Proposals for Fee-Shifting in American Patent Law

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I. Introduction

Patent litigation is one of the most high-stakes and complex forms of litigation today. It typically requires an extraordinary amount of discovery, involves multiple layers of attorneys, and sets the stakes high for both clients and their lawyers.¹ A survey conducted by the American Intellectual Property Law Association in 2009 estimates the median cost of patent cases, by the end of discovery, to be $2.5 million for cases where $1 to $25 million was at stake.² As a result, attorney fees alone can cost between $2 to 5 million, and even surpass $10 million for larger cases.³ While many cases are based on strong, quality patents, recent trends show that much of patent litigation is driven by so-called patent trolls. Patent trolls, also known as non-practicing entities (NPEs), are companies that essentially only own patents to assert them in litigation or

³ See Mark Liang & Brian Berliner, Fee Shifting in Patent Litigation, 18 VA. J. L. & TECH. 59, 64 (2013) (estimating these values based on the authors’ personal experiences in litigation); C. Erik Hawes & James L. Beebe, Fee-Shifting Under Rule 11 and 35 USC § 285 -- Not Just “Belt and Suspenders”? , 26 INTELL. PROP. L. NEWSL. 1, 1 n.2 (2008) (noting that in the northeast United States, “for cases with more than $25 million in dispute, the average total cost was $7 million and the cutoff for the third quartile of cases was $10 million. A cross all regions, the average total cost was $5.5 million.”) (citing American Intellectual Property Law Association, Report of the Economic Survey 2007, at 1-91 (July 2007)). See also 2012 Patent Litigation Study: Litigation Continues to Rise Amid Growing Awareness of Patent Value, PRICEWATERHOUSECOOPERS, Sept. 2012, at 5, available at http://www.pwc.com/us/en/forensic-services/publications/2012-patent-litigation-study.jhtml (reporting that the median damage award in patent litigation was $4 million between 2006 and 2011, and that attorneys’ fees can exceed this amount).
license them, as opposed to practice them commercially. Patent trolls are a relatively recent phenomenon, having come into the patent scene within the past twenty years. Despite their recent appearance, patent trolls now initiate the majority of patent cases in district courts. A recent study conducted by RPX Corporation reports that the percentage of patent cases filed by patent trolls grew from 19 percent in 2006 to an overwhelming 62 percent in 2012. A another study conducted by PricewaterhouseCoopers of lawsuits brought by patent trolls suggests that these suits have lower merit than cases filed by non-trolls. The report found that between 1995 and 2011, of patent cases reaching a final judgment, patent trolls won only 23.3 percent of cases versus 33.8 percent for non-trolls. The lower win rate by patent trolls implies that patent trolls bring lower-merit cases. In response to statistics such as these, many people view patent trolls as

4 Mark Liang, The Aftermath of TS Tech: The End of Forum Shopping in Patent Litigation and Implications for Non-Practicing Entities, 19 TEX. INTELL. PROP. L.J. 29, 30 (2010) ("Archetypically, an NPE will discover a corporation using a technology that may infringe one of the NPE's patents. The NPE will then sue that corporation for infringement with the intent of settling the suit with a licensing agreement. This business model of "search and sue" leads to the pejorative use of the term "patent troll" to refer to NPEs.").
6 Liang, supra note 3, at 71.
9 Id.
instigators of frivolous lawsuits and are seeking a way to discourage their unmeritorious behavior.

One proposed solution to this problem is to change the fee-shifting rules in patent litigation. Currently, each party typically bears its own cost of litigation. Proponents of a change in the current fee-shifting regime argue that a new rule shifting fees to the loser would ensure that lawsuits are meritorious and that parties only bring lawsuits when they have a reasonable belief that they could win. Fee shifting in patent litigation, and in all forms of litigation, serves three important functions. First, it provides defendants with an incentive to fight, rather than settle, weak claims of infringement. Today, defendants are likely to settle claims, even those clearly unmeritorious ones, because it is easier and less expensive than fighting the claims through trial. Secondly, fee shifting deters patent holders from filing weak claims of infringement. Where there is a rule that the losing party pays the prevailing party’s fees, a patent holder is more likely to consider the merits of its claims and its likelihood of prevailing before filing a lawsuit. Third, a fee-shifting rule enhances the bargaining power of defendants in negotiations with a plaintiff seeking a nuisance-value settlement.10 A patent holder, aware of the possibility that it may have to ultimately pay the defendant’s litigation expenses, would take that risk into consideration when negotiating with a defendant to settle the lawsuit.

