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MAKING ABUSERS PAY: DETERRING PATENT LITIGATION BY SHIFTING ATTORNEYS' FEES

Emily H. Chen[†]

Abusive patent litigation practices waste judicial resources, distract producers from bringing technological innovations to the public, and generate unnecessary social costs.¹ These abusive practices are abetted by the American Rule, under which each party to a lawsuit bears its own attorneys' fees absent statutory authorization.² Under the American Rule, plaintiffs need only be concerned with their own costs of litigation and may even use the defendants' cost of defense as a bargaining chip in brokering a settlement before trial.³ Creating an exception to the American Rule by transferring the burden of the winning party's legal fees to the shoulders of the losing party based on the outcome of litigation will effectively deter filings of questionable merit and other abusive litigation practices which escalate the cost of defense.⁴

Other areas of American law have successfully implemented and applied attorney-fee-shifting.⁵ In patent litigation, although *discretionary* fee-shifting provisions do exist, they are rarely used, and there has never been a *mandatory* fee-shifting provision.⁶ While a strict provision for fee-shifting in patent litigation was considered, but ultimately not included, in the America Invents

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1. See James Bessen, Jennifer Ford & Michael J. Meurer, *The Private and Social Costs of Patent Trolls*, 34 REGULATION 26, 31 (Winter 2011–2012); FED. TRADE COMM'N, THE EVOLVING IP MARKETPLACE: ALIGNING PATENT NOTICE AND REMEDIES WITH COMPETITION 3 (2001), available at <http://www.ftc.gov/os/2011/03/110307patentreport.pdf>.

2. Jane P. Mallor, *Punitive Attorneys' Fees for Abuses of the Judicial System*, 61 N.C. L. REV. 613, 613–14 (1983).

3. *Id.* at 617 (“[A] defendant might choose not to challenge a disputed claim, or even a groundless claim, if the costs of defending the claim would exceed the plaintiff's demands [T]he American rule may function as a ‘legalized form of blackmail’ that encourages frivolous claims and adds to the congestion of courts.”).

4. *Id.* at 619 (“Deterrence of frivolous litigation, compensation of litigants who have been wrongfully subjected to litigation, and punishment of abusive litigation practices can be accomplished through the principled use of the punitive exceptions to the American rule.”).

5. See *infra* Section II.A.

6. Colleen V. Chien, *Reforming Software Patents*, 50 HOU. L. REV. (forthcoming 2013) (manuscript at 36–37), available at <http://digitalcommons.law.scu.edu/facpubs/473>.

Act,⁷ the recent consideration of the Saving High-Tech Innovators from Egregious Legal Disputes Act of 2012 (“SHIELD Act of 2012”)⁸ and recent decisions from the Federal Circuit and the Eastern District of Texas indicate that support for this type of policy is growing.⁹

Although Rule 11 of the Federal Rules of Civil Procedure¹⁰ and § 285 of the Patent Act¹¹ are directed toward abusive litigation, neither provision is strong enough to effectively curtail the problem of weak patent suits.¹² Fee-shifting could effectively curb abusive patent litigation practices in a way which neither Rule 11 nor § 285 have been able to, so long as it is implemented in a consistent manner.

This Note proceeds in three parts. Part I introduces the variables and factors which enable and encourage abusive litigation and how those variables change when litigation costs are shifted to the losing litigant. Part II discusses existing fee-shifting provisions and why they do not effectively deter abusive litigation, whether initiated by patent bullies¹³ or by non-practicing entities.¹⁴ Part III explains that a fully enabled and rigorously applied fee-shifting regime would effectively deter some litigation of questionable merit and describes implementation of this policy change through judicial interpretation or—more effectively—through well-drafted legislation.

7. Compare S. 3818, 109th Cong. § 5(b) (2006) with Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011).

8. See Saving High-Tech Innovators from Egregious Legal Disputes Act of 2012, H.R. 6245, 112th Cong. (2d Sess. 2012) [hereinafter SHIELD Act of 2012].

9. See *infra* Part II.

10. FED. R. CIV. P. 11 (allowing Federal courts to impose sanctions on an attorney, law firm, or party that files frivolous claims or makes factual contentions without evidentiary support).

11. Patent Act of 1952, 35 U.S.C. § 285 (2006) (allowing courts to award attorneys’ fees to the prevailing party in exceptional patent litigation cases).

12. See *infra* Part II.

13. Ted Sichelman, *The Vonage Trilogy: A Case Study in “Patent Bullying,”* in PERSPECTIVES ON PATENTABLE SUBJECT MATTER (Michael Abramowicz, John Duffy & F. Scott Kieff eds., 2012) (manuscript at 4), available at <http://ssrn.com/abstract=1856703> (defining patent bullies as “large, practicing entities that often hold many patents . . . and assert their patents against entrants to prevent innovative, disruptive technologies from competing with the bullies’ outmoded products”).

14. This Note will use a broad formulation of non-practicing entities: “individuals and firms who own patents but do not directly use their patented technology to produce goods or services” but instead assert the patents “against companies that do produce goods and services.” James Bessen & Michael J. Meurer, *The Direct Costs from NPE Disputes* 3 (Boston Univ. Sch. of Law, Law and Economics Research Paper No. 12-34, 2012), available at <http://ssrn.com/abstract=2091210>.

I. BACKGROUND: THE ECONOMICS OF PATENT INFRINGEMENT CLAIMS

Nuisance claims and litigation of questionable merit clutter the docket, distract from more pressing issues, and result in transferred costs to consumers.¹⁵ These abuses have become quite prominent, prompting various scholars,¹⁶ mainstream media,¹⁷ and even President Barack Obama¹⁸ to discuss and debate the matter. This Part assesses the current practice of abusive patent litigation, laying a foundation for subsequent discussion of attorney-fee-shifting proposals in the context of patent litigation.

15. Marie Gryphon, *Assessing the Effects of a “Loser Pays” Rule on the American Legal System: An Economic Analysis and Proposal for Reform*, 8 RUTGERS J.L. & PUB. POL’Y 567, 568 (“[L]ow merit legal cases . . . raise the cost of goods and services to consumers by forcing businesses that are sued to cover their legal expenses by raising prices.”).

16. *See generally* DAN L. BURK & MARK A. LEMLEY, *THE PATENT CRISIS AND HOW THE COURTS CAN SOLVE IT* 28–30 (2009) (asserting that the threats of injunctive relief and royalty stacking “lead to a litigation system that is skewed in favor of patent plaintiffs, and . . . encourage[] patent owners to roll the dice of litigation in hopes of reaping a large reward.”); Robert P. Merges, *The Trouble With Trolls: Innovation, Rent-Seeking, and Patent Law Reform*, 24 BERKELEY TECH. L.J. 1583 (2009) (analyzing the secondary market for patent rights, including the “questionable market for the settlement of lawsuits involving weak, outdated or irrelevant patents”); Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991 (2007) (discussing royalty overcharges and calculations in licensing, litigation, and patent reform).

17. *See* Ashby Jones, *Law Journal: Patent ‘Troll’ Tactics Spread*, WALL ST. J., July 9, 2012, at B1 (discussing recent trends in nonpracticing entity strategies and business models); Colleen V. Chien, *Turn the Tables on Patent Trolls*, FORBES CIO NETWORK BLOG (Aug. 9, 2011, 11:37 PM) (Eric Savitz ed.), <http://www.forbes.com/sites/ciocentral/2011/08/09/turn-the-tables-on-patent-trolls/>.

18. In a virtual fireside chat, President Obama commented on the topic of patent trolls: The folks that you’re talking about are a classic example. They don’t actually produce anything themselves. They’re just trying to essentially leverage and hijack somebody else’s idea and see if they can extort some money out of them. Sometimes these things are challenging. Because we also want to make sure that patents are long enough, and that people’s intellectual property is protected. We’ve got to balance that with making sure that they’re not so long that innovation is reduced.

Joe Mullin, *Even Obama Knows patent trolls are “extorting” money*, ARS TECHNICA (Feb. 14, 2013, 5:25 PM), <http://arstechnica.com/tech-policy/2013/02/even-obama-knows-patent-trolls-are-extorting-money/>; Mike Masnick, *President Obama Admits That Patent Trolls Just Try To ‘Extort’ Money; Reform Needed*, TECHDIRT (Feb. 14, 2013, 2:45 PM), <http://www.techdirt.com/articles/20130214/14351821988/president-obama-admits-that-patent-trolls-just-try-to-extort-money-reform-needed.shtml>.

A. A MODEL OF ABUSIVE LITIGATION

The current model of patent litigation has been characterized as expensive, risky, and dangerous.¹⁹ Abusive litigators use these characteristics of patent litigation to their strategic advantage in deciding whether or not to bring a case for patent infringement. Empirical evidence shows that patent litigation is expensive: in 2011, the AIPLA estimated the average cost of patent infringement litigation was \$2.7 million for a case worth between \$1 and \$25 million and \$6 million for a case worth more than \$25 million.²⁰ Furthermore, patent litigation is risky and unpredictable because it is difficult to know what facts will be relevant to the dispute and how a trier of fact will evaluate those facts if they become known.²¹ To top it off, patent litigation is dangerous, especially for practicing plaintiffs, who might find themselves facing the possibility of an injunction based on counterattacks from a defendant's arsenal of patents.²² Section I.A.1 provides a model of the various forces at play in patent litigation and serves as a foundation for Section I.A.2, which introduces two approaches to handling the winning defendant's legal fees and discusses how the different approaches impact the forces at play in patent litigation.

1. *The Six Rosenberg-Shavell Nuisance Suit Factors*

To facilitate a higher level analysis of abusive litigation, Rosenberg and Shavell developed a fundamental six-factor model for nuisance suits. First, they define a nuisance suit as a suit “in which the plaintiff will be able to obtain a positive settlement from the defendant even though the defendant knows the plaintiff's case is sufficiently weak that [the plaintiff] would be unwilling or unlikely actually to pursue his case to trial.”²³ An analysis of the six factors in the Rosenberg-Shavell model is helpful in understanding the phenomenon of nuisance suits in the patent litigation context.

19. Chien, *Turn the Tables on Patent Trolls*, *supra* note 17.

20. AIPLA REPORT OF THE ECONOMY SURVEY I, at 153–54 (2011) (surveying the AIPLA membership on various cost issues).

21. David L. Schwartz, *The Rise of Contingent Fee Representation in Patent Litigation*, 64 ALA. L. REV. 335, 349 (2012); *see also* JAMES BESSEN & MICHAEL J. MEURER, PATENT FAILURE: HOW JUDGES, BUREAUCRATS, AND LAWYERS PUT INNOVATORS AT RISK, 54–62 (2008) (asserting that lack of patent notice and “fuzzy boundaries” in patents result in high risks in patent litigation).

