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The Troll Toll: Why Liberalized Fee-Shifting in Patent Cases Will Do More Harm than Good

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NOTE

THE TROLL TOLL*: WHY LIBERALIZED FEE-SHIFTING IN PATENT CASES WILL DO MORE HARM THAN GOOD

Mateo J. de la Torre†

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* This Note respectfully borrows this phrase from the ingenious rock opera, *It's Always Sunny in Philadelphia: The Nightman Cometh* (FX television broadcast Nov. 20, 2008).

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INTRODUCTION

On February 1, 2000, the United States Patent and Trademark Office (PTO) awarded inventors William T. Dalebout and Steven Mott, along with their assignee ICON Health & Fitness, Inc. (Icon) a patent entitled “Exercising Device with Elliptical Movement” (the ‘710 patent).¹ Over eight years later, Icon enforced the ‘710 patent against Octane Fitness, LLC (Octane), alleging that the sale and manufacture of the Octane Fitness Q47 Series exercise device infringed the ‘710 patent.² Nearly four years later, in 2011, the district court granted Octane’s motion for summary judgment, holding that Octane did not infringe the ‘710 patent;³ however, because the court denied Octane’s motion for attorneys’ fees under the Patent Act’s fee-shifting provision, the battle had only just begun.⁴

After Octane appealed the denial of a fee award to the Federal Circuit, which affirmed the district court’s decision, the Supreme Court reversed.⁵ In doing so, the Court overruled

¹ U.S. Patent No. 6,019,710 (filed Jan. 6, 1998).

² See Report & Recommendation at 1–2, *Icon Health & Fitness, Inc. v. Octane Fitness, LLC*, No. 09–CV–319 (ADM/SRN), 2010 WL 1839326, at *1 (D. Minn. Feb 4, 2010).

³ See *Icon Health & Fitness, Inc. v. Octane Fitness, LLC*, No. 09–319 ADM/SER, 2011 WL 2457914, at *10 (D. Minn. June 17, 2011) (Memorandum opinion and order), *aff’d*, 496 F. app’x 57 (Fed. Cir. 2012), *rev’d*, 134 S. Ct. 1749 (2014).

⁴ See *Octane Fitness, LLC*, 134 S. Ct. at 1751.

⁵ *Id.* at 1751, 1758.

existing Federal Circuit precedent and lowered the bar for district courts to award attorneys' fees in patent cases.⁶ In a companion case, the Court dictated that the Federal Circuit must grant broad deference to district court rulings on fee awards in patent cases, despite the Federal Circuit's past practice of substituting such determinations with its own independent judgment.⁷

The resulting liberalized fee-shifting framework implies a simple and straightforward message: Patent trolls beware.⁸ Indeed, "patent trolls," or (more courteously) "patent assertion entities," i.e., businesses that accumulate patents in order to extract royalties, settlements, or verdicts rather than developing products,⁹ have garnered much attention recently from courts and commentators alike.¹⁰ Nonetheless, the activity that seems to irk many of these commentators—extracting economic benefit with the threat of litigation—is nothing new. Parties have used the threat of litigation as bargaining leverage outside the context of intellectual property for quite some time.¹¹ In the context of patent disputes, however, these sorts of lawsuits bear a troubling parallelism with their conse-

⁶ See *id.* at 1752–53 (abrogating *Brooks Furniture Mfg., Inc. v. Dotalier Intern., Inc.*, 393 F.3d 1378 (Fed. Cir. 2005)).

⁷ See *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1747–48 (2014).

⁸ See Douglas R. Nemeč & Hoda Rifai-Bashjawish, *In a Nutshell: What to Expect in Intellectual Property Litigation*, INTEL. PROP. & TECH. L.J., Apr. 2014, at 3–4 ("The Supreme Court's interest in the fee-shifting issue is no doubt related to the concerns over patent litigation costs and frivolous claims that have prompted the legislative and executive initiatives. Fee-shifting is meant to curtail spurious patent claims and eliminate weak patents by giving parties the incentive to fight patent suits and collaterally prevent parties from reasserting weak patents.").

⁹ See Thomas A. Hemphill, *The Paradox of Patent Assertion Entities*, AMERICAN (Aug. 12, 2013), <http://www.american.com/archive/2013/august/the-paradox-of-patent-assertion-entities> [http://perma.cc/8EL6-STRW] (discussing and quoting FED. TRADE COMM'N, THE EVOLVING IP MARKETPLACE: ALIGNING PATENT NOTICE AND REMEDIES WITH COMPETITION 8 & n.5 (2011)).

¹⁰ See, e.g., *InternetAd Sys., LLC v. Opodo Ltd.*, 481 F. Supp. 2d 596, 601 (N.D. Tex. 2007) (discussing accused infringer's allegation that characterized plaintiffs as "patent trolls"); Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 2008–11 (2007) (summarizing the capability of "so-called patent trolls" to threaten injunctions on allegedly infringing products to extract settlements); Giordana Mahn, *Keeping Trolls Out of Courts and Out of Pocket: Expanding the Inequitable Conduct Doctrine*, 45 LOY. U. CHI. L.J. 1245, 1279–80 (2014) (discussing patent troll legislation); James F. McDonough III, Comment, *The Myth of the Patent Troll: An Alternative View of the Function of Patent Dealers in an Idea Economy*, 56 EMORY L.J. 189, 198–200 (2006) (criticizing use of the term "patent troll").

¹¹ See, e.g., Arthur L. Goodhart, *Costs*, 38 YALE L.J. 849, 860–62 (1929) (reviewing English procedural rules allowing "a judge to prevent the use of the courts as machinery for extortion").

quences: whereas the suits themselves are unoriginal, they have a damning effect on innovation and the legitimacy of America's approach to preserving and encouraging innovation—the patent system.¹²

Conversely, the costs that such litigants may use as leverage have changed over time. Specifically, the prevalence of e-discovery, with nearly limitless amounts of discoverable material and correspondingly immense costs, harkened a new era in civil litigation.¹³ And although the Supreme Court promptly sought to stomp out the nefarious patent troll—cutting against the American rule that parties bear their own litigation costs, no less—litigants remain uncertain of which party will bear the costs of e-discovery.¹⁴ Thus, while patent trolls prompted rather liberal fee-shifting in a *particular* area of litigation, e-discovery cost shifting, which implicates litigation *generally*,¹⁵ remains underdeveloped.

In this Note, I argue that the *Octane Fitness-Highmark* framework is a remedial approach to abusive patent litigation that is ultimately misplaced and will likely do more harm than good. Alternatively, such litigation should spur American legislators and courts to make lemonade out of lemons, and systematically reform America's patent and civil litigation systems with an eye toward forcing the PTO, as well as litigants, to internalize social costs that these entities create. In Part I, I provide a background of fee-shifting regimes, the costs of patent litigation, and the role that abusive patent litigants play in the recent liberalization of fee-shifting in patent cases, and conclude that fee-shifting in this context is inappropriate. In Part II, I

¹² Eric Rogers & Young Jeon, *Inhibiting Patent Trolling: A New Approach for Applying Rule 11*, 12 NW. J. TECH. & INTELL. PROP. 291, 295 (2014) (“While nuisance lawsuits are not new, the direct, focused, and widespread negative effects of nuisance patent lawsuits on innovation and productive entities by those neither innovating nor producing anything makes these lawsuits particularly damaging to society” and to “the legitimacy of the patent system as a whole.”).

¹³ See generally David Degnan, *Accounting for the Costs of Electronic Discovery*, 12 MINN. J.L. SCI. & TECH. 151, 151–55 (2011) (discussing the complexities of e-discovery and noting that experts estimate the costs of such discovery to be “upwards of \$30,000 per gigabyte” (citing Herbert L. Roitblat, *Search & Information Retrieval Science*, 8 SEDONA CONF. J. 192, 192 (2007))).

¹⁴ See MICHAEL R. ARKFELD, ARKFELD ON ELECTRONIC DISCOVERY AND EVIDENCE § 4.7(E) (3d ed. 2015) (reviewing conflicting court decisions regarding the award of e-discovery costs).