This paper will review the current proposals for a fee-shifting rule in patent law and then comment on which solution would be most beneficial for the patent law system. Part I of this

10 See Thomas D. Rowe, The Legal Theory of Attorney Fee Shifting: A Critical Overview, 1982 Duke L.J. 651, 653 (1982) (describing six additional justifications for fee shifting: (1) fairness and indemnity; (2) compensation for legal injury; (3) punitive fee shifting; (4) the “private attorney general” theory; (5) affecting relative strengths of parties; and (6) general economic incentives).
paper has introduced the problems in patent law that have prompted the proposals for changes to the fee-shifting regime. Part II discusses fee-shifting rules in litigation generally, both in the United States and abroad. Part III goes on to review fee shifting specifically in patent law in the United States. This part first examines the fee-shifting statute in patent law and its recent interpretation by the Supreme Court in two decisions. Next, this part reviews legislative proposals for creating a loser-pays fee-shifting rule in patent law. Part IV then analyses both the judicial solution and the legislative solution to fee shifting in patent law and comments on the benefits and drawbacks of each. Part V concludes by explaining why a judicial solution is the best way to address the need for fee shifting in patent law in the United States.

II. Fee Shifting in Litigation

a. The American Rule

In the United States, the default rule is that each party bears its own costs, including attorney fees. However, there are some notable exceptions to this rule. Congress has authorized taxing the losing party for specified costs, such as fees for exemplification and the costs of making copies of any materials where the copies are necessarily obtained for use in the case. There are also a number of statutes that create exceptions in specific areas of the law, for example antitrust law and labor law.

Most fee-shifting statutes in the United States are one way, meaning that the statute only shifts costs if one party prevails. These one-way fee-shifting statutes impose attorney fees on losing defendants more often than requiring losing plaintiffs to pay the prevailing defendant’s expenses.\(^{15}\) The few two-way fee-shifting regimes that do exist in the United States shift fees in cases involving equitable considerations, such as bad faith, that suggest the fairness of relieving a party of its expenses.\(^{16}\) Examples of this type of rule are Rules 11 and 16 of the Federal Rules of Civil Procedure.\(^{17}\) Rule 11(c) allows for the awarding of sanctions, including attorney fees, to a prevailing party if the court finds that a claim made by the losing party was frivolous or was made to harass, delay or increase costs. Rule 16(f)(2) allows the court to award fees if a party fails to properly respond to a scheduling or pretrial conference.

b. The English Rule

The United States’ attorney fees regime is an oddity. Most other countries employ the English Rule, including many other countries besides England.\(^{18}\) Under this rule, the losing party

\(^{15}\) See John F. Vargo, The American Rule on Attorney Fee Allocation: The Injured Person's Access to Justice, 42 A.M. U. L. Rev. 1567, 1589 (1993) (explaining that “if the plaintiff were the chosen beneficiary, a successful plaintiff would recover attorney’s fees while a successful defendant would not”).

\(^{16}\) Rowe, supra note 10, at 660-61 (1982) (discussing the punishment rationale for fee shifting and noting that in many states, fee shifting on a basis of bad faith is a proper element of putative damages).

\(^{17}\) Rules 4 and 37 of the Federal Rules of Civil Procedure are also examples of fee-shifting regimes. Fed. R. Civ. P. 4(d)(2) (requiring the court to impose fees, including attorney fees, on a defendant located within the United States who fails to sign and return a waiver of service requested by the plaintiff); Fed. R. Civ. P. 37 (imposing reasonable expenses and attorney fees on any party to a litigation who fails to comply with various requirements of discovery).

\(^{18}\) Werner Pfenningstorf, The European Experience with Attorney Fee Shifting, 47 Law & Contemp. Probs. 37, 40, 45-46 (1984) (explaining that in European countries, the country codes “specifically prescribe that the courts shall impose costs on the defeated part”).
must pay the attorney fees of the prevailing party. The English rule is based on the reasoning that a victory in civil litigation would not be complete if significant costs are left uncovered. England differs from civil law countries that follow the English rule in that the awarding of fees is not automatic in England, but rather is left to the discretion of the court. Despite this discretion, fee shifting is the norm in England. Most other countries that employ the English Rule have made it mandatory through statute.