22. *See* Chien, *Turn the Tables on Patent Trolls*, *supra* note 17.

23. *See generally* D. Rosenberg & S. Shavell, *A Model in Which Suits are Brought for Their Nuisance Value*, 5 INT'L REV. L. & ECON. 3 (1985) (describing and evaluating a model of the legal dispute which allows nuisance suits to occur); *id.* at 3.

a) Plaintiff's Cost of Litigation

The first—and most readily reformed—factor is the *plaintiff's cost of litigation*. As plaintiffs decide whether to file suit, they must consider their own cost of litigation. These costs include, for example, court filing fees, time and effort required to gather evidence for the complaint and subsequent discovery motions, and the lion's share of the cost: attorneys' fees.

In patent litigation that went through trial between 1985 and 2004, patentee litigants paid \$1.04 million on average in fees.²⁴ However, while traditional hourly billing requires plaintiff-clients to assume nearly all the risks of litigation by directly paying legal fees as they are incurred, contingent fee arrangements—where the lawyer represents the plaintiff in exchange for a percentage of the eventual recovery, if any, from the infringer—shift some of the litigation expenditure risk to the lawyer and is an increasingly popular arrangement.²⁵

b) Plaintiff's Cost of Filing a Claim

The second factor is the *plaintiff's cost of filing a claim*. The seemingly simple act of filing a claim for patent infringement costs the plaintiff a significant amount of money: hiring an attorney to preliminarily evaluate the claims, compose and file the complaint, and go through other pre-trial litigation procedures can become quite expensive.²⁶ In cases decided without a trial between 1985 and 2004, patentee litigants paid \$950,000 on average in fees.²⁷ This factor must be taken into account as a patent-holder decides whether to bring a claim for patent infringement; as the plaintiff's cost of filing a claim increases, the plaintiff is less likely to file suit and is more likely to perform additional investigation to evaluate the likelihood of success before investing financial resources in filing a claim.

c) Plaintiff's Settlement Demand

The third factor is the *plaintiff's settlement demand*. A practicing entity faced with a threat of permanent injunction or patent invalidation may be willing to

24. James E. Bessen & Michael J. Meurer, *The Private Costs of Patent Litigation* 16 (Working Paper Series, Law & Economics Working Paper No. 07-08, Boston University School of Law), http://ssrn.com/abstract_id=983736.

25. Schwartz, *supra* note 21, at 337.

26. Depending on the frequency of the different ways a lawsuit might be terminated, the plaintiff's expected cost of filing a claim has been estimated to be between \$483,000 and \$624,000. Bessen & Meurer, *The Private Costs of Patent Litigation*, *supra* note 24, at 17.

27. Bessen & Meurer, *The Private Costs of Patent Litigation*, *supra* note 24, at 16.

settle the dispute by licensing the patent in exchange for royalty payments.²⁸ The trial—the judicial procedure—is the “backup solution” in case settlement negotiations are unsuccessful.²⁹ Unfortunately, not much empirical data about settlement demands and agreements are publicly available for analysis.³⁰ Helpfully, scholars have developed models for the economics of settlement demands, which indicate that the primary factor in settlement bargaining is the degree to which information about the patent’s validity is shared by the parties.³¹

d) Defendant’s Cost of Defense

The fourth factor is the *defendant’s cost of defense*. The higher the defendant’s cost of defense, the more likely the defendant will settle in order to avoid defense expenses. In 2011, approximately 2,150 unique companies defended 5,842 lawsuits initiated by non-practicing entities (“NPEs”), and the cost of those actions totaled about \$29 billion.³² Small and medium-sized defendant companies shouldered thirty-seven percent of that cost.³³ Perhaps

28. Lemley & Shapiro, *Patent Holdup and Royalty Stacking*, *supra* note 16, at 1992–93; Michael J. Meurer, *The Settlement of Patent Litigation*, 20 THE RAND J. ECON. 77, 77 (1989); *see also* Goodyear Tire & Rubber Co. v. Chiles Power Supply, Inc., 332 F.3d 976, 980 (6th Cir. 2003) (“The ability to negotiate and settle a case without trial fosters a more efficient, more cost-effective, and significantly less burdened judicial system.”).

29. Claude Crampes & Corinne Langinier, *Litigation and Settlement in Patent Infringement Cases*, 33 THE RAND J. ECON. 258, 262 (2002) (citing J. O. Lanjouw & J. Lerner, *The Enforcement of Intellectual Property Rights: a Survey of the Empirical Literature* (Nat’l Bureau of Econ. Research, Working Paper No. 6296, 1997); R.C. Marshall, M.J. Meurer & J.F. Richard, *Litigation Settlement and Collusion*, 109 Q.J. ECON. 211, 211–39 (1994)).

30. “There exists a strong public interest in favor of secrecy of matters discussed by parties during settlement negotiations. . . . Moreover, confidential settlement communications are a tradition in this country.” Goodyear Tire & Rubber Co. v. Chiles Power Supply, Inc., 332 F.3d 976, 980 (6th Cir. 2003). *But see* Alex S. Li, Note, *A Selective Remedy: The MSTG Effects on Non-Practicing Entities’ Litigation Strategies*, 28 BERKELEY TECH. L.J. 483, 496–99 (2013) (discussing the impact of the Federal Circuit’s *In re* MSTG decision regarding the discoverability of settlement negotiations by third parties).

31. *See generally* Michael J. Meurer, *The Settlement of Patent Litigation*, 20 THE RAND J. ECON. 77, 77, 80–84 (1989) (discussing patent litigation and settlement licensing when the applicable law is unclear, and explaining that the commonality or privacy of information about the patent’s validity are the primary factors in settlement bargaining. Meurer defines “common information bargains” as situations where both the patentee and competitor both predict the same probability of patent invalidity, and defines “private information bargains” as situations where the patentee knows whether the patent is valid, but the competitor believes there is some probability of patent invalidity); Crampes & Langinier, *supra* note 29, 262–64 (modeling how the patent holder decides whether to go to court, settle, or accept the illegal entry, after having clearly identified the infringer, and showing that “bilateral [settlement] negotiation allows both parties to save legal expenses”).

32. Bessen & Meurer, *The Direct Costs from NPE Disputes*, *supra* note 14, at 4, 19.

33. *Id.* at 31.

due to variations in NPE tactics, while a large fraction of lawsuits cost less than \$200,000, five percent of the lawsuits defended by large companies cost more than \$22 million.³⁴ In the average patent litigation that went *through* trial between 1985 and 2004, the alleged infringers paid \$2.46 million in defense-related fees.³⁵ In cases decided *before* trial, alleged infringers paid \$57,000 in fees on average.³⁶ Approximately eighty percent of patent cases settle, while only five percent of cases are terminated through a trial; thus, the average cost of litigation may be approximated by examining expenditures through discovery.³⁷ Patent litigation may be logically truncated at two pre-trial checkpoints: (1) like all federal cases, at summary judgment under Rule 56 of the Federal Rules of Civil Procedure;³⁸ and (2) after the *Markman* claim construction hearing, which is only available in the context of patent litigation.³⁹ A larger percentage of cases brought by non-practicing entities (sixty percent) are decided at summary judgment than cases brought by practicing entities (fifty-three percent), suggesting that cases brought by non-practicing entities are less likely to raise material factual issues which must be evaluated at trial.⁴⁰

e) Probability that Plaintiff Will Prevail in Litigation

The fifth factor is the *probability that the plaintiff will prevail in litigation*. Generally, a plaintiff will not go to the trouble of bringing a suit unless he believes he will win. The probability that a plaintiff will prevail in litigation, however, can be difficult to assess. Patent cases are especially difficult to predict because: (1) knowing the entire universe of relevant prior art is nearly impossible before litigation commences, and therefore it is difficult to predict the likelihood that a patent is valid before substantial litigation discovery; and (2) there is a high degree of uncertainty in how the patent claims will be

34. *Id.* at 15.

35. Bessen & Meurer, *The Private Costs of Patent Litigation*, *supra* note 24.

36. *Id.*

37. Jay P. Kesan & Gwendolyn G. Ball, *How Are Patent Cases Resolved? An Empirical Examination of the Adjudication and Settlement of Patent Disputes*, 84 WASH. U. L. REV. 237, 264 (2006).

38. FED. R. CIV. P. 56.

39. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996).

40. *See* Pricewaterhouse Coopers, 2011 PATENT LITIGATION STUDY: PATENT LITIGATION AS THE “AMERICA INVENTS ACT” BECOMES LAW 18 (2011), *available at* http://www.pwc.com/en_US/us/forensic-services/publications/assets/2011-patent-litigation-study.pdf; *see also* Randall R. Rader, Chief Judge, Fed. Cir., Keynote Address at the E.D. Tex. Judicial Conference: The State of Patent Litigation 6 (Sept. 27, 2011), <http://www.patentlyo.com/files/raderstateofpatentlit.pdf> (suggesting that “summary judgment is the key to efficient resolution of disputes”).

interpreted.⁴¹ The likelihood that a plaintiff will prevail in litigation is tied closely to the relative complexity of the patent in suit and the facts at hand. Interestingly, some researchers have found that non-practicing entities actually overwhelmingly lose in summary judgment or at trial, suggesting that non-practicing plaintiffs are less likely to prevail in litigation.⁴² There are other risks which cut against the plaintiff's likelihood of prevailing and its consequent incentive to file a lawsuit: the asserted patent may be invalidated at trial (foreclosing any future litigation involving the asserted patent),⁴³ and plaintiffs may be countersued with patent infringement claims.⁴⁴

f) Amount that Plaintiff Would Win in a Default or Trial Judgment

The sixth factor is the *amount that the plaintiff would win in a default or trial judgment*. A plaintiff who wins a default or trial judgment may obtain injunctive relief, royalty stacking damages, or even treble damages for willful infringement. The monetary values of potential awards to the plaintiff are high, and—perhaps more importantly—the potential business implications of non-monetary awards such as injunctive relief for practicing defendants are enormous. These high stakes give patent plaintiffs more leverage in litigation.⁴⁵

2. *The American and English Rules Applied to the Rosenberg-Shavell Model*

In the current American patent litigation scheme, each litigant pays its own attorneys' fees.⁴⁶ This incentivizes abusive litigation by plaintiffs, which forces defendants to either settle quickly or else defend the claims at significant cost.⁴⁷ For instance, in nuisance suits, a patent owner files a patent infringement claim “seeking to license even clearly bad patents for royalty payments small enough that licensees decide it is not worth going to court.”⁴⁸

41. Schwartz, *supra* note 21, at 349.

42. John R. Allison, Mark A. Lemley & Joshua Walker, *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 GEO. L.J. 677, 693–94 (2011) (showing that—taking default judgments into account—product-producing companies win 50% of their cases, while non-practicing entities win only 9.2% of their cases).

