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IP CASE OF THE WEEK

Obtaining Attorneys' Fees: Exceptional Facts, Not Policy

***Lontex Corp. v. Nike, Inc.*, 107 F.4th 139 (3d Cir. 2024)**

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On July 10, 2024, the Third Circuit vacated and remanded the district court's decision to award attorneys' fees to plaintiff Lontex, a sports apparel brand whose registered COOL COMPRESSION mark was used by Nike on its Nike Pro clothing line, finding that the district court's determination that the case was "exceptional" was incorrectly rooted in broad policy considerations rather than facts specific to the case.

Lontex registered the COOL COMPRESSION mark with the United States Patent and Trademark Office in 2008 for athletic apparel. In 2015, Nike began using the phrase "cool compression" with its Nike Pro clothing. In 2016, Lontex demanded that Nike stop using Lontex's mark on nike.com and with its distributors. Lontex eventually sued Nike claiming, among other things, that Nike was guilty of trademark infringement and contributory trademark infringement. Ultimately, the jury found Nike liable for willful and contributory infringement, and the district court granted Lontex's request for treble damages and awarded Lontex attorneys' fees of almost $5 million.

The Third Circuit affirmed the district court's findings of willful and contributory infringement, as well as the punitive damages finding. However, the Third Circuit rejected the award of attorneys' fees, finding that the district court failed to apply the facts to the correct caselaw and instead, relied on policy to justify its award of attorneys' fees. More specifically, the district court justified its fee award based on the following reasons: (1) that the enforcement of trademarks is important; (2) that Lontex is a small company that took on Nike who has greater resources; and (3) that trademark cases are expensive to litigate, thus "as a matter of policy" it is unrealistic to expect a small company to pay for legal fees for this type of case.

The Third Circuit held that in order to support an award of attorneys' fees, the case must be "exceptional" so that it "stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated."[1] The Third Circuit rejected the district court's first reason—that enforcing trademarks is important—stating that this "truism does nothing to distinguish this case from any other trademark case." Second, the Third Circuit rejected the district court's "David and Goliath" matchup justification because it failed to provide additional evidence of Nike engaging in improper or unreasonable litigation tactics. Third, the Third Circuit found that the district court failed to address the possibility of Lontex receiving outside litigation funding when concluding that it is unrealistic for a small company like Lontex to pay the legal fees for this type of case. Finally, the district court's brief mention of the substantive strength of Lontex's case did not entail enough facts to find "exceptionality." On remand, the district court was instructed to rely on the law outlined in *Fair Wind Sailing, Inc.* and *Octane Fitness, LLC,* and provide specific fact-based evidence to support its conclusion that this is an exceptional case justifying the award of attorneys' fees.

Despite the district court's compelling justifications for a finding of willful and contributory infringement, the lack of inclusion of those specific facts in determining the award of attorneys' fees could not sustain the fee award on appeal. Accordingly, when arguing for attorneys' fees, parties must emphasize the specific facts of their circumstances to prove "exceptionality" of their case. Bare policy considerations, although perhaps justified, will not support an award of attorneys' fees.

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[1] Fair Wind Sailing v. Dempster, 746 F.3d 303, 314-15 (3d Cir. 2014); Octane Fitness, LLC v. ICON Health & Fitness, Inc., 572 U.S. 545, 554 (2014).