III. Current Landscape of Fee-Shifting in Patent Litigation

a. The Fee-Shifting Statute in Patent Law

Patent law is one area in the United States in which a statutorily created exception to the American rule for attorney fees exists. 35 U.S.C. § 285 provides for attorney fees to be paid by the losing party to the prevailing party in “exceptional” cases. Based on legislative history, Congress intended for exceptional cases to mean those ones where there has been a “gross injustice.” Since this statute was enacted, it has been extremely rare for a patent case to be considered exceptional, with studies estimating that only about one to six percent of cases are

21 Davis, supra note 20, at 408-409.
22 Id.
23 Id. at 411-12 (providing the example of the German fee-shifting statute, which mandates that the loser bears all costs of the winner, including attorney fees and other expenses such as loss of time to travel to and participate in hearings).
found to be exceptional under Section 285. Thus, as a practical matter, patent litigation has typically followed the American Rule.

The Federal Circuit, the Court of Appeals with exclusive jurisdiction over patent appeals, interpreted Section 285 to be only used in the rarest of circumstances. Brooks Furniture Manufacturing, Inc. v. Dutalilier International, Inc. was, until recently, the seminal case on attorney fees in patent law. In Brooks Furniture, the Federal Circuit defined an “exceptional” case as one that is “objectively baseless” and “brought in subjective bad faith,” or one that involves “material inappropriate conduct.” Parties were required to establish that a case was exceptional by clear and convincing evidence. If an award of fees was appealed to the Federal Circuit, the court reviewed the determination de novo. Thus, not only was there a high standard to prove that a case was exceptional, but a party would essentially have to prove its case all over again on appeal.

Seeing as this standard was so rigid as to make it essentially impossible to award fees, the Supreme Court decided two cases in 2014 that will likely improve the possibility for fee awards in patent law. The Court rejected the rigid test of Brooks Furniture in Octane Fitness LLC v.  

25 See James Bessen & Michael J. Meurer, Lessons for Patent Policy from Empirical Research on Patent Litigation, 9 Lewis & Clark L. Rev. 1, 18 (2005) (estimating that only about one percent of all cases that ended by pre-trial motion or trial were found to be exceptional from 1995-2005); Liang, supra note 3, at 86-87 (estimating that about six percent of cases ending in judgment from 2003-2013 were found to be exceptional).
26 See, e.g., Pharmacia & Upjohn Co. v. Mylan Pharm., Inc., 182 F.3d 1356, 1359 (Fed. Cir. 1999) (“Our precedent governs the substantive interpretation of 35 U.S.C. § 285, which is unique to patent law.”)
27 393 F.3d 1378 (Fed. Cir. 2005).
28 Id. at 1381.
29 Id. at 1382.
ICON Health & Fitness in favor of a more flexible and discretionary inquiry.31 In this case, ICON Health & Fitness brought action against Octane Fitness alleging infringement of its patent for an elliptical machine.32 The district court granted Octane Fitness’s motion for summary judgment of non-infringement, and Octane Fitness then moved for attorney fees under Section 285.33 The district court rejected the motion, finding neither objective baselessness nor subjective bad faith as required by Brooks Furniture.34 The Federal Circuit affirmed the district court’s denial of fees, and Octane Fitness sought United States Supreme Court review. The Supreme Court reversed, finding the standard set forth in Brooks Furniture to be “overly restrictive.”35 The Court in Octane Fitness set forth a new standard for awarding fees under Section 285, which asks only whether the case is one that “stands out from others,” considering the substantive strength of a party’s litigating position or the unreasonable manner in which the case was litigated.36 The Court held that district courts should be allowed to use their discretion to determine whether a case is exceptional based on the totality of the circumstances.37 The Court also noted that clear and convincing evidence is not required; rather, all that is necessary is a “simply discretionary inquiry.”38