43. John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 205 (1998) (noting that 54% of patents were found valid in a population of 300 final validity decisions).

44. Stuart J. Graham & Ted Sichelman, *Why Do Start-Ups Patent?*, 23 BERKELEY TECH. L.J. 1063, 1065 (2008) (noting that many companies patent defensively to create a “game of ‘mutually assured destruction’”).

45. BURK & LEMLEY, *supra* note 16, at 28.

46. Marie Gryphon, *supra* note 15, at 567.

47. *Id.*

48. See Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 NW. U. L. REV. 1, 21 (2001); Christopher A. Harkins, *Fending Off Paper Patents and Patent Trolls: A Novel ‘Cold Fusion’*

The economics of patent litigation should be reformed so as to deter such low-merit legal suits, which clutter the legal system and ultimately raise costs for consumers.⁴⁹ Fee-shifting is one way to effect this change: by forcing plaintiffs to bear the risk of their opponents' legal expenses in addition to their own, plaintiffs will be less likely to file low-merit claims. Modern European codes prescribe "two-way fee-shifting," imposing the costs on the defeated party, whether the defeated party is the plaintiff or the defendant, colloquially referred to as the "English Rule."⁵⁰ In contrast, the U.S. Supreme Court held in 1796 that a prevailing party cannot recover attorneys' fees as damages, a doctrine now known as the "American Rule."⁵¹

Applying the six Rosenberg-Shavell factors demonstrates that shifting the prevailing party's costs of litigation to the losing party changes the willingness of the plaintiff to litigate.⁵² Under the American Rule, even if a plaintiff is unwilling to go to trial, it is still profitable for the plaintiff to file a pure nuisance claim whenever the plaintiff's cost of filing is less than the defendant's cost of defense. The defendant would be willing to pay the plaintiff a settlement of any amount up to the defendant's would-be defense costs.⁵³ Relatedly, if a plaintiff is willing to go to trial (because there is a high likelihood of prevailing and the judgment amounts are sufficiently high), the plaintiff will file a claim more often; that is, whenever the cost of filing is less than the defense costs plus the plaintiff's expected judgment.⁵⁴

However, under the English Rule, where the loser must pay the winner's reasonable legal fees (also known as a "loser pays rule"), plaintiffs would never file "pure" nuisance suits because a plaintiff who is only seeking a settlement and is unwilling to litigate would never file a claim.⁵⁵ Especially if the plaintiff is unlikely to prevail, the plaintiff's willingness to file a claim

Defense Because Changing Times Demand It, 17 ALB. L.J. SCI. & TECH. 407, 410 (2007) (stating that some patents are asserted for the "purpose of extorting nuisance settlements").

49. Gryphon, *supra* note 15, at 568.

50. Werner Pfennigstorf, *The European Experience with Attorney Fee Shifting*, 47 L. & CONTEMP. PROBS. 37, 46 (1984); Henry Cohen, *Awards of Attorneys' Fees by Federal Courts and Federal Agencies*, in AWARDS OF ATTORNEYS FEES BY FEDERAL COURTS, FEDERAL AGENCIES AND SELECTED FOREIGN FINDINGS 1, 1 (Mary V. Capisio & Henry Cohen, eds., 2002), available at <http://www.worldcat.org/title/awards-of-attorneys-fees-by-federal-courts-federal-agencies-and-selected-foreign-countries/oclc/248778195/viewport>.

51. Mallor, *supra* note 2, at 613, 616 (citing *Arcambel v. Wiseman*, 3 U.S. 306, 306 (1796) ("The general practice of the United States is in opposition to [fee-shifting], and even if [fee-shifting] were not strictly correct in principle, it is entitled to the respect of the court, till it is changed, or modified, by statute.") (emphasis omitted)).

52. Rosenberg & Shavell, *supra* note 23, at 5, 9.

53. *Id.* at 4–5, fig.1.

54. *Id.* at 5.

55. *Id.*

under the English Rule is lower than under the American Rule. Scholars have analyzed the theoretical tradeoffs between the American and English Rules of fee-shifting, including the impact of each rule on the number of legitimate cases that might be filed.⁵⁶ These studies have indicated that there is reason to believe that after adopting a loser pays rule, the reduction in nuisance suits would still be greater than the increase in small, highly meritorious suits.⁵⁷ Furthermore, domestic experiences with loser pays rules in Alaska and Florida have generally confirmed theoretical predictions that litigants with weak cases are more likely to abandon their claims, allowing lawyers and courts to focus on more meritorious suits.⁵⁸

II. EXISTING FEE-SHIFTING PROVISIONS ARE INEFFECTIVE

A. HISTORY AND BACKGROUND OF ATTORNEY-FEE-SHIFTING

Attorney-fee-shifting has evolved over 1500 years, since the time of Justinian and the Byzantine Empire, where it began as a policy to deter frivolous litigation and punish bad faith but was later adopted as the general rule for all cases.⁵⁹ Today, under the English Rule, European codes prescribe “two-way fee-shifting,” wherein the loser is responsible for both litigants’ legal fees, regardless of whether the winner was originally a plaintiff or a defendant.⁶⁰ On the other hand, under the default American Rule, a prevailing party generally cannot recover attorneys’ fees as damages.⁶¹ However, the Supreme Court has explicitly condoned the enactment of exceptions to the American Rule through legislation.⁶² Congress has circumvented this default rule in the past by making specific and explicit provisions for the allowance of attorneys’ fees under selected statutes granting or protecting various federal rights in order to effectuate important

56. Gryphon, *supra* note 15, at 585.

57. *Id.*

58. *Id.* at 595–601.

59. Pfennigstorf, *supra* note 50, at 42, 65.

60. *Id.* at 46; Cohen, *supra* note 50, at 1.

61. Mallor, *supra* note 2, at 613, 616 (citing *Arcambel v. Wiseman*, 3 U.S. 306, 306 (1796) (“The general practice of the United States is in opposition to [fee-shifting], and even if [fee-shifting] were not strictly correct in principle, it is entitled to the respect of the court, till it is changed, or modified, by statute.”) (emphasis omitted)).

62. *See also Alyeska Pipeline Serv. Co. v. Wilderness Soc’y*, 421 U.S. 240, 262 (1974) (“[I]t is apparent that the circumstances under which attorneys’ fees are to be awarded and the range of discretion of the courts in making those awards are matters for Congress to determine.”).

legislative policies.⁶³ Statutory examples of discretion in awarding attorneys' fees are present in antitrust law⁶⁴ and in the Civil Rights Act.⁶⁵

Federal statutes already authorize awards of attorneys' fees to "prevailing parties" in other areas of the law, including the Copyright Act, the Civil Rights Attorney's Fees Awards Act of 1976, and the Freedom of Information Act ("FOIA").⁶⁶ These federal statutes serve to encourage lawsuits by patent litigants of modest means and also deter wrongful conduct, which would otherwise be encouraged by wrongdoers' knowledge that excessive litigation expenses prevent potential plaintiffs from filing suit.⁶⁷ Section 505 of the Copyright Act gives courts the discretion to award attorneys' fees and costs in a provision nearly identical to § 285 of the Patent Act.⁶⁸ Unfortunately, there has been a pronounced circuit split in establishing the standard for awarding attorneys' fees, making it difficult for potential litigants to evaluate liability with certainty.⁶⁹

63. Mallor, *supra* note 2, at 614; *Alyeska Pipeline Serv. Co.*, 421 U.S. at 260.

64. 15 U.S.C. § 15(a) (2006) ("[A]ny person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor . . . and shall recover . . . the cost of suit, including a reasonable attorney's fee." (emphasis added)).

65. Civil Rights Act of 1964, tit. II, 42 U.S.C. § 2000a-3(b) (2006) ("In any action commenced pursuant to this subchapter, the court, in its discretion, may allow the prevailing party, other than the United States, a reasonable attorney's fee as part of the costs, and the United States shall be liable for costs the same as a private person.").

66. See Peter N. Cubita, Jeffrey S. Lichtman & Daniel D. Rubino, Note, *Awards of Attorney's Fees in the Federal Courts*, 56 ST. JOHN'S L. REV. 277, 286–89, n.34 (1982) (describing notable federal fee-shifting statutes); *Alyeska Pipeline Service Co.*, 421 U.S. at 260–62, nn.33–35 (listing various specific and explicit provisions Congress has made for exceptions to the American Rule in certain statutes which grant or protect various federal rights).

67. Cubita, *supra* note 66, at 287–88, n.34; see also Frances Kahn Zemans, *Fee Shifting and the Implementation of Public Policy*, 47 L. & CONTEMP. PROBS. 187, 208–09 (1984) ("Judicial exceptions to [the American Rule] have been largely in the form of the stick to punish inappropriate use of the judicial process—in particular bad faith and vexatious suits.").

68. Copyright Act, 17 U.S.C. § 505 (2006) (stating that the court "may allow the recovery of full costs . . . [and] may also award a reasonable attorney's fee to the prevailing party as part of the costs"); see also Patent Act of 1952, 35 U.S.C. § 285 (2006) ("The court in exceptional cases may award reasonable attorneys' fees to the prevailing party.").

69. See 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 14.10 (Matthew Bender, Rev. Ed. 2012) (discussing the circuit split in defining "the prevailing party"); see also *Nightingale Home Healthcare v. Anodyne Therapy*, 626 F.3d 958, 960–62 (7th Cir. 2010) (summarizing the circuit splits in defining the standard for awarding attorneys' fees in Lanham Act cases). In a related vein, Peter Menell and Ben Depoorter argue that while fee-shifting might be used in copyright in order to encourage fair negotiations over cumulative uses of copyrighted works, the current codification of Section 505 of the Copyright Act is incapable of effecting such fair negotiations. See generally Peter S. Menell & Ben Depoorter, *Copyright Fee Shifting: A Proposal to Promote Fair Use and Fair Licensing* (Univ. of Cal. Berkeley Pub. Law Research Paper No. 2,159,325, 2012), available at <http://ssrn.com/abstract=2159325>.

The concept of attorney-fee-shifting is not new in intellectual property law. Initially, the Patent Act of 1790 did not include any provisions for the award of attorneys' fees to the prevailing party.⁷⁰ While the Patent Act of 1793 did not provide an express provision, an annotated copy of the 1973 Act noted that a jury may award attorneys' fees as part of damages.⁷¹ The Patent Act of 1836 was silent on the issue of attorneys' fees.⁷² However, the Patent Act of 1946 shifted the decision-making authority away from the jury when it provided that "[t]he court may in its discretion award reasonable attorney's fees to the prevailing party."⁷³ By removing the phrase "in [its discretion]" and adding the term "exceptional," the Patent Act of 1952 raised the bar by providing in § 285 that a "court in *exceptional* cases may award reasonable attorneys' fees to the prevailing party."⁷⁴ Although § 285 of the Patent Act on its face appears to provide recourse for defendants faced with claims that lack merit, courts have rarely awarded attorneys' fees under this section.⁷⁵

B. ATTORNEY-FEE-SHIFTING IN "EXCEPTIONAL" PATENT CASES: 35 U.S.C. § 285

Recent litigation has highlighted defendants' growing desire to use fee-shifting to recoup costs and deter future abusive litigation; it has also highlighted the difficulty of meeting the current "exceptional case" standard for fee-shifting in patent cases.