¹⁵ See Victor E. Schwartz & Christopher E. Appel, *Rational Pleading in the Modern World of Civil Litigation: The Lessons and Public Policy Benefits of Twombly and Iqbal*, 33 HARV. J.L. & PUB. POLY 1107, 1148–49 (2010) (asserting that burdens on defendants, which include “responding to costly and wasteful discovery fishing expeditions, have become increasingly onerous under modern e-discovery, and in the increasingly complex modern world of civil litigation generally”).

discuss the recent history of fee-shifting under the Patent Act and introduce the deleterious effects that the *Octane Fitness-Highmark* framework will create. In Part III, I expand on these effects and argue that liberalized fee-shifting in patent cases will create problems for courts, litigants, patentees, and the patent system as a whole. In Part IV, I present a normative goal for necessary reforms in order to defeat abusive patent litigation and propose three reforms to this end.

I

BACKGROUND

Arguments in support of fee-shifting vary across countries, fields of law, and discrete issues within those fields. In order to analyze the flaws of liberalized fee-shifting in patent cases, subpart A considers normative, historical, and behavioral rationales for and against fee-shifting regimes; subpart B details the costs associated with patent prosecution and enforcement; and subpart C discusses the role that patent trolls have come to play in the movement toward liberalized fee-shifting and why this ad hoc solution, though it targets abusive patent litigants, may ultimately miss its mark.

A. Fee-shifting Regimes

Most foreign jurisdictions have adopted various formulations of “loser pays” regimes in civil litigation, i.e., default rules requiring a losing party to pay for at least a portion of a prevailing party’s litigation expenses.¹⁶ Because of its roots in English common law, commentators often refer to this default fee-shifting rule as the “English rule.”¹⁷ Conversely, the United States has generally avoided “loser pays” regimes, instead opting for a default rule that courts and commentators have deemed the “American [r]ule,” under which parties generally bear their own costs and fees.¹⁸ Courts, legislators, and private parties have

¹⁶ See Comment, *Court Awarded Attorney’s Fees and Equal Access to the Courts*, 122 U. PA. L. REV. 636, 639 (1974) (“In virtually every country outside the United States, courts have awarded and continue to award attorney’s fees to the prevailing party in ordinary lawsuits . . .”).

¹⁷ See, e.g., Theodore Eisenberg & Geoffrey P. Miller, *The English Versus the American Rule on Attorney Fees: An Empirical Study of Public Company Contracts*, 98 CORNELL L. REV. 327, 329 (2013) (noting that most Western legal systems other than the United States use the English rule); Thomas D. Rowe, Jr., *The Legal Theory of Attorney Fee-shifting: A Critical Overview*, 1982 DUKE L.J. 651, 653 (1982) (stating that developed nations of “English legal heritage” inheriting the rule rarely explain its theoretical justification).

¹⁸ See *Marx v. Gen. Revenue Corp.*, 133 S. Ct. 1166, 1175 (2013) (stating that, under the “bedrock principle” of the American rule, “each litigant pays his

nonetheless created exceptions to the American rule in certain cases where the rationale behind a loser pays rule becomes particularly attractive.¹⁹

1. *Rationales in Support of the American and English Rules*

In general, given the potential benefits and burdens of fee-shifting,²⁰ deciding to adopt a default rule in favor of or opposing fee-shifting becomes a complex task. The variety of fee-shifting rules further complicates this determination,²¹ and adopting either default rule does not foreclose the possibility of awarding or denying fee awards in a system that presumes the opposite.²² Whether courts should award fees in a given legal system therefore depends on two variables: (1) whether such system is more amenable to a *default rule* awarding or, conversely, denying fees; and, after deciding upon either default rule, (2) whether particular cases, or classes of cases, warrant *exceptions* to the default rule.²³

As to the first variable, foundational differences in the English and American legal systems have ultimately (and justifiably) determined each country's approach to fee-shifting.²⁴ Specifically, the English judicial system has much more predictable outcomes because of its nonpartisan bench and al-

own attorney's fees, win or lose, unless a statute or contract provides otherwise" (quoting *Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 252–53 (2010)).

¹⁹ See Rowe, Jr., *supra* note 17, at 653 n.8 ("The general American practice—absent a statute, contractual provision, or exceptional circumstances—provides no fee-shifting" (emphasis added)).

²⁰ See *infra* section I.A.3.

²¹ See Rowe, Jr., *supra* note 17, at 666–79 (discussing, within fee-shifting regimes, "whether in a class of cases or a particular case to award fees to the winner; against whom to assess a fee to be awarded; and how much to award").

²² Indeed, despite the common English-American comparison, a comprehensive study of fee-shifting regimes would likely consider a broad variety of fee-shifting provisions rather than merely two. See Theodore Eisenberg, Talia Fisher & Issi Rosen-Zvi, *When Courts Determine Fees in a System with a Loser Pays Norm: Fee Award Denials to Winning Plaintiffs and Defendants*, 60 UCLA L. REV. 1452, 1454–55 (2013) ("Both systematic study of countries' litigation cost practices and empirical study of how private parties contract about litigation costs suggest the inadequacy of the English rule-American rule dichotomy."); see also *id.* at 1459 (noting that even under "a firm loser pays rule, most English rule jurisdictions temper their rule"; for instance, "[i]n Australia[,] it is estimated that despite a loser pays rule, prevailing parties do not recover 40 to 50 percent of their litigation costs").

²³ See Rowe, Jr., *supra* note 17, at 668–69.

²⁴ See John F. Vargo, *The American Rule on Attorney Fee Allocation: The Injured Person's Access to Justice*, 42 AM. U. L. REV. 1567, 1571–90 (1993) (providing a historical account of the development of fee-shifting rules in England and America).

most complete abolition of jury trials.²⁵ Conversely, the American judicial system, with its emphasis on the right to a jury trial, carries an air of unpredictability (or at least skepticism).²⁶ American practices therefore “leave more room for the feeling that losers will often not have been unreasonable or unjustified in insisting on litigation.”²⁷ Furthermore, the American judicial system regards access to the courts as a crucial right, the potential costs of which should not deter meritorious claims or defenses.²⁸

The next section in this Note shows that an exception to the American rule in the context of patent cases (i.e., the second variable) should only apply if (1) it would further the equitable administration of the civil litigation system, or (2) it is necessary to punish or deter misconduct in litigation.²⁹ As I argue in the remainder of this Note, fee-shifting in patent cases does not meet either of these ends. Indeed, although patent trolls may be a call for reform, fee-shifting is not the appropriate remedy.

2. *Rationales in Support of Exceptions to the American Rule*

Generally, exceptions to the American rule requiring fee-shifting fall under one of two categorical rationales, if not both.³⁰ Under one rationale, fee-shifting furthers the equitable administration of the civil litigation system, such as by increasing access to the courts for parties who might otherwise be unable to afford an attorney or incentivizing enforcement of certain causes of action that serve the public interest.³¹ Such regimes also incentivize regulatory compliance by increasing the economic costs of running afoul of the relevant regulatory regime.³² Thus, a fee-shifting rule that this rationale supports is tied to the particular cause of action to which it attaches,

²⁵ Rowe, Jr., *supra* note 17, at 655.

²⁶ *See id.* at 655–56, 656 n.16.

²⁷ *Id.* at 655–56.

²⁸ *See Vargo, supra* note 24, at 1594–96 (asserting that despite a “historical[] recogni[tion of] the *formal* right of access for all, *practical* access was denied to the poor because only the wealthy could afford to use the legal system,” and that the modern approach seeks to “guarantee[] access to justice for all citizens”).

²⁹ *See infra* section I.A.2.

³⁰ *See* Rowe, Jr., *supra* note 17, at 652.

³¹ *Id.* at 652–53.

³² *See* The Hon. M. Margaret McKeown & David J. Burman, *Exceptions to the American Rule—Statutory Fee Awards—Rationale*, 5 BUS. & COM. LITIG. FED. CTS. § 52:16, Westlaw (database updated Dec. 2014).

either by way of the class of potential plaintiffs that enforce it, or the purpose of the cause of action.