32 Id. at 1754-55.
33 Id. at 1755.
34 Id.
35 Id.
36 Id. at 1756.
37 Id. On remand, Octane Fitness was awarded attorney fees by the District Court of the District of Minnesota. ICON Health & Fitness, Inc. v. Octane Fitness, LLC, No. 9-319, 2015 WL 5638033, at *3 (D. Minn. Sept. 24, 2015) (awarding defendant approximately $1.3 million in attorneys fees and about $160,000 in costs).
38 Octane Fitness, 134 S. Ct. at 1758.
In a second case, Highmark v. Allcare Health Management System, the Court took the teeth out of the Federal Circuit’s review of Section 285 appeals. The Federal Circuit is to review a lower court’s determination of whether a case is exceptional only for abuse of discretion. The combined holdings of Octane Fitness and Highmark imply that the awarding of attorney fees will be a more flexible exercise for the district courts and one which they can be more confident about if the decision is appealed.

b. Proposed Legislation to Create a Fee-Shifting Regime in Patent Law

Before the Supreme Court’s decisions in Octane Fitness and Highmark, several bills were proposed in Congress that would address fee shifting in patent litigation. The Innovation Act is the bill that has garnered the most support thus far. It was originally introduced in the 113th Congress and was passed by the House in December 2013. However, the Senate never passed it. In February 2015, the bill was reintroduced in the 114th Congress, and by June 9, 2015, it had twenty-six co-sponsors. In addressing attorney fees, the Innovation Act proposes to essentially flip the American Rule and it would require courts to award attorneys fees absent mitigating circumstances. Under the Innovation Act, courts would be required to award prevailing parties reasonable fees and other expenses incurred in connection with litigation unless one of two circumstances exists: (1) the position and conduct of the non-prevailing party was reasonably justified in law and fact or (2) special circumstances (such as severe economic

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40 Id. at 1747.
43 H.R. 9, 114th Cong. § 3 (2015).
hardship to an inventor) make an award unjust. The Innovation Act “seeks to give teeth to fee shifting” in another way: it would require that courts grant motions to join interested parties if a prevailing party can show that the losing party “has no substantial interest in the subject matter at issue other than asserting such patent claim in litigation.” The required-joinder mechanism would be triggered only where (1) the interested party received prior notice that it was alleged to be an interested party and (2) “the nonprevailing party alleging infringement is unable to pay the award of fees and other expenses.” This requirement would have the effect of encouraging joined interested parties to support litigation only for meritorious assertions because supporting poor quality claims carries not only monetary risks but also reputational damages.

The Legislature has seen other proposals that would address fee shifting in patent law. However, none of these bills were ultimately passed. The SHIELD (Saving High-Tech Innovators from Egregious Legal Disputes) Act was introduced in the House in 2013 but stopped there. This Act would have required courts to award attorney fees to any accused infringer who won a patent suit unless the fee award would be unjust. The Act put forth three exceptions that would make a fee award unjust: (1) if the patent holder was the original inventor or assignee of the patent; (2) if the patent holder provided the court with documentation proving a “substantial investment . . . in the exploitation of the patent through production or sale of an item covered by the patent;” or (3) if the patent holder was a university or a technology transfer organization

44 Id.
46 H.R. 9, 114th Cong. § 3 (2015).
47 H.R. 9, §§ 3(b) & (c).
48 Taylor, supra note 45, at 336.
associated with a university.\textsuperscript{50} Another bill introduced in the House, The Patent Litigation and Innovation Act of 2013,\textsuperscript{51} contained a fee-shifting provision that largely mirrored a provision of the Private Securities Litigation Reform Act (PSLRA).\textsuperscript{52} This bill would have required district courts, at the end of every patent case, to include in the record “specific findings regarding compliance by each party and each attorney representing any party with each requirement of Rule 11(b) of the Federal Rules of Civil Procedure as to any complaint, responsive pleading, or dispositive motion.”\textsuperscript{53} If the court found that a party or attorney violated any requirement of Rule 11(b), the court may impose sanctions.\textsuperscript{54}