In a patent case, the prevailing party must show by clear and convincing evidence that the case is exceptional in order to obtain an award of attorney fees under § 285.⁷⁶ The attorney-fee-shifting provision of the Patent Act provides that in patent litigation, a "court in *exceptional* cases may award

70. Patent Act of 1790, ch. 7, 1 Stat. 109 (repealed 1793).

71. Annotated Patent Act of 1793, ch. 11, 1 Stat. 318, 320 (repealed 1836) (stating that "[t]he jury may, in an action for the infringement of a patent, give the plaintiff, as part of his actual damages, such expenses for counsel fees, &c., as have been actually incurred in vindicating his right by suit, and which are not taxable in the bill of costs" (citing *Boston Mfg. Co. v. Fiske*, 3 F. Cas. 957 (D. Mass. 1820))).

72. Patent Act of 1836, ch. 357, 5 Stat. 117 (repealed 1861).

73. Patent Act of 1946, ch. 726, 60 Stat. 778, 778 (repealed 1952) (emphasis added).

74. Compare Patent Act of 1946, ch. 726, 60 Stat. 778, 778, *with* Patent Act of 1952, 35 U.S.C. § 285 (2006) (emphasis added).

75. Chien, *Reforming Software Patents*, *supra* note 6 (manuscript at 39 n.299) ("Based on a search in Westlaw, in 2011, approximately 20 awards were made [on the basis of the exceptional cases rule of 35 U.S.C. § 285], and in 2002, 10 awards were made. They were sought in 86 and 50 cases[, respectively].").

76. *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 687 F.3d 1300, 1308 (Fed. Cir. 2012).

reasonable attorneys' fees to the prevailing party"⁷⁷ and is intended "to reimburse the alleged infringer for defending an action improperly brought."⁷⁸ Absent litigation misconduct (Rule 11) or fraud in patent prosecution, the defendant must show that the case is "exceptional" by showing clear and convincing evidence that the litigation was *both* (a) brought in subjective bad faith and (b) objectively baseless.⁷⁹ Because both prongs must be satisfied for each asserted claim, an exceptional case finding is determined on a claim-by-claim basis.⁸⁰ In other cases, the Federal Circuit has held that attorneys' fees should be awarded in cases involving "vexatious or unjustified litigation" or "frivolous filings."⁸¹ These inconsistent standards do not provide sufficiently clear guidelines for district courts, which must actually apply the Federal Circuit's interpretation of § 285.

C. THE LEAHY-SMITH AMERICA INVENTS ACT

Although Congress members debated the codification of fee-shifting remedies in patent litigation as recently as 2007, Congress ultimately did not codify fee-shifting in the most recent patent reform act. In September 2011, President Barack Obama signed the America Invents Act ("AIA") into law, making some of the most significant changes to U.S. patent statutes since 1952.⁸² In anticipation of the complete implementation of the AIA, much of the scholarly discussion of the AIA's primary impact centers on its conversion to a first-to-file priority system,⁸³ elimination of the best mode

77. Patent Act of 1952, 35 U.S.C. § 285 (2006) (emphasis added).

78. *Highmark*, 687 F.3d at 1311 (citing *Mach. Corp. of Am. v. Gullfiber AB*, 774 F.2d 467, 474 (Fed. Cir. 1985)).

79. *Eon-Net*, 653 F.3d at 1324; *Highmark*, 687 F.3d at 1308. On the "objectively baseless" requirement, two panels of the Federal Circuit—with no overlap—have shown a strong meeting of the minds. See *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372 (Fed. Cir. 2011); *Old Reliable Wholesale, Inc. v. Cornell Corp.*, 635 F.3d 539 (Fed. Cir. 2011).

80. *Highmark*, 687 F.3d at 1311.

81. See, e.g., *Takeda Chem. Indus., Ltd. v. Mylan Labs., Inc.*, 549 F.3d 1381, 1388 (Fed. Cir. 2008); *Eon-Net*, 653 F.3d at 1324; *Waner v. Ford Motor Co.*, 331 F.3d 851, 857 (Fed. Cir. 2003); *Bayer AG v. Duphar Int'l Research B.V.*, 738 F.2d 1237, 1242 (Fed. Cir. 1984).

82. Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) (codified in various sections of 35 U.S.C.), available at <http://www.gpo.gov/fdsys/pkg/PLAW-112publ29/pdf/PLAW-112publ29.pdf>. But see Peter Menell & Ryan Iwahashi, *Does Patent Reform By Any Other Name Smell As Sweet? The Mixed Heritage of Modern Patent Reform 2* (April 2, 2013) (unpublished manuscript) (on file with author) (characterizing the AIA as beginning as an omnibus legislative reform proposal, but emerging nearly a decade later as a relatively modest reform package).

83. See Stephen M. Hankins & D. Christopher Ohly, *The America Invents Act: An Overview*, Law Technology News (Online) (Oct. 4, 2011), http://www.law.com/jsp/lawtechnologynews/PubArticleLTN.jsp?id=1202517720138&The_America_Invents_Act_An_Overview; Joe Matal, *A Guide to the Legislative History of the America Invents Act: Part I of II*,

requirement,⁸⁴ and the AIA's efforts to curb the practice of joining unrelated defendants in the same suit.⁸⁵ The AIA went through several iterations from its initial introduction in 2005 to its enactment in 2012.⁸⁶ During the 109th Congress, the first version of what later became the AIA was introduced on June 8, 2005, by Representative Lamar Smith, while a similar bill was introduced by Senators Orrin Hatch and Patrick Leahy in 2006.⁸⁷

This 2006 Hatch-Leahy bill included a provision which would modify 35 U.S.C. § 285 to require that the prevailing party in a patent-infringement suit be awarded its attorneys' fees and costs, unless "the position of the nonprevailing party . . . was substantially justified."⁸⁸ The record indicates that the attorneys' fees provision was predicted to be a controversial provision and was perhaps already a point of contention between Senators Hatch and Leahy.⁸⁹ In fact, there was extensive discussion of the fee-shifting provision in the subcommittee hearing of H.R. 2795.⁹⁰ Also during the 109th

21 FED. CIRCUIT B.J. 435, 449–52 (2011) ("No part of the AIA is more significant, nor has generated more legislative discussion and debate, than the Act's changes to § 102. The bill's new § 102 adopts the first-to-file system of patent priority, enacts a new definition of 'prior art,' and creates a new grace period.").

84. See Brian J. Love & Christopher B. Seaman, *Best Mode Trade Secrets*, 15 YALE J. L. & TECH. 1, 8–12 (2012–2013); Peter Lee, *Transcending the Tacit Dimension: Patents, Relationships, and Organizational Integration in Technology Transfer*, 100 CALIF. L. REV. 1503, 1517 n.69 (2012).

85. Leahy-Smith America Invents Act, Pub. L. No. 112-29, sec. 19(d), § 299, 125 Stat. 284, 332–33 (2011); see also Tracie L. Bryant, *The America Invents Act: Slaying Trolls, Limiting Joinder*, 25 HARV. J.L. & TECH. 687, 688 (2012) (arguing that "one of the purposes of the AIA, including the joinder provision, is to address the problem of 'patent trolls.'").

86. Matal, *supra* note 83, at 438–48.

87. H.R. 2795, 109th Cong. (2005); S. 3818, 109th Cong. § 5(b) (2006); see also Matal, *supra* note 83, at 438–39.

88. S. 3818, 109th Cong. § 5(b) (2006) (amending 35 U.S.C. § 285 to read: "(a) The court shall award, to a prevailing party, fees and other expenses incurred by that party in connection with that proceeding, unless the court finds that the position of the nonprevailing party or parties was substantially justified or that special circumstances make an award unjust"), available at <http://www.gpo.gov/fdsys/pkg/BILLS-109s3818is/pdf/BILLS-109s3818is.pdf>; see also Joe Matal, *supra* note 83, at 440 n.26.

89. Senator Hatch made these introductory remarks about the fee-shifting provision in S. 3818:

The second controversial provision in this section is a mandatory fee-shifting provision. The language of this provision requires courts to award attorneys' fees to a prevailing party in cases where the non-prevailing party's legal position was not substantially justified. This language is similar to the test used in the Equal Access to Justice Act. This provision is intended to discourage litigation in those cases where a plaintiff's or defendant's case is so weak as to be objectively unreasonable.

152 CONG. REC. S8830 (daily ed. Aug. 3, 2006) (statement of Sen. Hatch).

90. *Amendment in the Nature of a Substitute to H.R. 2795, the "Patent Act of 2005": Hearing on H.R. 2795 Before the Subcomm. on Courts, the Internet, & Intellectual Property of the H. Comm. on*

Congress, the same subcommittee discussed the patent troll problem at length in a separate hearing.⁹¹ Ultimately, the 2006 Hatch-Leahy bill was not passed by the 109th Congress.⁹²

During the 110th Congress, the effort to enact patent reform legislation became more pronounced, and Senators Leahy and Hatch and Representative Howard Berman introduced parallel bills in the Senate and House on April 18, 2007.⁹³ However, the 2007 Leahy-Hatch bill omitted the attorneys' fees provision of the 2006 version of the bill, likely due to the contentious debate about the provision during the 109th Congress.⁹⁴ Senators Leahy and Hatch commented on these omissions when they introduced Senate Bill 1145 ("S. 1145") in the 110th Congress.⁹⁵ Senator Leahy stated that S. 1145 "maintain[s] the traditional rule on attorneys' fees, instead of shifting fees and other expenses to the non-prevailing party as was proposed in S. 3818."⁹⁶ Senator Hatch explained that:

A provision that would provide attorneys' fees and costs to a prevailing party was also left out of this bill. I included this provision in last year's bill to discourage weak cases from clogging the already-burdened judicial system. This is not a new concept in the realm of intellectual property. In fact, I note, Section 505 of the Copyright Act clearly provides courts the discretion to award attorneys' fees and costs. It seems logical that we would provide

the Judiciary, 109th Cong. 48 (2005), available at <http://www.gpo.gov/fdsys/pkg/CHRG-109hhr23434/pdf/CHRG-109hhr23434.pdf>.

