must plead their claim early and specifically demonstrate the impact these features have on their business.\textsuperscript{142}

VI. CLEARER SKIES ON THE HORIZON

Following \textit{Fair Wind Sailing}, the expansive view of exceptionality under the Lanham Act will promote fair and ethical litigation of trade dress claims in the Third Circuit.\textsuperscript{143} The more lenient standard for awarding attorneys’ fees requires litigators to plead their claims precisely, only after an adequate amount of research verifying the underlying merits.\textsuperscript{144} Thus, the Third Circuit took the wind out of frivolous litigators’ sails by ensuring defendants have an ability to recover attorneys’ fees.\textsuperscript{145}

\begin{itemize}
\item \textsuperscript{139} See Treat, Inc. v. Dessert Beauty, No. 05-923-PK, 2006 WL 2812770, at *15 (D. Or. May 5, 2006) (“The discreet elements that make up the alleged trade dress must be separated out and identified in a list.”). In \textit{Treat}, the court required trade dress elements be listed out because “[o]nly then can the court and the parties coherently define exactly what the trade dress consists of and determine whether the trade dress is valid and if what the accused is doing is an infringement.” \textit{See id.} at *14 (internal quotation marks omitted).
\item \textsuperscript{140} See \textit{Dastar Corp. v. Twentieth Century Fox Film Corp.}, 539 U.S. 23, 34 (2003) (“Thus, in construing the Lanham Act, we have been ‘careful to caution against misuse or over-extension’ of trademark and related protections into areas traditionally occupied by patent or copyright.”).
\item \textsuperscript{141} See \textit{Cohen}, supra note 134, at 158 (arguing that websites containing generic elements may be successful if overall website is proven to be inherently distinctive).
\item \textsuperscript{142} See \textit{Fair Wind Sailing}, 764 F.3d at 315 (affirming district court’s dismissal of plaintiff’s trade dress and unjust enrichment claims). Failing to provide a detailed complaint, the court rejected \textit{Fair Wind}’s trade dress case and did not allow amendment to provide more specific examples. \textit{See id.}
\item \textsuperscript{143} See \textit{LendingTree, LLC v. Zillow, Inc.}, 54 F. Supp. 3d 444, 463 (W.D.N.C. 2014) (awarding attorneys’ fees against defendant for litigating trade dress claim unreasonably). In \textit{LendingTree}, the defendant “failed to produce relevant documentary evidence” on several occasions and required several interventions by the court. \textit{See id.} at 461. Applying the new meaning of exceptional, the North Carolina district court ruled such behavior was inappropriate and deserving of punishment by the court. \textit{See id.} at *461–63.
\item \textsuperscript{144} For a further discussion of proper complaint pleadings following the new interpretation of exceptional, see \textit{supra} notes 117–23 and accompanying text.
\item \textsuperscript{145} See \textit{Fair Wind Sailing}, 764 F.3d at 315 (creating broad standard for Third Circuit to award attorneys’ fees in exceptional cases).
\end{itemize}