Two other bills were introduced in the Senate and expired there. The first, the Patent Abuse Reduction Act, was very similar to the Innovation Act in terms of its fee-shifting provision.\textsuperscript{55} It would have required the court to impose a fee award, including attorney fees, unless the court found that either (1) the position and conduct of the non-prevailing party were objectively reasonable and substantially justified or (2) exceptional circumstances would make an award unjust.\textsuperscript{56} A second similar proposal, The Patent Litigation Integrity Act, would have required courts to award reasonable fees to the prevailing party unless the court found that the position and conduct of the non-prevailing party were substantially justified or that special

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{50} Id.
\item \textsuperscript{51} H.R. 2639, 113th Cong. § 6(a) (2013).
\item \textsuperscript{54} Id.
\item \textsuperscript{56} Id.
\end{itemize}
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circumstances make an award unjust.57 In addition to the fee provision, this bill also provided that a court may require the party alleging infringement to post a bond sufficient to ensure payment of the accused infringer’s fees, including attorney fees.58

While all of these bills have sought to address fee shifting in patent litigation, none so far has succeeded. The only bill still alive is the Innovation Act, but after the Supreme Court’s recent decisions, it is unclear whether the fee-shifting provisions in that bill will be passed since they may no longer be necessary to fix the system.

IV. What a Fee-Shifting Regime Would Look Like in Patent Law

This section will address the benefits of a fee-shifting regime in patent litigation. It will then comment on the choice among different types of fee-shifting regimes (notably, Section 285 as reinterpreted by Octane Fitness and Highmark, versus the proposed Innovation Act) in light of competing policy concerns.

a. Effects of Fee Shifting on the Patent Law System

A fee-shifting regime in patent law, whether by statute or by legislation, would help to restore integrity and fairness in the legal system. Fee shifting is often justified by the argument that a prevailing party cannot be made whole by a judgment if it still has to pay attorney fees.59 A fee-shifting regime would also ensure that the lawsuits filed are meritorious, rather than driven solely by nefarious motives, such as financial gains or harassment. If fee shifting was enforced,

58 Id. at § 201(a).
59 This is the rationale behind the English Rule. See Rowe, supra note 10, at 657 (“[R]efusing to award fees denies a wronged party full compensation for his injury.”).
patent trolls would also lose much of their bargaining power in licensing and settlement discussions, because the accused infringer would be able to leverage the new rule that the troll may have to pay attorney fees if the case went to trial. Although a fee-shifting regime in any form would have benefits for patent law, there are notable differences between an approach of judicial interpretation and one through legislation. This section will specifically discuss the most formidable legislation proposal, the Innovation Act, and the judicial interpretation of Section 285 in the Supreme Court’s recent decisions in Octane Fitness and Highmark.

1. Predicted Changes in the Number and Quality of Lawsuits Filed

As discussed above, the biggest effect of a fee-shifting regime in patent law would be a beneficial one on the quality of patents asserted in lawsuits. The threat of the loser having to pay the prevailing party’s attorney fees would create an incentive to only bring lawsuits that a party believes it has a reasonable chance of winning, for fear of having to pay not only its own but also the opposing party’s fees, which typically range in the millions.60 As a result, the court dockets would decrease, as parties would no longer assert poor quality patents in the courts as commonly as they do now. Studies conducted in England have concluded that the English Rule as applied there causes court dockets to be much less crowded than in the United States.61 Because the Innovation Act would automatically shift fees to the losing party, it would essentially be imposing the English Rule and thus would likely have the same effect on court dockets as is seen in England. The rules set forth in Octane Fitness and Highmark would also be likely to have an

60 See supra note 3 (reporting that attorney fees total between $2 to 5 million in an average patent case).
61 Davis, supra note 20, at 410 (citing John P. Frank, American Law: The Case For Radical Reform 135 (1969)).
effect on court dockets, although it is not clear how stark their force will be since there has not been enough time since the decisions came down to confidently report on their effect.