Under a second rationale, courts may shift fees in order to punish parties that engage in misconduct, such as deceitful, disobedient, or oppressive litigation tactics, at their adversary's expense.³³ Although comparable to a rule that imposes sanctions for misconduct, this punitive flavor of fee-shifting is generally tied to the costs that the specific misconduct at issue imposes.³⁴ The objective of such a regime is not only to deter such misconduct but also to recompense the victim of such abuse for expenditures she would not have incurred but for the culpable conduct,³⁵ thereby forcing the culpable party to internalize externalities that would otherwise draw from the victim's pockets.³⁶ As we will see, fee-shifting in patent cases purportedly falls under this second rationale.

3. *Shortcomings of Fee-shifting*

Despite the generally noble goals of fee-shifting regimes, such provisions may also create negative effects. Indeed, fee-shifting in certain contexts may do more harm than good on balance.³⁷ For example, such rules could have a chilling effect on plaintiffs with otherwise meritorious or novel claims, thereby hindering substantive legal development and deterring the enforcement.³⁸ This potential decrease in enforcement actually cuts against one of fee-shifting's underlying rationales—that is, encouraging compliance.³⁹

Additionally, the threat of paying a prevailing adversary's fees could cause some litigants to behave *less* rationally rather than considering the additional costs that a court may impose through a fee-shifting rule. Specifically, litigants may have an incentive to take their chances at trial rather than voluntarily dismissing claims or settling, if doing so would render their adversary a prevailing party deserving of a favorable ruling on

³³ See *Court Awarded Attorney's Fees and Equal Access to the Courts*, *supra* note 16, at 645–46.

³⁴ See Rowe, Jr., *supra* note 17, at 660–61.

³⁵ See Jane P. Mallor, *Punitive Attorneys' Fees for Abuses of the Judicial System*, 61 N.C. L. REV. 613, 619–20 (1983).

³⁶ See Rowe, Jr., *supra* note 17, at 660.

³⁷ See Laura E. Flenniken, Comment, *No More Plain Meaning: Farrar v. Hobby*, 71 DENV. U. L. REV. 477, 487 (1994) (“The concept of fee-shifting is deceptively simple—the party causing the harm should pay the costs of remedying the harm. However, the sheer volume of litigation suggests the reality of fee-shifting is not necessarily socially desirable or simple to implement.”).

³⁸ Mallor, *supra* note 35, at 615.

³⁹ See *supra* note 32 and accompanying text.

attorneys' fees.⁴⁰ For example, in a patent infringement case with multiple defendants, a plaintiff that has settled claims against some defendants while others assert meritorious defenses may have an incentive to see the case through to trial and take a chance with a jury rather than a judge that may be sympathetic to the holdout defendant after a voluntary dismissal.⁴¹ This potential defect therefore not only increases litigation costs but also decreases the likelihood of settlement, and as we will see, these effects are particularly problematic in combating abusive patent litigation.⁴²

B. The (Not So) Particular Costs of Patent Litigation

Although creating and enforcing patents is incredibly expensive, the requisite investments of time, resources, skill, and creativity in obtaining and enforcing patents are tributes to the value that modern society has placed on innovation, leading one commentator to refer to intellectual property as “the new wealth of nations.”⁴³ Nevertheless, costs associated with litigating patent cases are far from an idiosyncrasy of patent law; rather, such expenses reflect broad trends in modern civil litigation.⁴⁴ Thus, courts should not approach costs associated with patent litigation differently than they would in other areas of law; rather, courts should view such costs as a symptom of deficiencies in modern U.S. civil litigation, as well as the U.S. patent system.

1. *Costs of Obtaining Patents*

In comparison with the costs of enforcing a patent, the costs of obtaining a patent are relatively trifling, with estimates generally being in the range of \$20,000 for an individual patentee.⁴⁵ This relatively low cost, however, does not take into ac-

⁴⁰ See Mark Liang & Brian Berliner, *Fee Shifting in Patent Litigation*, 18 VA. J.L. & TECH. 59, 91–92 (2013) (“The American Rule . . . encourages plaintiffs with questionable claims, but large claimed damages, to file suit. There is less consensus though on whether the British Rule encourages settlement and reduces litigation costs. Empirical evidence in Britain is not convincing in either direction, and commentators have mixed opinions. Some argue that the British Rule scares parties away from spending more on litigation, while others contend that with higher stakes, parties are willing to spend even more to win.” (footnotes omitted)).

⁴¹ See, e.g., Scott Graham, *After ‘Octane,’ Newegg Gets Second Bite at Attorney Fees*, RECORDER, Sept. 25, 2014, at 3 (discussing one such action).

⁴² See *infra* subpart III.B.

⁴³ FRED WARSHOFSKY, *THE PATENT WARS* 3 (1994).

⁴⁴ See *infra* subpart I.B.

⁴⁵ See David Fagundes & Jonathan S. Masur, *Costly Intellectual Property*, 65 VAND. L. REV. 677, 687–90 (2012) (estimating the average total cost of obtaining a patent at approximately \$22,000); Clarisa Long, *Patent Signals*, 69 U. CHI. L. REV.

count the total social costs that obtaining a patent may create; in practice, the PTO commonly awards flawed patents that should otherwise be invalid, rendering this process ripe for reform.⁴⁶ Indeed, these “bad patents”⁴⁷ commonly result in needless and costly litigation that could have been avoided by denying patent applications or invalidating patents at the PTO rather than in court.⁴⁸

Thus, more comprehensive patent application and examination would likely result in avoiding disputes in the first instance, rather than resolving disputes via litigation.⁴⁹ This approach would require increased investment in the initial stages of a patent’s life, which many commentators oppose.⁵⁰ Favoring this investment, however, represents an approach that prefers prevention to cure, and it is likely more efficient and effective in remedying abusive patent litigation than ad hoc approaches such as broadened discretion to award fees in patent litigation.⁵¹

2. *Costs of Enforcing Patents*

After the smoke settles in a patent dispute, damages may be colossal.⁵² And even before opening statements, the costs of

625, 639 n.44 (2002) (“Conservative estimates peg the administrative costs of obtaining an average U.S. patent at \$20,000.”).

⁴⁶ See Jonathan S. Masur, *Costly Screens and Patent Examination*, 2. J. LEGAL ANALYSIS 687, 687–89 (2010).

⁴⁷ Generally speaking, “bad patents” are those “that in a perfect system should never have been issued (for instance, because of obviousness or lack of novelty).” Note, *Recasting the U.S. International Trade Commission’s Role in the Patent System*, 126 HARV. L. REV. 2337, 2337 (2013).

⁴⁸ See Diane Bartz, *Congress Approves Patent Overhaul Bill*, REUTERS, (Sept. 8, 2011, 7:55 PM), <http://www.reuters.com/article/2011/09/08/us-congress-patent-idUSTRE78777CM20110908> [<https://perma.cc/7WK6-MG96>] (“Tech industry supporters of [a patent reform bill] believe a better-financed, better-run patent office will issue fewer bad patents, which would help reduce litigation.”).

⁴⁹ See Fagundes & Masur, *supra* note 45, at 688.

⁵⁰ See *infra* notes 193, 217, and accompanying text.

⁵¹ See, e.g., William Hannah, Comment, *Major Change, New Chapter: How Inter Partes Review and Post Grant Review Proceedings Created By the America Invents Act Will Shape Litigation Strategies*, 17 INTELL. PROP. L. BULL. 27, 29 (2012) (noting that the “median costs for Inter Partes Reexamination proceedings include: thirty-five thousand dollars to prepare and file, one hundred thousand dollars through an appeal to the Board of Patent Appeal and Interferences, and two hundred thousand dollars through an appeal to a Federal Circuit,” however, “[t]he median cost of patent litigation, where less than one million US dollars is at stake, is six hundred and fifty thousand US dollars”).

⁵² See PRICEWATERHOUSECOOPERS LLP, 2015 PATENT LITIGATION STUDY 5 (2015), <http://www.pwc.com/us/en/forensic-services/publications/assets/2015-pwc-patent-litigation-study.pdf> [<https://perma.cc/P8LW-TZK5>] (reporting that the top three largest initial adjudicated damages awards from 1995 through 2014 were \$1.673, \$1.538, and \$1.169 billion).

waging patent litigation may be massive.⁵³ Furthermore, litigation costs aside from damages or settlements are inevitable, and each party will bear such costs regardless of the outcome.⁵⁴ Relatedly, litigants report that discovery costs, particularly for e-discovery, have become particularly burdensome in recent years.⁵⁵ Such costs are therefore the most assured wrench for litigants to use as leverage against their adversaries to obtain “nuisance value” settlements, which often result in licensing or royalty agreements in patent cases.⁵⁶ Limiting such costs, making them more predictable from the outset of litigation, or assuring that the proper party bears the brunt of such costs are therefore desirable objectives, not only in patent cases but also in modern civil litigation generally.