91. See generally *Patent Trolls: Fact or Fiction?: Hearing Before the Subcomm. on Courts, the Internet, & Intellectual Property of the H. Comm. on the Judiciary*, 109th Cong. (2006), available at <http://www.gpo.gov/fdsys/pkg/CHRG-109hhr28201/pdf/CHRG-109hhr28201.pdf>.

92. *Bill Summary & Status 109th Congress (2005–2006) H.R.2795*, available at <http://thomas.loc.gov/cgi-bin/bdquery/z?d109:H.R.2795;> *Bill Summary & Status 109th Congress (2005–2006) S.3818*, available at <http://thomas.loc.gov/cgi-bin/bdquery/z?d109:S3818>.

93. H.R. 1908, 110th Cong. (2007) (as introduced in the House, April 18, 2007); S. 1145, 110th Cong. (2007) (as introduced in the Senate, April 18, 2007); see also Matal, *supra* note 83, at 439.

94. Compare S. 3818, 109th Cong. § 5(b) (2006), with S. 1145, 110th Cong. (2007). See also *Amendment in the Nature of a Substitute to H.R. 2795, the "Patent Act of 2005": Hearing on H.R. 2795 Before the Subcomm. on Courts, the Internet, & Intellectual Property of the H. Comm. on the Judiciary*, 109th Cong. 48 (2005), available at <http://www.gpo.gov/fdsys/pkg/CHRG-109hhr23434/pdf/CHRG-109hhr23434.pdf>; *Patent Trolls: Fact or Fiction?: Hearing Before the Subcomm. on Courts, the Internet, & Intellectual Property of the H. Comm. on the Judiciary*, 109th Cong. (2006), available at <http://www.gpo.gov/fdsys/pkg/CHRG-109hhr28201/pdf/CHRG-109hhr28201.pdf>.

95. See 153 CONG. REC. S4685–92 (daily ed. Apr. 18, 2007) (statements of Sen. Leahy and Sen. Hatch).

96. *Id.* at S4691.

the same discretion in S. 1145 and I look forward to discussing this issue with Chairman Leahy.⁹⁷

Ultimately, the fee-shifting provision was omitted for reasons which remain unclear.

D. SANCTIONS FOR “FRIVOLOUS” LITIGATION: FEDERAL RULE OF CIVIL PROCEDURE 11

Aside from the statutory provisions awarding attorneys’ fee in “exceptional cases” under the Patent Act, another way for patent litigants to recover attorneys’ fees is through Rule 11 of the Federal Rules of Civil Procedure, which establishes the federal floor for recovery of attorneys’ fees in “frivolous” actions.⁹⁸

To evaluate the frivolity of legal arguments, courts use an objective standard of reasonableness and do not require bad faith or an otherwise culpable state of mind.⁹⁹ In *Eon-Net LP v. Flagstar Bancorp*,¹⁰⁰ the Federal Circuit set the bar high by holding that to award Rule 11 sanctions under Ninth Circuit law, the district court must find (1) that the complaint is “legally or factually ‘baseless’ from an objective perspective” and (2) that the attorney failed to conduct a “reasonable and competent inquiry” before filing the complaint.¹⁰¹ The Supreme Court has furthermore established that “although Rule 11 determinations involve both factual and legal issues, all aspects of such a determination must be reviewed under a highly deferential abuse of discretion standard.”¹⁰²

While in theory Rule 11 appears to target the very heart of abusive patent litigation by sanctioning frivolous litigation, in reality the Rule has very little

97. *Id.* at S4692.

98. FED. R. CIV. P. 11 (requiring that “the claims, defenses, and other legal contentions are warranted by existing law or by a nonfrivolous argument,” and stating that sanctions “imposed under the rule must be limited to what suffices to deter repetition of the conduct or comparable conduct by others similarly situated . . . [and may take the form of] an order directing payment to the movant of part or all of the reasonable attorney’s fees . . .”).

99. *De La Fuente v. DCI Telecomms. Inc.*, 259 F. Supp. 2d 250 (S.D.N.Y. 2003); *In re Farhid*, 171 B.R. 94 (N.D. Cal. 1994).

100. *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314 (Fed. Cir. 2011), *cert. denied*, 132 S. Ct. 2391 (U.S. 2012), *available at* <http://www.ca9.uscourts.gov/images/stories/opinions-orders/09-1308.pdf>.

101. *Eon-Net*, 653 F.3d at 1328 (citing *Christian v. Mattel, Inc.*, 286 F.3d 1118, 1127 (9th Cir. 2002)).

102. *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 687 F.3d 1300, 1322 (Fed. Cir. 2012) (rejecting a de novo standard of appellate review of a Rule 11 determination by a district court, and stating that “[a] district court would necessarily abuse its discretion if it based its ruling on an erroneous view of the law or on a clearly erroneous assessment of the evidence”) (citing *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 405 (1990)).

impact. In a 1992 survey assessing the perceived impact of Rule 11 on filings, fifty percent of federal judges and sixty-two percent of federal attorneys questioned believed the Rule had no impact on filings.¹⁰³ Making matters worse, in 1993, the Federal Rules Advisory Committee further diluted Rule 11, making it even less likely that Rule 11 would address the problem of abusive patent litigation.¹⁰⁴

E. THE INTERSECTION OF “FRIVOLOUS” AND “EXCEPTIONAL”

There is also some interplay between findings of frivolity under Rule 11 and findings of exceptionality under § 285.¹⁰⁵ A court may issue sanctions pursuant to Rule 11, § 285, both, or neither. In *Highmark, Inc. v. Allcare Health Management System, Inc.*,¹⁰⁶ a divided panel considered the district court’s award of attorneys’ fees against an unsuccessful plaintiff-patentee based on Rule 11 (litigation misconduct) and § 285 (frivolous claims).¹⁰⁷ The panel held that Rule 11 sanctions against an attorney may¹⁰⁸—but do not necessarily—form a basis for an exceptional case finding.¹⁰⁹

While the current framework does include several provisions for attorney-fee-shifting, the provisions are not strong enough to effectively deter abusive litigation.

III. FEE-SHIFTING AS AN EFFECTIVE AND IMPLEMENTABLE SOLUTION

A fee-shifting regime has the ability to deter truly abusive litigation practices and patent infringement claims of questionable merit; it is therefore worth being enacted for patent litigation. Although there are a few incredibly egregious cases that are addressed by § 285 and Rule 11, a one-way discretionary fee-shifting regime will discourage the filing of additional cases which might not otherwise be deterred by those two very narrowly applied provisions. Furthermore, the potential reduction in social costs—both to

103. Gerald F. Hess, *Rule 11 Practice in Federal and State Court: An Empirical, Comparative Study*, 75 MARQUETTE L. REV. 313, 328–29 (1992).

104. Carl Tobias, *The 1993 Revision of Federal Rule 11*, 70 IND. L.J. 171, 208 (1994) (arguing that the 1993 amendment to Rule 11 “leaves district judges with too much discretion while providing for insufficiently rigorous appellate review”).

105. See *Highmark*, 687 F.3d at 1313.

106. *Id.* (finding that fee-shifting is reviewed on a claim-by-claim basis, and that assertion of even a single non-infringed claim can result in some fee-shifting).

107. *Id.* at 1308.

108. *Brooks Furniture Mfg., Inc. v. Dotalier Int’l, Inc.*, 393 F.3d 1378, 1381 (“A case may be deemed exceptional when there has been some material inappropriate conduct related to the matter in litigation, such as . . . conduct that violates Fed.R.Civ.P. 11 . . .”).

109. *Id.*

judicial efficiency and to consumers more generally—resulting from abusive litigation is worth the low cost of implementing a fee-shifting regime. Although establishment of a fee-shifting regime will almost certainly face opposition, careful crafting of legislation and statutory amendments may alleviate most concerns and pave the way for the passage of effective and potent fee-shifting legislation.

This Part proceeds in two sections. Section III.A explains why a fee-shifting regime should be established. Section III.B explores the effectiveness of implementing such a fee-shifting policy through judicial interpretation and legislation.

A. A FEE-SHIFTING REGIME *SHOULD* BE ESTABLISHED

Taking into account the groundwork which has been laid over the past decade, policy makers must determine whether fee-shifting in patent litigation ought to be implemented. How might establishing a fee-shifting scheme in patent litigation upset the delicate ecology of patent litigation, and would such changes be beneficial or deleterious?

1. *Patent Litigation Behavior Would Likely Change*

By implementing an attorney-fee-shifting scheme, it is highly likely that some would-be plaintiffs would pause before filing patent infringement claims.¹¹⁰ In facing the risk of having to pay the defendant's legal fees if the claim does not meet a certain threshold of legitimacy, plaintiffs must be conscientious about vetting their claims' likelihood of success. However, for this scheme to work in favor of reducing litigation costs and the burden on the courts, it must be true that plaintiffs to date have *not* been conscientious about vetting their claims' likelihood of success. As it stands, it is unclear whether this premise is valid. After all, even pre-trial litigation costs for plaintiffs are significant, requiring production of documents during discovery, filing motions and responses, and expending significant time and effort in claim construction. Even taking into account the assertion that there is a trend of plaintiffs filing patent infringement claims while paying their attorneys on a contingent-fee basis, the plaintiffs' attorneys are likely still performing a relatively rigorous assessment of the claims' merits before agreeing to invest time and resources on a contingent-fee basis.

Implementing a legislative or judicial rule for fee-shifting in patent litigation beyond what already exists in § 285 is nearly no-cost because implementation only requires education of the bar on the new rule. Despite

110. See Gryphon, *supra* note 15, at 600.

this low implementation cost, this rule has the potential to shift at least some baseless litigation costs by (1) making whole accused infringers who may otherwise be intimidated into settling simply as a result of the cost analysis of being on the receiving end of a complaint; and (2) deterring less scrupulous plaintiffs from filing baseless infringement contentions, effectively chilling nonmeritorious litigation.

2. *Potential Harms if the Standard for Fee-Shifting is Lowered*

If a fee-shifting mechanism is implemented, who—if anyone—would be the losers? Based on a traditional defense of the American Rule over the English Rule, inventors and small businesses might be discouraged from filing patent infringement lawsuits in the face of the possibility that they might be later responsible for shouldering the accused infringer's legal fees. In situations where this elevated burden may potentially put the inventor or small business out of existence, there is a concern that such entities might decide not to file patent infringement claims even though they have sufficient grounds to do so. Even with this concern, however, a clear explanation of the objective and subjective standard for awarding attorneys' fees under this new provision would reduce the uncertainty surrounding the risk of having to pay the accused infringer's attorneys' fees; it would also reduce the possibility that a new provision of this nature would wrongfully discourage valid claims. By paying close attention to the clarity of the threshold, these concerns can be allayed without too much trouble.