2. **Predicted Effects on Discovery in Patent Law**

Discovery costs in patent law account for a significant portion of the overall costs of litigation in a patent infringement case. The American Intellectual Property Law Association estimated that in 2013, the average costs through the end of discovery for a small case (less than $1 million in controversy) were over five-hundred thousand dollars, and costs for larger cases (between $1 to $25 million in controversy) ranged between $1.2 and 2.2 million dollars. These high costs can be explained by a few factors unique to patent law. First, patent cases often result in the production of “tens of thousands of dense documents,” which must be reviewed and produced by one side and then re-reviewed by the recipient. Another feature unique to patent litigation is that it is rarely dismissed at the pleadings stage. Rather, patent cases almost always go through claim construction (also known as a “Markman hearing,” which is effectively a mini-trial of its own to determine the meaning of patent claim terms) and substantial fact and expert discovery before the possibility of a pre-trial resolution. Currently, the default principle in the

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63 Liang, supra note 3, at 70 (explaining that these “tens of thousands of dense documents” can include complicated documents such as “technical specifications, user manuals, source code, and financial spreadsheets”).
64 Id. See also Brief for Defendant-Cross Appellant, Icon Health & Fitness, Inc. v. Octane Fitness, LLC, 496 F. App’x 57 (Fed. Cir. 2012) (Nos. 2011-1521, 2011-1636), 2012 WL 481412, at *67-68 (“Unlike certain forms of litigation (e.g., securities litigation or antitrust litigation) rarely is a patent infringement action dismissed at the pleading stage. Rather, before a defendant accused of infringement has any hope of extricating itself from a litigation, often-times (as here) substantial discovery (both fact and expert), Markman briefing and hearing, and
United States is that the producing party bears the costs of discovery requests.\footnote{See Fed. R. Civ. Pro. 26(b) (2015). A requestor-pays system only recently became the default system in the United States. Before the 2015 amendments to the Federal Rules of Civil Procedure, the default rule was that the producing party paid the costs of discovery. See Oppenheimer Fund, Inc. v. Sanders, 437 U.S. 340, 358 (1978) (“[T]he responding party must bear the expense of complying with discovery requests.”); see also Brittany K.T. Kauffman, Allocating the Costs of Discovery: Lessons Learned at Home and Abroad, \textit{Institute for the Advancement of the American Legal System Rule One Initiative} 1 (Sept. 2014) (“[T]he presumption in the United States, followed in most state and federal courts, is that the responding party pays for the expenses incurred in identifying, collecting, and producing documents in response to a discovery request.”).} However, the Federal Rules allow for Judges to alter this by court order and employ a producer-pays framework for discovery requests.\footnote{See Fed. Rule Civ. Pro. 26(c)(1)(B) (general provision concerning protective orders); 26(b)(2)(B) (electronically stored information).} The beneficial effects of fee shifting on discovery are seen in England. English law requires that at the first case management conference, each party serve a report including an estimate of their costs.\footnote{K auffman, supra note 65, at 34-35.} Generally, the losing party is required to pay the prevailing party’s fees based on what the other party budgeted, so long as the estimate was reasonable in relation to the proceedings.\footnote{Id. at 35-36 (listing considerations for determining whether litigations costs bear a reasonable relationship to the proceedings).}

The current ability of litigants in America to recover discovery fees is much more limited. There are a few statutes and judicially created rules that allow for recovery, but none are so expansive as the loser-pays rule. Rule 54(d)(1) of the Federal Rules of Civil Procedure provides that the prevailing party may recover its litigation costs, not including attorney fees, unless a federal statute, the rules, or a court provides otherwise. 28 U.S.C. § 1920 addresses the taxation of litigation costs, and authorizes taxing the losing party for specified costs, such as fees
for exemplification and the costs of making copies of any materials where the copies are necessarily obtained for use in the case. Although these rules provide the prevailing party with some recovery, they do not compensate the party fully as an award of attorney fees would.

3. **Predicted Increase in Forum Shopping**

One major existing problem in patent law that would only be exacerbated by a fee-shifting rule is forum shopping. Unabashedly, plaintiffs often admit to forum shopping and choosing forums based on their familiarity and expertise in patent law. Patent cases are currently concentrated in only a few districts. This preference for specific forums is based on the reputations of some districts for being especially plaintiff-friendly, and so trolls are especially likely to file in these districts. Plaintiffs choose other districts because they have a reputation for being patent experts, often because they are involved in the Patent Pilot Program. In 2011, fourteen district courts were chosen to participate in the program, and within each district, certain judges were selected to be designated patent judges. The specific judges who are assigned the

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72 See Venue Implication of the Patent Pilot Program, LAW 360 (Oct. 29, 2012, 12:00 PM), http://www.law360.com/articles/389793/venue-implications-of-the-patent-pilot-program (explaining how patent cases are assigned to judges who are participating in the program).
patent cases in that district are publicly listed. Judges in the participating courts who are not selected as patent-specific judges commonly give their patent cases to the judges selected for the Patent Pilot Program. Additionally, outside of the Patent Pilot Program, there is information available showing the most active judges in all districts in patent litigation, analysis of the median damages awards in their case load, and the overall success rate of patent holders in cases in front of each judge. Some districts, including the patent-friendly Eastern District of Texas, even allow for plaintiffs to choose their judge.