The most particular costs in patent litigation include those related to requests for reexamination or review by the PTO by which litigants may seek to invalidate an asserted patent⁵⁷ and payments to specialized professionals including attorneys, experts, and consultants.⁵⁸ If one of the parties is a corporation, other expenses may include lost opportunity costs of diverting employees and resources from more productive activities, potential exposure of confidential information to a competitor (or to the market at large), and the risk of reduced sales due to the threat that litigation poses to a customer’s business or use of a potentially infringing product.⁵⁹

Among the costs discussed above, however, the only purely patent-specific costs are those related to PTO reexamination or review. For one, although patent litigation may require hiring

⁵³ See INTELL. PROP. INS. SERVS. CORP., AIPLA 2013 REPORT OF THE ECONOMIC SURVEY (2013) (reporting that in 2013, patent infringement suits with an amount in controversy ranging from \$1 million to \$10 million carried litigation costs of \$1.2 million dollars through discovery and \$2.1 million through trial, aside from damage or settlement amounts).

⁵⁴ See JOHN W. SCHLICHER, SETTLEMENT OF PATENT LITIGATION AND DISPUTES: IMPROVING DECISIONS AND AGREEMENTS TO SETTLE AND LICENSE 57 (2011).

⁵⁵ See INST. FOR THE ADVANCEMENT OF THE AM. LEGAL SYS., CIVIL LITIGATION SURVEY OF CHIEF LEGAL OFFICERS AND GENERAL COUNSEL BELONGING TO THE ASSOCIATION OF CORPORATE COUNSEL 17 (2010) (noting that survey “[r]espondents who reported an increase in pretrial litigation costs for the typical case most commonly cited discovery in general, and e-discovery in particular, as the basis for the trend”).

⁵⁶ See, e.g., *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1327 (Fed. Cir. 2011) (upholding award of attorneys’ fees against patentee that offered settlement amounts of less than ten percent of the cost that the defendant had spent on its defense, and noting that such tactics “ensured that [patentee]’s baseless infringement allegations remained unexposed, allowing [patentee] to continue to collect additional nuisance value settlements”).

⁵⁷ See *infra* section IV.B.2.

⁵⁸ See SCHLICHER, *supra* note 54, at 17.

⁵⁹ *Id.*

professionals that are knowledgeable in the field of patent law, litigation in many other legal fields often requires hiring experts as witnesses or consultants, especially in complex commercial disputes.⁶⁰ Furthermore, expenses that are particular to corporate litigants may also arise out of a variety of disputes and not only patent litigation. For example, product liability claims (whether meritorious or not) can carry a number of adverse consequences, including defense costs, bad publicity, loss of sales, and further claims against the corporation.⁶¹

C. Patent Trolls: Scoundrels or Scapegoats?

1. *Defining the Troll*

Although the term “patent troll” is now a near-household term,⁶² categorizing entities as such is no easy task due to the lack of a widely accepted definition.⁶³ Commentators credit former Assistant General Counsel to Intel, Peter Detkin, for coining the term in response to alleged patent infringement by Intel.⁶⁴ Since then, the term has taken on a substantially derogatory connotation, usually referring to entities that license patents or enforce patents but neither practice nor develop patents.⁶⁵ Thus, “nonpracticing entity,” or “NPE,” has become

⁶⁰ See, e.g., BRYAN E. GATES, INTERNAL REVENUE MANUAL—ABRIDGED & ANNOTATED, § 4.49.1.2 (2002) (noting “economists are available to provide assistance”); TROY L. HARRIS & JOHN W. HINCHEY, INTERNATIONAL CONSTRUCTION ARBITRATION HANDBOOK § 13:27 (2014) (accountants as expert witnesses or consultants in construction arbitration); DAVID F. HERR ET AL., FUNDAMENTALS OF LITIGATION PRACTICE § 20.6 (2014) (providing guidelines for doctors as expert witnesses).

⁶¹ See Sidney K. Kanazawa & Dan R. Gallipeau, *Minimizing Product Liability Exposure: Practical Solutions for Manufacturers*, 34 CAL. W. L. REV. 509, 512 (1998).

⁶² See, e.g., David Segal, *Has Patent. Will Sue*, N.Y. TIMES, Jul. 14, 2013, at BU1 (noting that “[t]here is debate about the definition of patent trolls,” but that “[t]he notoriety of trolls . . . arises from legal claims that, at a minimum, sound absurd”); Edward Wyatt, *F.T.C. Settles First Case Targeting ‘Patent Troll,’* N.Y. TIMES, Nov. 7, 2014, at B3; *This American Life: When Patents Attack!*, (National Public Radio broadcast July 22, 2011), <http://www.thisamericanlife.org/radio-archives/episode/441/when-patents-attack> [<http://perma.cc/E63R-2SDS>].

⁶³ See Terrence P. McMahon et al., *Who is a Troll? Not a Simple Answer*, 7 SEDONA CONF. J. 159, 161–65 (2006).

⁶⁴ See, e.g., Marc Morgan, Comment, *Stop Looking Under the Bridge for Imaginary Creatures: A Comment Examining Who Really Deserves the Title Patent Troll*, 17 FED. CIR. B.J. 165, 166–67 (2008); Saurabh Vishnubhakat, *What Patent Attorney Fee Awards Really Look Like*, 63 DUKE L.J. ONLINE 15, 16 (2014) (citing Brenda Sandburg, *You May Not Have a Choice. Trolling for Dollars*, RECORDER (July 30, 2001) <http://www.phonetel.com/pdfs/LWTrolls.pdf> [<http://perma.cc/XPX8-JU9T>]).

⁶⁵ See *InternetAd Sys., LLC v. Opodo Ltd.*, 481 F. Supp. 2d 596, 601 (N.D. Tex. 2007) (defining patent trolls as “a small company who enforces patent rights against accused infringers in an attempt to collect licensing fees, but does not

a popular and somewhat less offensive synonym for such entities.⁶⁶ Yet another semantic development, the term “patent assertion entity,” or “PAE,” has come into being. A PAE is distinguishable from an NPE, which “encompasses patent owners that primarily seek to develop and transfer technology, such as universities and semiconductor design houses”;⁶⁷ conversely, a PAE solely obtains patents for the purpose of enforcing them in order to obtain licensing royalties, settlements, or damages.⁶⁸

Despite the search for a precise phrase to capture the essence of a patent troll, the social (and for that matter, legal) stigma surrounding such entities continues. Indeed, because of its prejudicial capacity, litigants now fight over use of the term itself; for example, one court recently barred a defendant in a patent infringement suit (namely, Apple) from referring to the plaintiff as a “patent troll” at trial.⁶⁹ Semantics aside, a number of interested constituencies have called for reform that would limit the proliferation of PAEs, NPEs, patent trolls, or whatever other term that may attach to such entities.⁷⁰

2. *Demonizing the Troll*

Regardless of whether PAEs are deserving of the negative attention they draw, studies indicate that they now account for a majority of patent cases filed in district courts.⁷¹ Many accuse PAEs of stifling innovation⁷² or making patent litigation, and technology generally, more costly without creating any corresponding value.⁷³ Indeed, President Obama’s 2014 State of the Union address called for “a patent reform bill that allows our businesses to stay focused on innovation, not costly, need-

manufacture products or supply services based on the patents in question” (citation omitted)).

⁶⁶ See Ted Sichelman, *Commercializing Patents*, 62 STAN. L. REV. 341, 368 (2010).

⁶⁷ FED. TRADE COMM’N, *supra* note 9, at 8 n.5.

⁶⁸ See *id.* at 8–9.