Many patents asserted by non-practicing entities were originally granted by the USPTO to productive companies, which had business models other than patent licensing.¹¹¹ If a more rigorous fee-shifting provision is implemented, the relationships between non-practicing entities and the original inventors or patentees could change due to the impact the provision might have on the non-practicing entities' cost analysis.¹¹² Assuming that some of the patent litigation that makes its way into the legal system today would be deterred under a lowered standard, the patent infringement litigation market could be less lucrative. Upon licensing these patents from the original inventors or assignees, non-practicing entities generally do not pay royalties back to the original inventor, meaning that the original inventor only benefits once from the assignment of the patent, not from subsequent

111. Michael Risch, *Patent Troll Myths*, 42 SETON HALL L. REV. 457, 484–89 (2012).

112. *But see* Bessen, Ford & Meurer, *supra* note 1, at 35 (arguing that although the secondary patent market improves innovation incentives for independent investors, there is little evidence that NPE litigation resulting in loss of wealth by defendants has produced massive transfers to inventors).

successful litigation. Implementation of a fee-shifting provision would change the economics of the secondary patent market by potentially discouraging non-practicing entities from filing suit, therefore reducing original inventors' ability to profit from a patent that is not otherwise being utilized.

B. HOW LEGISLATION OR JUDICIAL INTERPRETATION CAN EFFECTIVELY ESTABLISH A FEE-SHIFTING REGIME

This Section discusses two readily available methods of implementing a fee-shifting regime to decrease the incidence of abusive litigation: judicial interpretation and legislative enactment.

1. *Attorney-Fee-Shifting Through Judicial Interpretation*

While judges seem increasingly interested in fee-shifting provisions, such sentiment is essentially moot when stare decisis enters the picture, under which even more liberal interpretations or applications of Rule 11 or § 285 would likely be ineffective in reducing the amount of abusive litigation on a meaningful scale.¹¹³ Prominent members of the judiciary have addressed attorney-fee-shifting in patent litigation either in dicta or while considering the application and use of Rule 11 or § 285.¹¹⁴

Chief Judge Randall Rader of the Federal Circuit, a prominent advocate of fee-shifting, has clearly expressed that he believes fee-shifting is a viable method of improving the state of patent litigation.¹¹⁵

Judge Leonard Davis of the Eastern District of Texas in Tyler has made known his concerns about plaintiffs attempting to extract “nuisance value” settlements:

[I]his Court has some concerns about plaintiffs who file cases with extremely weak infringement positions in order to settle for less than the cost of defense and have no intention of taking the case to trial. Such a practice is an abuse of the judicial system and threatens the integrity of and respect for the courts. Often in such cases, a plaintiff asserts an overly inflated damages model, seeking hundreds of millions of dollars, and settles for pennies on the dollar, which is far less than the cost of defense. Where it is clear that a case lacks any credible infringement theory and has been

113. *See infra* Section III.B.1.

114. *See infra* Part III.

115. Rader, Keynote Address at the E.D. Tex. Judicial Conference, *supra* note 40. *See also* Dennis Crouch, *Chief Judge Rader: Improving Patent Litigation*, PATENTLY-O PATENT LAW BLOG (Sept. 27, 2011), <http://www.patentlyo.com/patent/2011/09/rader-patent-litigation.html> (discussing Chief Judge Rader's speech on Sept. 27, 2011).

brought only to coerce a nuisance value settlement, Rule 11 sanctions are warranted.¹¹⁶

In another instance, Judge Davis modified the usual case schedule in order to consider parts of a claim on the merits while reducing the costs of pre-trial litigation by staying discovery and expediting a *Markman* hearing, recognizing that the traditional case schedule presents defendants with a “Hobson’s choice: spend more than the settlement range on discovery, or settle for what amounts to cost of defense, regardless of whether a Defendant believes it has a legitimate defense.”¹¹⁷

Even with the support of judges like Chief Judge Rader and Judge Leonard Davis, the doctrine of stare decisis demands that “a court must follow earlier judicial decisions when the same points arise again in litigation.”¹¹⁸

Therefore, despite the best intentions of Chief Judge Rader, Justice Leonard Davis, and other judges, it is unlikely that judges will be able to wield Rule 11 or § 285 within the confines of precedent to effectively reduce abusive patent litigation through attorney-fee-shifting. Instead, it is necessary for Congress to take action by passing legislation, which will establish a new legal framework to enable judges to shift attorneys’ fees in more reasonable circumstances and thereby discourage abusive patent litigation practices.

2. *Attorney-Fee-Shifting Through Legislation*

Establishing an attorney-fee-shifting provision through clear and articulate legislation would be more efficient than judicial rulemaking in effecting change in the calculus of patent litigation. If the legislature clearly sets out guidelines for the award of attorneys’ fees and the endorsement of such a scheme, patent litigants no longer have to rely on extensive interpretation of judicial opinions and judges’ discretion to embrace fee-shifting. Congressional action is a condition precedent for the effective

116. *Raylon LLC v. Complus Data Innovations*, Case No. 6:09-cv-357, slip op. at 5 (E.D. Tex. Mar. 9, 2011) (order denying motion for Rule 11 sanctions). Although Judge Davis later found that Rule 11 sanctions were not appropriate in *Raylon* because the assertions were not “objectively frivolous,” he clearly sent the message that he would strongly consider the application of Rule 11 under appropriate circumstances. *Id.* at 4. Judge Davis has also indicated that he will pointedly examine plaintiffs’ litigation and settlement strategies at the initial Case Management Conference. See *PacID Group, LLC v. Cisco Sys., Inc.*, Case No. 6:09-cv-324, slip op. at 3–4 (E.D. Tex. Mar. 16, 2011) (order consolidating cases).

117. *Parallel Networks v. Abercrombie & Fitch Co.*, Case No. 6:10-cv-111, slip op. at 6 (E.D. Tex. Mar. 15, 2011) (order consolidating cases, denying motion to bifurcate).

118. BLACK’S LAW DICTIONARY, *Stare Decisis* (9th ed. 2009).

implementation of an attorney-fee-shifting regime. Furthermore, the Supreme Court has stated that “the circumstances under which attorneys’ fees are to be awarded and the range of discretion of the courts in making those awards are matters for Congress to determine.”¹¹⁹ However, if history is any indication, it will be difficult to pass legislation implementing a provision with enough teeth to effectuate change. Even so, legislation should be pursued as a viable way to establish more useful attorney-fee-shifting guidelines as a small but essential first step towards decreasing abusive patent litigations.

a) Rekindling the Conversation: The *SHIELD Act of 2012*

The debate over legislative action in establishing a fee-shifting provision, tabled by Leahy and Hatch in 2007, was rekindled in 2012 by the introduction of H.R. 6245, the Saving High-Tech Innovators from Egregious Legal Disputes Act of 2012 (“SHIELD Act of 2012”).¹²⁰ Introduced August 1, 2012, by Representative Peter A. DeFazio (D-Oregon), co-sponsored by Representative Jason Chaffetz (R-Utah), and referred August 15, 2012, to the House Subcommittee on Intellectual Property, Competition and the Internet,¹²¹ the SHIELD Act of 2012 would have allowed the court to give full litigation costs, including reasonable attorneys’ fees, to the prevailing party in software and computer-related patent infringement disputes.¹²²

The sponsors of the SHIELD Act of 2012 asserted that the bill would put the financial burden on “patent trolls,” which “buy patents solely to sue the American tech startups that created the products.”¹²³ Among the bill’s supporters were high technology companies, consumer groups, and venture capitalists. The Electronic Frontier Foundation (“EFF”), a self-described

119. *Alyeska Pipeline Serv. Co. v. Wilderness Soc’y*, 421 U.S. 240, 262 (1974) (“[I]t is apparent that the circumstances under which attorneys’ fees are to be awarded and the range of discretion of the courts in making those awards are matters for Congress to determine.”).

120. SHIELD Act of 2012, *supra* note 8; The Library of Congress, THOMAS, Bill Summary & Status 112th Congress (2011–2012) H.R. 6245 All Congressional Actions, available at <http://thomas.loc.gov/cgi-bin/bdquery/z?d112:HR06245:@@X>.

121. SHIELD Act of 2012, *supra* note 8; The Library of Congress, THOMAS, Bill Summary & Status 112th Congress (2011–2012) H.R. 6245, *supra* note 120; Press Release, Congressman Peter DeFazio, DeFazio Introduces SHIELD Act [of 2012] to protect American Innovation, Jobs (Aug. 1, 2012), http://defazio.house.gov/index.php?option=com_content&view=article&id=792:defazio-introduces-shield-act-to-protect-american-innovation-jobs&catid=69:2012-press-releases.

122. SHIELD Act of 2012, *supra* note 8.

123. Press Release, Congressman Peter DeFazio, *supra* note 121; SHIELD Act of 2012, *supra* note 8. But note that there is no language in the proposed legislation which would limit its application to only benefit “tech startup” defendants, and would actually operate to protect companies as small as garage startups and as big as Cisco. *See id.*

champion of the public interest in digital rights and technology,¹²⁴ has previously promoted fee-shifting as an element of software patent reform¹²⁵ and expressed support for the SHIELD Act of 2012.¹²⁶ The Consumer Electronics Association (“CEA”), a trade organization representing 2,000 consumer electronics companies, also strongly endorsed the SHIELD Act of 2012.¹²⁷

Although some ado was made about this bill by outside observers in industry and academia, the House Judiciary Subcommittee on Intellectual Property, Competition, and the Internet effectively killed the bill at the conclusion of the 112th Congress on December 14, 2012, by not taking any action on the legislation.¹²⁸ It is likely that any fee-shifting legislation proposal will face opposition from parties wanting to wait and evaluate the impact the AIA has on patent litigation trends,¹²⁹ or who may otherwise have an interest in the impact of attorney-fee-shifting and will lobby Congress in opposition to such patent reform.¹³⁰ Specifically, taking into account the legislative history of the AIA, it seems likely that the fee-shifting provision in the SHIELD Act of 2012 would face similar criticisms as its predecessor.¹³¹

124. *Electronic Frontier Foundation—Mission Statement*, ELECTRONIC FRONTIER FOUNDATION (July 10, 1990), https://w2.eff.org/legal/cases/SJG/?f=eff_creation.html (last visited Mar. 9, 2013).

125. Press Release, Electronic Frontier Foundation, EFF Launches New Patent Reform Project to Defend Innovation (June 19, 2012), <https://www.eff.org/press/releases/eff-launches-new-patent-reform-project-defend-innovation>.

126. Julie Samuels, *Can You Believe It? Legislation that Would Actually Help Fix the Patent System*, ELECTRONIC FRONTIER FOUNDATION (Aug. 1, 2012), <https://www.eff.org/deeplinks/2012/07/can-you-believe-legislation-would-actually-help-fix-patent-system>.