This easily ascertainable information about both the courts and the judges involved in patent litigation makes it easy for plaintiffs to forum shop today. Although the Court’s decisions in Octane Fitness and Highmark have only been in force for about a year and a half and so there is not sufficient evidence to determine yet which judges are most likely to award fees under Section 285, reports on the behavior of judges will predictably be available soon and provide plaintiffs with a basis for forum shopping to particular districts and even to particular judges.

After Octane Fitness and Highmark, the increase in discretion given to the district courts by the Supreme Court may greatly advantage plaintiffs by allowing them to a choose forum that

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73 For example, the Central District of California’s website offers a list of the six judges in its court who are participating in the Patent Pilot Program. Court Programs, United States District Court for the Central District of California, https://www.cacd.uscourts.gov/judges-requirements/court-programs/judges-participating-patent-pilot-program (last visited Mar. 15, 2015).


76 Klerman, supra note 73, at 12 (describing the ability to select a particular judge as a “unique opportunity” for patent holders).
will be friendly (or not friendly) to fee awards. A patent troll would likely shop for a forum that frowns upon fee awards because that would remove the alleged infringer’s bargaining power of threatening fee awards. Conversely, a plaintiff with a meritorious case would seek out a forum that is likely to award fees. In cases where a party is being targeted by a troll, it may seek to transfer the suit to a more fee-friendly forum in order to increase its bargaining power with the troll. Under the Innovation Act, a plaintiff may seek to forum shop based on how likely the court is to grant an exception to the automatic fee-shifting rule. However, since the fee shifting is automatic, legislation such as the Innovation Act is less likely to cause the forum shopping that a discretionary statute would.

4. Differences in Burden Shifting and Transaction Costs

The two approaches—statute and legislation—differ greatly in their effects on burden shifting and transaction costs. Application of Section 285 would not change the status quo. The burden is still on the party seeking fees to prove its entitlement to those fees. Conversely, the Innovation Act would create a presumption that an award of fees is warranted, thereby placing the burden on the losing party to prove that fees are not justified. Either way, the courts will still see fee motions in their dockets. It is likely that there would be fewer motions for fees under Section 285 than motions opposing fees under the Innovation Act framework because the Court in Octane Fitness emphasized that cases in which fee awards will be granted are not ordinary.77 However, under the Innovation Act, the losing party will almost always have an incentive to argue that the automatic awarding of fees is unjust because the Act offers several subjective...
exceptions to the rule. The transaction costs associated with these motions would not only increase the overall cost of patent litigation, but would also increase the courts’ costs of having to rule on these motions.

b. Effects on the Patent Law System if Fee Shifting is Implemented by the Judiciary

It has only been about two years since the Court’s decisions in Octane Fitness and Highmark. However, based on preliminary evidence, it appears that these cases have given the district courts the flexibility to award fees to prevailing parties more often. One author’s research showed that, of the attorney fee motions decided upon since these decisions were announced, about forty-seven percent of those motions resulted in an award of attorney fees. The Federal Circuit also seems to have also embraced a more flexible standard for fee awards. While Octane Fitness was pending at the Supreme Court, the Federal Circuit issued an opinion that departed from its test set forth in Brooks Furniture. The court stated that the two-part test from Brooks Furniture should not be an obstacle to attorney fee awards, and that one factor, such as objective baselessness, can on its own be sufficient to establish exceptionality under Section 285. The court’s opinion in this case suggests not only that the Federal Circuit will be amenable to following the new standard for fee awards under Section 285, but also that the court may have