⁶⁹ Pretrial Order Re: Motions in Limine at 2, *GPNE Corp. v. Apple, Inc.*, No 12-CV-02885-LHK, 2013 WL 5754385 (N.D. Cal. June 24, 2014) (acknowledging the connotations of such language). Other barred phrases included “pirate,” “bounty hunter,” “privateer,” “bandit,” “pater patent,” “stick up,” “shakedown,” “playing the lawsuit lottery,” “corporate shell game,” and “a corporate shell.” *Id.*

⁷⁰ See *supra* subpart I.B; see *infra* notes 75–76.

⁷¹ See Liang & Berliner, *supra* note 40, at 71–72.

⁷² See James Bessen et al., *The Private and Social Costs of Patent Trolls: Do Nonpracticing Entities Benefit Society by Facilitating Markets for Technology?*, REG., Winter 2011–2012, at 26, 31–34.

⁷³ See Mark A. Lemley & A. Douglas Melamed, *Missing the Forest for the Trolls*, 113 COLUM. L. REV. 2117, 2129 (2013).

less litigation.”⁷⁴ Interest groups in support of patent reform have also formed, often deriving their funding from large tech companies.⁷⁵ In response, interest groups opposing patent reform have sprung up, arguing, for example, that such reform would present “a fundamental weakening of patents for all inventors.”⁷⁶ In one rather entertaining episode, a popular comedian and podcaster, Adam Carolla, established the “Save Our Podcasts Legal Defense Fund” after a PAE sued the entertainer for infringing patents that allegedly covered podcasting.⁷⁷

These efforts have caught the attention of federal and state legislators, resulting in limited legislative reform. Although federal law might preempt various state efforts to regulate patent law, several state legislatures have passed laws that prohibit “bad-faith patent assertions.”⁷⁸ The first state to pass such reform was Vermont, which enacted a statute allowing the Vermont Attorney General or a “target” of a bad faith patent assertion to bring a civil action against an asserting entity.⁷⁹ Furthermore, according to the Computer Communications Industry Association, as of January 14, 2015, eighteen states (including Vermont) passed laws against bad faith patent as-

⁷⁴ President Barack Obama, State of the Union Address (Jan. 27, 2014).

⁷⁵ See, e.g., *About Us*, THE COAL. FOR 21ST CENTURY PATENT REFORM, <http://www.patentsmatter.com/about/coalition.php> [<http://perma.cc/YR23-TAWG>] (listing companies such as 3M, Boston Scientific, General Electric, Pfizer, PepsiCo, and Texas Instruments as members); *About the Coalition*, COAL. FOR PATENT FAIRNESS, <http://www.patentfairness.org/learn/about> [<http://perma.cc/LVB2-V9DQ>] (listing companies such as Adobe, Oracle, Samsung, Cisco, Blackberry, and Google as supporting partners).

⁷⁶ *About Us*, INNOVATION ALLIANCE, <http://www.savetheinventor.com/about> [<http://perma.cc/4VS7-YXRA>]; see also, *About Us*, INNOVATION ALLIANCE, <http://www.innovationalliance.net/about-us/> [<http://perma.cc/237B-DPAQ>] (listing companies such as Qualcomm, Inc., Dolby Laboratories, Inc., and Tessera as members).

⁷⁷ See Adam Carolla, *Save Our Podcasts Legal Defense Fund*, FUND ANYTHING <https://fundanything.com/en/campaigns/patenttroll> [<https://perma.cc/578P-GLA7>]. The PAE offered to dismiss the suit after discovering that podcasting is not very lucrative; Carolla rejected the offer, but ultimately settled on confidential terms. See Nilay Patel, *Patent Troll Drops Suit Against Adam Carolla After Discovering Podcasts Don't Make Any Money*, VERGE (Aug. 20, 2014, 8:53 AM), <http://www.theverge.com/2014/8/20/6048303/patent-troll-drops-suit-against-adam-carolla> [<https://perma.cc/6TLR-PNFJ>]; Press Release, Personal Audio, Adam Carolla Rejects Dismissal from Podcasting Lawsuit (July 29, 2014).

⁷⁸ See David Lee Johnson, Note, *Facing Down the Trolls: States Stumble on the Bridge to Patent-Assertion Regulation*, 71 WASH. & LEE L. REV. 2023, 2033–44 (2014).

⁷⁹ See An Act Relating to Amending Consumer Protection Provisions for Propane Refunds, Unsolicited Demand for Payment, Bad Faith Assertions of Patent Infringement and Failure to Comply with Civil Investigations, H. 299 (Vt. 2013).

sertions, and an additional fourteen states have introduced similar bills.⁸⁰

The most recent and comprehensive patent reform at the federal level is the Leahy-Smith America Invents Act (AIA).⁸¹ Among other provisions, the AIA substantially reworks the process by which patentees and third parties may challenge a patent's validity, with an aim toward increased objectivity and predictability in patents.⁸² And although some commentators assert that one of Congress's primary motivations in enacting the reform was to combat patent trolls,⁸³ others argue that the AIA does not go far enough in this arena.⁸⁴

Despite Congress's recent introduction of a number of bills specifically targeting abusive patent litigation,⁸⁵ many of these initiatives have stalled.⁸⁶ These bills largely failed due to objections from trial lawyers, pharmaceutical companies, and universities; one of their main items of contention was fee-shifting provisions.⁸⁷ Indeed, while supporters of such bills made fee-shifting provisions a priority, opponents argue that such provisions might deter meritorious claims.⁸⁸ One proposal including such provision is the SHIELD Act, which would shift fees against patent holders that acquired their asserted patents through secondary market transactions and do not practice the

⁸⁰ See Computer & Commc'ns Indus. Ass'n, *Patent Progress's Guide to State Patent Legislation*, PATENT PROGRESS (Oct. 29, 2015), <http://www.patentprogress.org/patent-progress-legislation-guides/patent-progress-guide-state-patent-legislation/> [<http://perma.cc/4XVN-NXJK>].

⁸¹ Pub. L. No. 112-29, 125 Stat. 284 (2011) (codified in scattered sections of 35 U.S.C.).

⁸² See generally Robert A. Armitage, *Understanding the America Invents Act and its Implications for Patenting*, 40 AIPLA Q.J. 1, 10-14 (2012) (discussing the changes to the U.S. patent system resulting from the AIA).

⁸³ See generally Tracie L. Bryant, Note, *The America Invents Act: Slaying Trolls, Limiting Joinder*, 25 HARV. J.L. & TECH. 687, 689 (2012) (discussing section 19(d) of the AIA, which limits joinder of unrelated defendants in patent cases).

⁸⁴ See Colleen V. Chien & Mark A. Lemley, *Patent Holdup, The ITC, and the Public Interest*, 98 CORNELL L. REV. 1, 15-16 (2012); *Many Patents Still Pending*, ECONOMIST, Sept. 10, 2011, at 68.

⁸⁵ See, e.g., Innovation Protection Act, H.R. 3349, 113th Cong. (2013); Patent Transparency and Improvements Act of 2013, S. 1720, 113th Cong. (2013); End Anonymous Patents Act, H.R. 2024, 113th Cong. (2013); Patent Litigation and Innovation Act of 2013, H.R. 2639, 113th Cong. (2013).

⁸⁶ See, e.g., Innovation Act, H.R. 3309, 113th Cong. (2013) (exemplifying a patent reform bill that passed the House but not the Senate).

⁸⁷ See Dan D'Ambrosio, *Patent Reform Fight Ends in Retreat - for Now*, USA TODAY (July 9, 2014, 11:14 AM), <http://www.usatoday.com/story/money/business/2014/07/08/patent-troll-legislation-fight/12392453> [<http://perma.cc/FG2A-5LU6>].

⁸⁸ Erin Mershon & Tony Romm, *Patent Reform Hits Dead End in Senate*, POLITICO (May 21, 2014, 7:45 PM), <http://www.politico.com/story/2014/05/patent-reform-senate-106968.html> [<http://perma.cc/2UUT-WCWA>].

asserted patents.⁸⁹ During Senate hearings regarding the Act, some legislators lauded its fee-shifting provision, while another pointed out that it improperly targets certain types of patent owners rather than abusive patent litigation practices.⁹⁰ Thus, Congress's (rather unsurprising) inability to agree on how to deal with patent trolls, largely because of differences on fee-shifting, warrants alternative, systemic reforms rather than divisive, ad hoc remedies.