127. Press Release, CEA Endorses SHIELD Act of 2012 (Aug. 1, 2012), <http://www.ce.org/News/News-Releases/Press-Releases/2012-Press-Releases/CEA-Endorses-SHIELD-Act.aspx>; see also Gary Shapiro, *Legal Slime Chokes Best Companies*, FORBES, Aug. 1, 2012, available at <http://www.forbes.com/sites/garyshapiro/2012/08/01/legal-slime-chokes-best-companies/> (President and CEO of the Consumer Electronics Association, praising the SHIELD Act [of 2012] as a first step in solving the “patent troll plague”).

128. The Library of Congress, THOMAS, Bill Summary & Status 112th Congress (2011–2012), *supra* note 120.

129. Some portions of the AIA became effective as early as September 16, 2011, while other portions of the AIA (including the First-Inventor-to-File policy and changes in the derivation proceedings) will not become effective until March 16, 2013. See United States Patent and Trademark Office, America Invents Act: Effective Dates (Oct. 5, 2011), available at http://www.uspto.gov/aia_implementation/aia-effective-dates.pdf.

130. See Merges, *supra* note 16, at 1608–10.

131. See Section II.B, *supra* (discussing a previously proposed attorney-fee-shifting provision which was ultimately omitted from the enacted version of the AIA). But see *Amendment in the Nature of a Substitute to H.R. 2795, the “Patent Act of 2005”*: Hearing on H.R. 2795 Before the Subcomm. on Courts, the Internet, & Intellectual Property of the H. Comm. on the

While it is difficult to determine why exactly the fee-shifting provision was omitted from the 2007 Leahy-Hatch bill, Senators Leahy and Hatch likely received enough pushback on that provision to decide that omission of the provision would facilitate the ultimate passage of the bill by deferring the debate for another day.

At only forty lines long, the SHIELD Act of 2012 was a very short piece of legislation.¹³² Furthermore, although the bill defined “computer,” “computer hardware patent,” and “software patent,” the threshold term “reasonable likelihood of succeeding” was not defined.¹³³ Therefore, while the introduction of the 2012 legislation was a significant first step toward curbing the number of lawsuits filed by non-practicing entities, courts would have had to establish the actual bounds of the “reasonable likelihood” term, a process which would likely have taken many years even after the passage of the 2012 bill.

One opponent to the SHIELD Act of 2012 was the American Innovators for Patent Reform (“AIPR”), which strongly criticized the Act as both unfair and unnecessary and dismissively characterized the bill as the “Shield the Infringers Act.”¹³⁴ Arguing that the combination of Rule 11 and 35 U.S.C. § 285 already sufficiently addresses the problem of frivolous lawsuits, AIPR argued that lowering the bar for the award of defendants’ attorneys’ fees serves only to intimidate inventors and small patent owners and protect large software patent owners—who AIPR asserted are the most

Judiciary, 109th Cong. 47–48 (2005), available at <http://www.gpo.gov/fdsys/pkg/CHRG-109hhr23434/pdf/CHRG-109hhr23434.pdf> (reporting the testimony of Philip S. Johnson, designee of the Pharmaceutical Research and Manufacturers of America, describing his belief that awarding attorneys’ fees to the prevailing party as a method of deterring frivolous litigation would be successful, by reducing asymmetries in litigation risk profiles between troll plaintiffs and innovative firms and asserting that the existing laws (Rule 11, § 285) are not sufficient in deterring frivolous suits, but was advised by others that implementation of the English Rule could not be accomplished). Interestingly, while the fee-shifting provision of the AIA was being considered, another proposal to give Fed. R. Civ. P. Rule 11 more teeth was also being considered. Litigation Abuse Reduction Act, S. 533, 112th Cong. (2011) (amending the sanctions provisions in Rule 11 to *require* the court to impose a sanction on any attorney, law firm, or party that has violated the rule, and *requiring* that any sanction should compensate parties injured by the conduct in question).

132. SHIELD Act of 2012, *supra* note 8.

133. *Id.*

134. See AMERICAN INNOVATORS FOR PATENT REFORM, PATENT LEGISLATION: AMERICA INVENTS ACT—SHIELD ACT—H.R. 6245 (Aug. 2, 2012), <http://www.aminn.org/patent-legislation> (discussing the SHIELD Act of 2012); Alexander Poltorak, PROPOSED SHIELD ACT IS ANTI-INNOVATION AND PRO-MONOPOLY, AMERICAN INNOVATORS FOR PATENT REFORM (Aug. 14, 2012), <http://www.aminn.org/proposed-shield-act-antiinnovation-and-promonopoly> (discussing the SHIELD Act of 2012).

notorious infringers.¹³⁵ Furthermore, AIPR argued that the proponents' assumption that there is a frivolous patent infringement lawsuit crisis is unfounded; patent litigation statistics indicate that plaintiff non-practicing entities (the purported targets of this legislation) are successful most of the time, and even when not, the outcome of the litigation was not foreseeable at the outset.¹³⁶ While these statements may be rooted in fact, some of AIPR's rhetoric seems overstated and unfounded.¹³⁷ In counterpoint to AIPR's assertion that fee-shifting is not effective since "the outcome of litigation . . . [is] not foreseeable at the outset of litigation," it is important to note that fee-shifting targets a subset of patent infringement claims which *would* be identified as *objectively* unlikely to succeed. While it is certainly true that non-abusive litigants only bring suit for matters which are difficult to discern outcomes, abusive litigants—the targets of fee-shifting—should be encouraged by a fee-shifting provision to more thoroughly assess and evaluate the facts and the merits of the case prior to filing suit so as to maximize the foreseeability of the outcome of litigation.

While the SHIELD Act of 2012 provided a great baseline for implementation of fee-shifting in patent litigation and generated useful debate by virtue of simply being introduced, some amendments to the Act would alleviate detractors' concerns and increase the likelihood that similar fee-shifting legislation will be enacted. Some of the beauty of the SHIELD Act of 2012 lay in its simplicity, but the bare bones approach left open

135. Poltorak, *supra* note 134.

136. *Id.* (citing Pricewaterhouse Coopers, 2011 PATENT LITIGATION STUDY: PATENT LITIGATION AS THE "AMERICA INVENTS ACT" BECOMES LAW (2011), *available at* http://www.pwc.com/en_US/us/forensic-services/publications/assets/2011-patent-litigation-study.pdf); *see also* Mark A. Lemley, *Essay: Rational Ignorance at the Patent Office*, 95 NW. U. L. REV. 1495, 1518 n.83.

137. For instance, Dr. Alexander Poltorak, AIPR's founder and President, claims that "The SHIELD Act [of 2012] was drafted by lobbyists for the computer industry oligopoly[.] . . . making it easier for the computer industry giants to blatantly infringe the patents of innovators such as independent inventors, universities and small businesses." Poltorak, *supra* note 134; Alexander Poltorak, *Proposed SHIELD law is nothing but a gift to infringers*, THE HILL'S CONGRESS BLOG (Aug. 10, 2012, 2:15 PM), <http://thehill.com/blogs/congress-blog/technology/243135-proposed-shield-law-is-nothing-but-a-gift-to-infringers>. Dr. Alexander Poltorak is also the CEO and chairman of General Patent Corporation. *See* Teresa Riordan, *Patents; Licensing boutiques help inventors with patent claims against big companies*, N.Y. TIMES (June 10, 2002), <http://www.nytimes.com/2002/06/10/business/patents-licensing-boutiques-help-inventors-with-patent-claims-against-big.html?pagewanted=print&src=pm> (describing General Patent Corporation as "helping cash-strapped independent inventors pursue their patent claims against the big guys[.]" and also stating that "[t]here are two kinds of patent licensing operations: the carrot variety and the stick approach. Dr. Poltorak acknowledges that he uses a stick, by suing or threatening to sue corporations").

several questions which should be addressed before such legislation is enacted. Although some of the detractors and opponents of the SHIELD Act of 2012 and fee-shifting in general have concerns grounded in valid observations, some of those concerns have been allayed by careful drafting in the next generation of fee-shifting legislation. On February 27, 2013, Representatives Chaffetz and DeFazio continued their aggressive pursuit of fee-shifting legislation by introducing an improved piece of fee-shifting legislation: the Saving High-Tech Innovators from Egregious Legal Disputes Act of 2013 (“SHIELD Act of 2013”).¹³⁸

b) The Elusive Definition of “Patent Trolls” and “Abusive Litigants”

One of the biggest difficulties in drafting fee-shifting legislation is in crafting language that will accurately target the typical culprits who utilize abusive litigation practices. Although the press release from the sponsors of the SHIELD Act of 2012 indicated that the intended targets were “patent trolls,” there was no language in the 2012 legislation directing the consequences to “patent trolls” or “non-practicing entities,” or even identifying specific characteristics of a patent holder that would limit the bill’s reach to such non-practicing entities.¹³⁹ Opponents of fee-shifting legislation may have raised the argument that small inventors who do not abuse the court system through repeated litigation may be wrongfully discouraged from filing patent infringement claims as a result of this fee-shifting measure, reasoning that the increased risk of bearing the defendants’ litigation costs would deter some number of valid claims.

The SHIELD Act of 2013 approaches this challenge in a novel manner: instead of attempting to positively define a “patent troll” or “non-practicing entity,” the Act of 2013 uses a negative definition, describing three protected categories which typically are not “patent trolls” or “non-practicing entities” and are therefore exempt from the attorney-fee-shifting provision.¹⁴⁰ Under

138. See Saving High-Tech Innovators from Egregious Legal Disputes Act of 2013, H.R. 845, 113th Cong. (1st Sess. 2013) [hereinafter SHIELD Act of 2013]. Notably, the SHIELD Act of 2013 is applicable to all patent litigation, whereas the 2012 version was limited only to computer hardware and software patent litigation. Compare SHIELD Act of 2012, *supra* note 8, with SHIELD Act of 2013 (eliminating language limiting recovery of patent litigation costs to “computer hardware and software patent litigation”).

139. Press Release, Congressman Peter DeFazio, *supra* note 121; SHIELD Act of 2012, *supra* note 8; see also Timothy B. Lee, *Bill would force patent trolls to pay defendants’ legal bills*, ARS TECHNICA (Aug. 1, 2012), <http://arstechnica.com/tech-policy/2012/08/bill-would-force-patent-trolls-to-pay-defendants-legal-bills/>.