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78 See supra note 44 and accompanying text.
79 See Darin Jones, Note, A Shifting Landscape for Shifting Fees: Attorney-Fee Awards in Patent Suits After Octane and Highmark, 90 WASH. L. REV. 505, 524-25 (2015) (stating that “between April 29, 2014 (the day the Octane and Highmark decisions were announced) and December 31, 2014, judges in twenty-four federal district courts have ruled on attorney-fee motions under 35 U.S.C. § 285 in fifty-five cases. Of those fifty-five decisions, twenty-six (i.e., roughly forty-seven percent) resulted in an award of attorney fees.”).
80 See Kilopass Tech., Inc. v. Sidense Corp., 738 F.3d 1302 (Fed. Cir. 2013).
81 See id. at 1314 (“[T]he subjective bad faith requirement is not the obstacle to fee shifting that the district court in this case appears to have believed. . . . Objective baselessness alone can create a sufficient inference of bad faith to establish exceptionality under § 285 . . .”).
been naturally progressing to a more flexible test even before the decisions in Octane Fitness and Highmark were announced.

c. Effects on the Patent System if a Fee Shifting Regime is Created by Legislation

A complete flip of the law for fee shifting, from the American rule to a loser-pays rule, is not necessary after the Court’s recent decisions. Those decisions gave district courts more discretion and flexibility in awarding fees. At this point, legislation that creates a loser-pays rule is both a duplicative and an overly inclusive reaction to a specific problem. The chief concern driving the proposals for a loser-pays regime is the weak claims often brought by patent trolls. While patent trolls are involved in a high percentage of patent cases, an automatic shifting of fees would affect more than just those cases that actually demand a shifting of fees. The solution created by the Supreme Court would allow fee awards in those cases that deserve them, but would not automatically shift fees in cases where both litigants reasonably participated. A loser-pays system would also have a disproportionate impact on start-ups and other small companies.82

An award of attorney fees could be devastating, and in some cases even bankrupt a small company, whereas a big company like Google or Teva may not want to pay attorney fees but would not be ruined if it was ordered to pay them. Legislation such as the Innovation Act could discourage those small companies with meritorious claims from filing a lawsuit for fear of losing and having to pay not only their own fees but also the fees of their opposing party.

82 See Davis, supra note 20, at 410 (explaining that one of the downsides of the English Rule is that it “discourages privately funded plaintiffs from bringing meritorious claims, or forces them to settle early at a much lower recovery rate, in part because the cost of losing is always substantial”).

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V. Conclusion

A fee-shifting regime would ensure integrity and efficiency in patent law. Before 2014, it was nearly impossible for prevailing parties to recover fees in patent litigation. The patent-specific fee shifting statute, Section 285, was interpreted by the Federal Circuit to be such a rigid standard that it was nearly impossible to meet. That is no longer true after the Supreme Court’s decisions in Octane Fitness and Highmark. Now, district courts have more discretion to award fees under Section 285, and the Federal Circuit must now give more deference the district courts’ decisions. If Octane Fitness and Highmark do in fact have the predicted effect of district courts shifting fees more often, then legislative proposals for an automatic fee-shifting system will no longer be necessary.

The problem to be addressed by the proposed legislation—unmeritorious claims and poor quality patents being asserted by patent trolls—will be fixed by the district courts’ application of the statute. While the desired outcome would be achieved both by Section 285 or legislation, application of the statute marks a less dramatic change in patent law than would legislation such as the Innovation Act. Legislation is a “blunt instrument” that may go too far, whereas changes made by the courts can be “more nuanced and sensible” in response to the problems posed by patent trolls.83 Though not dispositive, the intent of Congress when adding Section 285 to the Patent Act was not to transform the patent system into a loser-pays regime.84 Rather, the Senate Committee on Patents reported that it did “not complemplate[] that the recovery of attorney’s fees [would] become an ordinary thing in patent suits,” but included the provision “so as to

enable the court to prevent a gross injustice to an alleged infringer.”\textsuperscript{85} Employing a fee-shifting regime in patent law using Section 285 would prevent these “gross injustices” in patent law while still maintaining the status quo. Flexible employment of Section 285 would do much to encourage litigation of strong cases, discourage weak cases, incentivize settlements out of court, and assure litigants that there is fairness in patent litigation.

\textsuperscript{85} Id.