3. *Defending the Troll*

To be fair, whether so-called patent trolls deserve such condemnation remains debatable. Defenders of PAEs argue that they accomplish various desirable ends within the patent system, such as enforcing patents on behalf of inventors that would otherwise lack resources to do so⁹¹ and increasing efficiency in patent markets.⁹² Moreover, troll-type behavior and the costs that such behavior seem to create may merely be symptomatic of systemic deficiencies of patent prosecution and litigation, or even civil litigation more generally.⁹³ Within the patent system, systemic problems in need of solution include overissuance of otherwise invalid patents, overly broad interpretations of issued patents, and a resulting uncertainty in the legal strength of an issued patent.⁹⁴

Furthermore, the costs associated with patent litigation may simply be a symptom of broader trends in civil litigation.

⁸⁹ Saving High-Tech Innovators from Egregious Legal Disputes Act of 2013, H.R. 845, 113th Cong. (2013); see Lemley & Melamed, *supra* note 73, at 2177 n.247.

⁹⁰ See *Abusive Patent Litigation: The Issues Impacting American Competitiveness and Job Creation at the International Trade Commission and Beyond: Hearing Before the Subcomm. on Courts, Intellectual Property, and the Internet of the H. Comm. on the Judiciary* (2013) (statement of Kevin Rhodes, Vice President and Chief Intellectual Property Counsel, 3M Innovative Properties Company).

⁹¹ See FED. TRADE COMM'N, *supra* note 9, at 64.

⁹² See James F. McDonough III, *supra* note 10, at 190 ("Patent trolls provide liquidity, market clearing, and increased efficiency to the patent markets . . .").

⁹³ See ADAM B. JAFFE & JOSH LERNER, *INNOVATION AND ITS DISCONTENTS* 56-57 (2004) (asserting that "[t]he escalation of patent litigation that has occurred over the last two decades may be due in part to a general trend toward a more litigious society" and that such escalation is also due to greater ease in acquiring and enforcing patents); Lemley & Melamed, *supra* note 73, at 2170 ("[W]e believe trolls are a symptom of the real problems, not their cause. Trolls are opportunists that exploit flaws in the patent system. The growth of patent trolls, coupled with the costs of practicing entity licensing and litigation, suggests systemic problems that are not limited to trolls.").

⁹⁴ See JAMES BESSEN & MICHAEL J. MEURER, *PATENT FAILURE: HOW JUDGES, BU-REAUCRATS, AND LAWYERS PUT INNOVATORS AT RISK* 39, 47-57 (2008); JAFFE & LERNER, *supra* note 93, at 171-72; Lemley & Melamed, *supra* note 73, at 2180.

Indeed, in 2010, ninety-eight percent of multinational companies surveyed reported that the costs of civil litigation, generally, were too high.⁹⁵ One of the survey respondents explained the inefficiencies of modern civil litigation:

The plaintiff[s'] lawyers take the tactic of suing as many defendants as possible under as many legal theories as possible to "see what sticks" . . . The defense attorneys, billing at an hourly rate, benefit [from the resulting] broad discovery and the amount of time and effort it requires . . . The judges . . . often do not grant motions . . . that could serve to whittle the complaint down to the true cause of actions [or] act to sufficiently limit discovery. By freely granting motions to continue, they allow the cases to drag on for years⁹⁶

Thus, patent trolls may not necessarily be *bad* actors deserving of punishment, such as fee-shifting, but may simply be *rational* actors taking advantage of inefficiencies in the civil litigation and patent systems.⁹⁷

II

FEE RECOVERY UNDER THE PATENT ACT: DEFINING AN "EXCEPTIONAL CASE"

The Patent Act's fee-shifting provision provides, in its totality: "The court in exceptional cases may award reasonable attorney fees to the prevailing party."⁹⁸ By providing this rule without substantial qualification, Congress granted the judiciary seemingly broad discretion in determining when such awards are appropriate. Indeed, legislative history reveals that Congress added "in exceptional cases" in order to codify how the courts had interpreted a predecessor statute.⁹⁹ In this Part, I detail the recent history of fee-shifting in patent cases: subpart A discusses the former standard for section 285 fee awards, and subpart B discusses the Supreme Court's recent

⁹⁵ INST. FOR THE ADVANCEMENT OF THE AM. LEGAL SYS., *supra* note 55, at 19.

⁹⁶ *Id.* (alterations in original).

⁹⁷ See John M. Golden, *Litigation in the Middle: The Context of Patent-Infringement Injunctions*, 92 TEX. L. REV. 2075, 2079 (2014) ("Of course, one can question the extent to which a rational profit-maximizer model . . . will successfully predict litigation-related behavior. Regardless of the validity of such questions, however, such models seem commonly to inform intuitions about when litigation or settlement is likely to occur in a commercial context like a typical patent-infringement dispute.").

⁹⁸ 35 U.S.C. § 285 (2012).

⁹⁹ See S. REP. NO. 82-1979, at 30 (1952) (providing that section 285 is "substantially the same as" its predecessor, but that "in exceptional cases" has been added as expressing the intention of the present statute as shown by its legislative history and as interpreted by the courts").

liberalization of district courts' discretion to award fees in patent cases.

A. The Former Federal Circuit Standard: *Brooks Furniture*

Before *Octane Fitness*, the Federal Circuit established the governing standard for section 285 fee awards in *Brooks Furniture Manufacturing, Inc. v. Dutailier International, Inc.*, which bifurcated "exceptional case[s]" into two distinct categories.¹⁰⁰ In the first category, a party engaged in misconduct that was either related to the merits of the underlying claim or patent, "such as willful infringement, fraud or inequitable conduct in procuring the patent,"¹⁰¹ or alternatively, misconduct related to the course of litigation, such as "vexatious or unjustified litigation, conduct that violates Fed.R.Civ.P. 11, or like infractions."¹⁰² Despite Justice Sotomayor's criticism in *Octane Fitness* that this category involved "largely . . . independently sanctionable conduct,"¹⁰³ by bringing willful infringement and misconduct involved in patent prosecution within the purview of a section 285 award, this category did provide grounds for fee awards specific to patent litigation.¹⁰⁴

The second category did not involve such blatant misconduct but allowed courts to award fees "if both (1) the litigation [was] brought in subjective bad faith, and (2) the litigation [was] objectively baseless."¹⁰⁵ This category required courts not only to assess the mental state of a party at the time of filing an infringement action but also the merits of that party's claim.¹⁰⁶ By so requiring, the Federal Circuit sufficiently cabined the threshold for awarding fees for potentially frivolous infringement suits in light of the technical difficulty of assessing the merits of an infringement action.¹⁰⁷ The burden of proof that the Federal Circuit imposed on a party moving for fees, that of "clear and convincing evidence,"¹⁰⁸ also reflected this appropri-

¹⁰⁰ See *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005).

¹⁰¹ *Id.*

¹⁰² *Id.*

¹⁰³ *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014).

¹⁰⁴ See *id.* at 1756–57.

¹⁰⁵ *Id.* at 1754 (citing *Brooks Furniture*, 393 F.3d at 1381).

¹⁰⁶ See *Brooks Furniture*, 393 F.3d at 1382.

¹⁰⁷ See *id.* at 1384 ("Infringement is often difficult to determine, and a patentee's ultimately incorrect view of how a court will find does not of itself establish bad faith.").

¹⁰⁸ *Id.*

ately conservative approach.¹⁰⁹ As a result, this definition of an exceptional case proved to be a high bar for fee awards.¹¹⁰

B. The Supreme Court Speaks: *Octane Fitness* and *Highmark*

1. *Octane Fitness*

The Supreme Court substantially lowered section 285's standard in *Octane Fitness*, overruling *Brooks Furniture* and defining an exceptional case as "simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated."¹¹¹ Thus, litigants can now prove that a case is exceptional without showing sanction-worthy conduct or satisfying both the subjective bad faith and objective baselessness prongs.¹¹² Rather, the new standard is permeable, allowing trial courts to award fees based upon "a simple discretionary inquiry."¹¹³ Furthermore, the Court held that the party moving for fees need not meet the more demanding clear and convincing evidence standard espoused in *Brooks Furniture*, but only need prove entitlement to a fee award by "a preponderance of the evidence."¹¹⁴

In applying the *Octane Fitness* standard, district courts may now rest their determination that a case warrants a fee award by relying on factors including, but not limited to, "frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence."¹¹⁵ These factors, and particularly the final two, reveal the role that fee awards will serve under *Oc-*

¹⁰⁹ *Id.* at 1382.