140. The SHIELD Act of 2013 would amend 35 U.S.C. § 285A to read:

the SHIELD Act of 2013, an adverse party is exempt from fee-shifting if it (1) is the original inventor, (2) has substantially invested in production or sale of an item covered by the patent, or (3) is a university or a technology transfer organization which commercializes technologies developed by a university.¹⁴¹

By clearly laying out the procedure and timeline for establishing or rebutting a party's qualification for the three categorical exceptions, the SHIELD Act of 2013 ensures clear and efficient implementation.¹⁴² The "original inventor" and "university or technology transfer organization" categories are clearly defined and should be easily evaluated by the courts.¹⁴³ However, courts will likely find it difficult to evaluate whether losing parties fall into the "exploitation of the patent" category.¹⁴⁴ The SHIELD Act of 2013 provides a third exception to the default rule in cases where the losing party "can provide documentation . . . of substantial investment . . . in the

[T]he Court shall award the recovery of full costs to any prevailing party asserting invalidity or noninfringement, including reasonable attorney's fees, other than the United States, upon the entry of a final judgment if the court determines that the adverse party did not meet at least one of the conditions described in subsection (d), unless the court finds that exceptional circumstances make an award unjust.

Id. § 285A(a)(4) (internal quotation marks omitted). Subsection 285A(d), referenced above, would provide the three categorical exceptions to the loser-pays default rule:

(d) CONDITION DEFINED.—For purposes of this section, a 'condition' means, with respect to the party alleging infringement, any of the following:

(1) ORIGINAL INVENTOR.—Such party is the inventor, a joint inventor, or in the case of a patent filed by and awarded to an assignee of the original inventor or joint inventor, the original assignee of the patent.

(2) EXPLOITATION OF THE PATENT.—Such party can provide documentation to the court of substantial investment made by such party in the exploitation of the patent through production or sale of an item covered by the patent.

(3) UNIVERSITY OR TECHNOLOGY TRANSFER ORGANIZATION.—Such party is—

(A) an institution of higher education (as that term is defined in section 101 of the Higher Education Act of 1965 (20 U.S.C. 1001); or

(B) a technology transfer organization whose primary purpose is to facilitate the commercialization of technology developed by one or more institutions of higher education.

Id. § 285A(d) (internal quotation marks omitted).

141. *Id.* § 285A(d).

142. SHIELD Act of 2013, *supra* note 138, § 285A(a)(1)–(3), (c)(1)–(3).

143. *Id.* § 285A(d)(1), (3).

144. *Id.* § 285(A)(d)(2).

exploitation of the patent through production or sale of an item covered by the patent.”¹⁴⁵ As drafted, the determination of what qualifies as a “substantial investment” will be highly fact-specific and subject to interpretation. Nevertheless, this novel negative definition of abusive patent litigants is an interesting and effective approach to properly targeting the troublemakers.

c) Setting the Standard: “Reasonable Likelihood of Succe[ss]”
Versus “Loser Pays by Default”

In order to be successful, legislation implementing fee shifting must include a clear definition of the standard which must be met to cue the award of attorneys’ fees. One of the greatest weaknesses of the SHIELD Act of 2012 was lack of clarity in its use of the term “reasonable likelihood of succeeding” in establishing the standard for awarding attorneys’ fees.¹⁴⁶ A more rigorous definition or explanation of the term “reasonable likelihood of succeeding” would have been helpful in giving courts less opportunity to circuitously debate the Act, giving all parties—plaintiffs, defendants, third parties, and courts—a better understanding of the impact of the legislation, leading to more efficient and seamless implementation of the fee-shifting provision.

If a reasonableness standard is desirable, two criteria for establishing such a standard are important. First, the new legislation should clearly distinguish *objective* versus *subjective* reasonableness standards and should precisely elucidate which type of reasonableness standard should be applied to the new fee-shifting scheme. Because remedies already exist to address subjective unreasonableness under Rule 11, the next generation of this legislation should elect to use an *objective* reasonableness test to evaluate the plaintiff’s likelihood of success.

Second, the legislation should define *when* the likelihood of success should be evaluated. Several points in the litigation timeline might serve as convenient points for evaluation: just prior to filing the infringement claim, at the summary judgment stage, or after the *Markman* claim construction hearing. At each of these distinct points of evaluation, a reasonable plaintiff who is evaluating the likelihood of success of this litigation might be expected to either abandon or continue the litigation depending on the plaintiff’s perception of the likelihood of success. While a plaintiff with a lower likelihood of success at an earlier stage in litigation may reasonably continue to pursue litigation, a plaintiff with a lower likelihood of success at a

145. *Id.*

146. *See* SHIELD Act of 2012, *supra* note 8.

later stage in litigation may be seen as less reasonable in continuing litigation. The Rosenberg factors imply that an earlier understanding or evaluation of the likelihood of successful litigation reduces the incidence of pure nuisance claims.¹⁴⁷

Another approach to setting the threshold would be to amend Federal Rule of Civil Procedure 68. Currently, under this rule regarding “offer of judgment,” after a settlement offeree declines an offer, if the judgment that the offeree finally obtains is not more favorable than the unaccepted offer, the offeree must pay the costs incurred after the offer was made.¹⁴⁸ Amending Rule 68 to include the award of attorneys’ fees in the definition of “costs incurred” would effectively implement the fee-shifting provision in this particular situation without very much complexity or uncertainty.

Alternatively, a fee-shifting scheme which simply forces the loser to pay by default bypasses the need for establishing a “reasonableness” standard either upfront in legislation or later through judicial precedent. To this end, the SHIELD Act of 2013, unlike the 2012 version, does not require a judicial determination that the complainant did not have a “reasonable likelihood of succeeding” in its claim for patent infringement.¹⁴⁹ Instead, the SHIELD Act of 2013 simply forces the losing plaintiff to pay by default, unless (1) the losing party is an original inventor, (2) the losing party has substantially invested in production or sale of an item covered by the patent, (3) the losing party is a university or is a technology transfer organization which commercializes technologies developed by a university, or (4) there are exceptional circumstances making the award unjust.¹⁵⁰

The SHIELD Act of 2013 altogether avoids the problem of establishing a threshold for shifting attorneys’ fees by making fee-shifting the default rule, and by simultaneously clearly laying out the four circumstances in which a

147. See *supra* Section I.A.1.

148. FED. R. CIV. P. 68.

149. Compare SHIELD Act of 2012, *supra* note 8, with SHIELD Act of 2013, *supra* note 138 (eliminating language providing for recovery of patent litigation costs only “in cases where the court finds the claimant did not have a reasonable likelihood of succeeding”).

150. SHIELD Act of 2013, *supra* note 138. The SHIELD Act of 2013 would amend 35 U.S.C. § 285A to read:

[T]he Court shall award the recovery of full costs to any prevailing party asserting invalidity or noninfringement, including reasonable attorney’s fees, other than the United States, upon the entry of a final judgment if the court determines that the adverse party did not meet at least one of the conditions described in subsection (d), unless the court finds that exceptional circumstances make an award unjust.

Id. § 285A(a)(4) (internal quotation marks omitted). Subsection 285A(d), referenced above, would provide the three categorical exceptions to the loser-pays default rule. *Id.* § 285A(d).

losing party may avoid paying the winning party's attorneys' fees and the exact procedure required to establish or rebut a finding of exemption. Furthermore, by establishing a default loser-pays rule in patent infringement and validity cases with a few categorical exceptions to the rule (for which the usual suspects of abusive litigation do not usually qualify), the SHIELD Act of 2013 appears to be relatively easy to implement and is therefore much more likely to successfully target entities which have traditionally employed abusive litigation practices. Beyond these improvements, however, the SHIELD Act of 2013 goes a few steps further in ensuring that plaintiffs have some skin in the patent litigation game.

d) Pay to Play: Requiring Plaintiffs to Post Bond When Bringing Infringement Claims

A bonding requirement (similar to that applied in injunctions) would be a good compromise between the English and American Rules. By requiring a plaintiff to post bond when bringing a patent infringement claim, the plaintiff will have to guarantee it is willing to play the high stakes litigation game and is not simply bullying the defendant into playing a single-sided game of high stakes. Placing this bond in an escrow fund would also ensure that the defendant is not responsible for the distribution of the funds to the plaintiff or to court-determined use. This approach might disadvantage independent inventors and small business owners who may not have the resources to post bond when bringing a claim. However, careful legislation drafting could introduce more flexible bonding requirements (e.g., half-price bonds) for plaintiffs who qualify under the independent inventor or small business owner categories, or who are demonstrably not bullies (e.g., by limiting the grant of flexible bonding requirements to an entity's first five complaints or an entity's first five assertions of a specific patent).

Although the SHIELD Act of 2012 did not have a bonding requirement, the SHIELD Act of 2013 includes a carefully drafted bonding requirement that could provide a strong structure for a compromise between the English and American Rules.¹⁵¹ Under the SHIELD Act of 2013, any adverse party must post a bond (determined by the court) to cover full costs of the litigation, including attorneys' fees, unless the court determines the adverse party (1) is an original inventor, (2) has substantially invested in production or sale of an item covered by the patent, or (3) is a university or a technology transfer organization that commercializes technologies developed by a

151. Compare SHIELD Act of 2012, *supra* note 8, with SHIELD Act of 2013, *supra* note 138 (adding a bond requirement).

university.¹⁵² This bonding requirement forces plaintiffs to pay to play the patent litigation game and chills abusive litigation practices by forcing traditionally abusive litigants to put some skin in the game.

IV. CONCLUSION

Abusive litigation practices and nonmeritorious patent infringement claims are real and present dangers in the current patent litigation ecosystem, imposing significant social costs. Therefore, these practices must be addressed in a swift manner. Of all the factors involved in a plaintiff's determination of whether to file a claim of questionable merit, plaintiff's costs of litigation may be the easiest to manipulate. By implementing a fee-shifting provision, under which the loser must pay the winner's legal fees, complainants in patent actions will be more likely to pause and reconsider each new infringement action before it is filed—and even during litigation itself—in order to avoid risking responsibility for paying the defendant's legal costs. While fee-shifting is not the default rule in the United States, the rich history of statutory exceptions to the default rule and the failure of existing fee-shifting provisions to adequately contain and deter abusive litigation supports the establishment of a more robust fee-shifting regime in patent litigation. Careful and deliberate drafting of legislation for statutory amendments can effectively and efficiently modify the calculus of patent litigation so as to reduce the number of patent infringement cases with questionable merit, thereby enabling attorneys, plaintiffs, defendants, courts, and consumers to focus on innovation and other more pressing matters that bear greater societal benefit.

152. The SHIELD Act of 2013 introduces a bond requirement:

(b) BOND REQUIRED.—Any [adverse] party that . . . [the Court determines (1) is not an original inventor; (2) has not substantially invested in production or sale of an item covered by the patent; and (3) is neither a university nor a technology transfer organization which commercializes technologies developed by a university] shall be required to post a bond in an amount determined by the court to cover the recovery of full costs [including reasonable attorneys' fees] . . .

SHIELD Act of 2013, *supra* note 138, § 285A(b).