¹¹⁰ Nemeč & Rifai-Bashjawish, *supra* note 8, at 3, (estimating that only one percent of prevailing parties recovered attorney's fees under *Brooks Furniture*); see also Daniel Roth, *Patent Litigation Attorneys' Fees: Shifting from Status to Conduct*, 13 CHI.-KENT J. INTEL. PROP. 257, 269 (2013) (noting that, under *Brooks Furniture*, "[d]espite defendants' growing desire to use fee-shifting to recoup costs and deter future abusive litigation, it [was] difficult for litigants to meet the 'exceptional case' standard for fee-shifting under the Patent Statute").

¹¹¹ *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014).

¹¹² *Id.* at 1757 ("[A] district court may award fees in the rare case in which a party's unreasonable conduct—while not necessarily independently sanctionable—is nonetheless so 'exceptional' as to justify an award of fees.")

¹¹³ *Id.* at 1758.

¹¹⁴ *Id.*

¹¹⁵ *Id.* at 1756 n.6 (quoting *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534 n.19 (1994)).

tane Fitness: as a mechanism for punishment and deterrence.¹¹⁶ Indeed, the Court allowed trial courts to impose fee awards based on the mere potential that doing so might deter patent litigation tactics that a litigant could regard as abusive, and to compensate alleged victims of such abusive practices for expenses that would not have been incurred but for an adversary's misconduct.¹¹⁷ Thus, *Octane Fitness's* rationale typifies a punitive fee-shifting rule.¹¹⁸

2. *Highmark*

The standard of review that an appellate court must apply to a trial court's decision dictates the extent to which the appellate court may second-guess the trial court's determination, and often dictates the outcome of an appeal itself.¹¹⁹ On one hand, an appellate court generally applies a *de novo* standard of review to questions of law, and in doing so does not grant a trial court any discretion; essentially the appellate court views the case as if it sat as the trial court in the first instance.¹²⁰ On the other hand, an appellate court generally applies an abuse of discretion standard to decisions that the judicial system entrusts to a trial court, which typically include evidentiary and procedural decisions.¹²¹ Although the formulation of this highly deferential standard differs substantially across substantive areas of law, suffice to say that it is a very difficult standard for an appellant to prevail under.¹²²

While lowering the threshold of finding an exceptional case under section 285, in *Highmark Inc. v. Allcare Health Management Systems, Inc.*, the Court also heightened the standard of review that the Federal Circuit must apply to section 285 fee awards.¹²³ Interpreting the issue of whether a case was objectively baseless as "a question of law based on underlying mixed questions of law and fact,"¹²⁴ the Federal Circuit had applied a

¹¹⁶ *Id.*

¹¹⁷ *See supra* section I.A.1.

¹¹⁸ *See supra* section I.A.3.

¹¹⁹ *See* Patricia M. Wald, *The Rhetoric of Results and the Results of Rhetoric: Judicial Writings*, 62 U. CHI. L. REV. 1371, 1391 (1995).

¹²⁰ *See* Amanda Peters, *The Meaning, Measure, and Misuse of Standards of Review*, 13 LEWIS & CLARK L. REV. 233, 243-46 (2009).

¹²¹ *See* Robert Anderson IV, *Law, Fact, and Discretion in the Federal Courts: An Empirical Study*, 2012 UTAH L. REV. 1, 8-9.

¹²² *See* Peters, *supra* note 120, at 244-45.

¹²³ *See Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1748-49 (2014).

¹²⁴ *Id.* at 1747.

de novo standard of review to fee-award rulings.¹²⁵ Because *Octane Fitness* made such determinations matters of district court discretion, however, the Court reversed, holding that the Federal Circuit, which maintains exclusive jurisdiction over patent appeals,¹²⁶ may only review section 285 fee awards for an abuse of discretion.¹²⁷ The Court reasoned that a trial court was “better positioned to decide whether a case is exceptional . . . because it lives with the case over a prolonged period of time,”¹²⁸ and “[a]lthough questions of law may in some cases be relevant to the § 285 inquiry, that inquiry generally is, at heart, ‘rooted in factual determinations.’”¹²⁹ Thus, the Court inverted the standard of review applicable to section 285 fee awards by removing the broad discretion that the Federal Circuit previously enjoyed.

3. *In Sum*

Though both the *Brooks Furniture* and *Octane Fitness* standards did not aim to award fees as a matter of course, *Octane Fitness*’s more permissive standard will likely result in more frequent awards. Without an established body of caselaw, however, courts have not driven a stake on either side of the fee-shifting fence. Indeed, as a judge in one of the nation’s most popular patent litigation districts put it, “[t]he belt got loosened a bit. The question is whether it’s one notch, two or more.”¹³⁰ While some courts have adopted an expansive interpretation of the *Octane Fitness* standard, going so far as to apply the standard to identical fee-shifting provisions outside of patent disputes,¹³¹ others have been hesitant to find exceptional cases warranting awards.¹³² Given the abuse of discre-

¹²⁵ *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 687 F.3d 1300, 1309 (Fed. Cir. 2012), *vacated*, 134 S. Ct. 1744 (2014).

¹²⁶ *See infra* Part III.D.

¹²⁷ *Highmark*, 134 S. Ct. at 1748.

¹²⁸ *Id.* (citation and internal quotation mark omitted).

¹²⁹ *Id.* at 1749 (emphasis added) (citing *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 401 (1990)).

¹³⁰ *Graham, supra* note 41, at 3 (quoting the Hon. Paul S. Grewal, Magistrate Judge, Northern District of California).

¹³¹ *See, e.g.*, *Fair Wind Sailing, Inc. v. Dempster*, 764 F.3d 303, 315 (3d Cir. 2014) (applying *Octane Fitness* standard to Lanham Act’s fee-shifting provision, which is identical to section 285, and affirming award).

¹³² *Compare Gametek LLC v. Zynga Inc.*, No. CV 13-2546 RS, 2014 WL 4351414, at *1 (N.D. Cal. Sept. 2, 2014) (denying motion for fee award because “the ‘exceptional’ label is not warranted here even under the more expansive [*Octane Fitness*] standard”), and *Apple Inc. v. Samsung Elecs. Co.*, No. 11-CV-01846-LHK, 2014 WL 4145499, at *7, *11 (N.D. Cal. Aug. 20, 2014) (denying motion for award despite jury’s finding of willful infringement), *with Summit Data Sys., LLC v. EMC Corp.*, No. CV 10-749-GMS, 2014 WL 4955689, at *1, *4

tion standard now applicable to such awards per *Highmark*, however, courts will likely continue to award fees idiosyncratically.¹³³

III

ANALYSIS: THE COSTS OF THE *OCTANE FITNESS-HIGHMARK* FRAMEWORK

Although *Octane Fitness* and *Highmark* purported to discourage abusive patent litigation, these rulings could exacerbate the very problems they seek to remedy. In this Part, I call attention to the flaws in the *Octane Fitness-Highmark* framework: subpart A explains that district courts and litigants will not easily be able to apply the *Octane Fitness* standard; subpart B posits that the framework will likely increase litigation costs and deter settlement; subpart C argues that fee-shifting will have a chilling effect on patent enforcement; and subpart D points out the problems that will result from lessening the Federal Circuit's role in interpreting and applying section 285.

A. Difficulty in Application

In order to make a victim of abusive patent litigation whole, a patent litigant must be identifiable as a "victim,"¹³⁴ which under *Octane Fitness* means essentially that such party's opponent maintained a substantively weak litigation position or litigated the case unreasonably.¹³⁵ Furthermore, under *Highmark*, the Federal Circuit will have less opportunity to second-guess a district court's determination that a case was exceptional for purposes of a fee award.¹³⁶ Thus, while district courts were able before *Octane Fitness* to award fees against patent litigants for misconduct or frivolous claims that they

(awarding fees under section 285 after voluntary dismissal for, inter alia, patentee's "practice of extracting settlements worth a fraction of what the case would cost to litigate").

¹³³ Moreover, an empirical study suggests the somewhat counterintuitive conclusion that ideological differences between the trial and appellate level increase the level of deference that federal appellate courts grant to district courts. See Anderson IV, *supra* note 121, at 31.

¹³⁴ Cf. Lucian Arye Bebchuk & Howard F. Chang, *An Analysis of Fee Shifting Based on the Margin of Victory: On Frivolous Suits, Meritorious Suits, and the Role of Rule 11*, 25 J. LEGAL STUD., 371, 377 (1996) (asserting that, under "classic fee-shifting rules . . . fee shifting, to the extent that it occurs, depends only on the identity of the winning party").

¹³⁵ See *supra* note 111 and accompanying text.

¹³⁶ See *supra* section II.B.2.

knew would not succeed,¹³⁷ the current framework enables district courts to discretionarily award fees based on a ruling that the *merits* of a claim are substantively weak, regardless of whether the party alleging infringement viewed, or even was able to view, its claim as substantively weak.¹³⁸

This framework poses pragmatic difficulties for district courts because patent cases involve inherently complex and complicated facts that both judges and juries may have trouble deciphering. Indeed, as the Federal Circuit noted in *Brooks Furniture*, determining the strength of a patent infringement claim is typically quite difficult,¹³⁹ and particularly so before the parties undertake discovery.¹⁴⁰ Thus, determining whether an alleged patent infringer was a victim of the litigation may be difficult if a district court is unable to determine whether a litigant was maintaining unreasonable litigating positions,¹⁴¹ especially with less oversight from the Federal Circuit. By the same token, litigants themselves will have trouble applying the doctrine and determining whether they are maintaining unreasonable positions, especially given the idiosyncratic fashion in which district courts will likely award fees under the new regime.¹⁴²

B. Increasing Litigation Costs and Deterring Settlement

Despite the criticism that litigants may use the potential costs of patent litigation as leverage for settlements, settlement in itself is not deleterious in patent disputes, and often results in win-win resolutions between the parties involved and potentially increases the efficiency of the patent system as a

¹³⁷ See *supra* subpart II.A. Courts may also sanction patent litigants for misconduct in patent litigation under the Federal Rules of Civil Procedure. See, e.g., *Raylon, LLC v. Complus Data Innovations, Inc.*, 700 F.3d 1361, 1368 (Fed. Cir. 2012) (holding that frivolous claim constructions that are “so unreasonable that no reasonable litigant could believe it would succeed” may warrant sanctions under Fed. R. Civ. P. 11 (quoting *iLor, LLC v. Google, Inc.*, 631 F.3d 1372, 1378 (Fed. Cir. 2011))).

¹³⁸ See *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1382 (Fed. Cir. 2005).

¹³⁹ See *supra* note 107 and accompanying text.

¹⁴⁰ See *Brooks Furniture*, 393 F.3d at 1384.

¹⁴¹ See *Liang & Berliner*, *supra* note 40, at 68 (“The technical and legal complexity of patent cases makes it difficult to decide who is the prevailing party that should be made whole. Many cases are close calls, and patent laws are relatively volatile as compared to other areas of law.”).

¹⁴² See *id.* at 107–08 (arguing against a theory that fee-shifting should lead to less infringement claims because “[t]echnology products are complex and claim language is often difficult to parse. It is costly and difficult for a company to determine when it is infringing a patent”).

whole.¹⁴³ Indeed, “businesspeople overwhelmingly prefer settlement and licensing to litigation” because of the cost savings settlement entails, and, more importantly, because alternative resolution may more accurately assess the merits of an underlying claim and result in outcomes that are unavailable through litigation.¹⁴⁴ A particular benefit of settlement in patent disputes is that patentees and alleged infringers may enter licensing agreements that allow an alleged infringer to continue using an invention, which not only avoids litigation costs but also increases a patent’s value if the patent may not have generated as much revenue solely in the patentee’s hands or if the alleged infringer can use the invention at lower costs than the patentee.¹⁴⁵

Liberalized fee-shifting, however, will likely disincentivize settlement.¹⁴⁶ Indeed, an increased likelihood of an adverse fee award coupled with a decreased ability to challenge such award on appeal will no doubt raise the stakes at the trial level, incentivizing patent litigants to fight even harder and expend more resources at trial.¹⁴⁷ In turn, the *Octane Fitness-Highmark* framework will likely increase litigation costs that a patentee may use as leverage to extract a meritless settlement or, conversely, decrease the parties’ willingness to settle. For instance, a patentee who foresees an adverse fee award after a loss or voluntary dismissal might therefore avoid settlement and see the case through trial, taking its chances with a jury, with little reason to litigate with an eye toward saving costs.¹⁴⁸ Although this could incentivize settlement on the part of the alleged infringer,¹⁴⁹ sunken defense costs could just as easily put that party in a position to take its chances at trial as well. Indeed, one court noted that “[a]warding fees based on a pattern of negotiating early, low-value settlements could tell

¹⁴³ See Mark A. Lemley, *Reconceiving Patents in the Age of Venture Capital*, 4 J. SMALL & EMERGING BUS. L. 137, 147–48 (2000) (discussing the effects of patent transactions in private markets).

¹⁴⁴ SCHLICHER, *supra* note 54, at xviii.

¹⁴⁵ *Id.* at 5.

¹⁴⁶ See Liang & Berliner, *supra* note 40, at 93–100.

¹⁴⁷ See David Herr & Steve Baicker-McKee, *Recovery of Attorneys’ Fees in Patent Litigation*, FED. LITIGATOR, June 2014, at 169, 169.

¹⁴⁸ See SCHLICHER, *supra* note 54, at 58 (“[I]f the patent owner believes that it is certain to be awarded attorneys’ fees if it wins, it will not settle to avoid future fees. Indeed, the patent owner may litigate rather than settle merely to obtain an award of its fees.” Even in the absence of such certainty, “[i]f there is some probability that the patent owner will receive attorneys’ fees, it becomes less sensitive to fees in some proportion to the likelihood of the award.”).

¹⁴⁹ *Id.* (“If the infringer believes it will have to pay fees, it will have a powerful incentive to settle to save those costs.”).

plaintiffs ‘they have less reason to settle, not more.’”¹⁵⁰ And even if parties consider settling, fee awards may complicate litigants’ assessment of a case’s value because either party’s fees become an additional tier of dispute, and the parties must not only analyze the merits and remedies of the suit, but also the probability and amount of a fee award.¹⁵¹

C. Chilling Patent Enforcement

The justifications underlying traditional property law and intellectual property law differ considerably in some areas. For instance, property law traditionally governs goods that are inherently exhaustible, while intellectual property law governs inexhaustible goods.¹⁵² Nevertheless, by creating private ownership rights for ideas that entail the right to exclude others from using a patented idea, intellectual property law achieves much the same objectives of traditional property law.¹⁵³ Indeed, as economist Harold Demsetz elucidated, “[a] primary function of property rights is that of guiding incentives to achieve a greater internalization of externalities. . . . One condition is necessary to make costs and benefits externalities. The cost of a transaction in the rights between the parties (internalization) must exceed the gains from internalization.”¹⁵⁴ In much the same vein, Demsetz provided what is now the prevailing justification for patents¹⁵⁵ by arguing that patents allow inventors to appropriate privately created information, and that “[a]ppropriability is largely a matter of legal arrangements and the enforcement of these arrangements. . . .

¹⁵⁰ Graham, *supra* note 41, at 3. The Federal Circuit vacated the court’s original decision in this case denying attorney fees under the Patent Act after *Octane Fitness*. See *Site Update Solutions, LLC v. Accor N. Am., Inc.*, No. 11-3306 PSG, 2013 WL 2238626 (N.D. Cal. May 21, 2013), *vacated*, 556 F. App’x 962 (Fed. Cir. 2014).

¹⁵¹ SCHLICHER, *supra* note 54, at 58.

¹⁵² Amie N. Broder, Note, *Comparing Apples to APPLs: Importing the Doctrine of Adverse Possession in Real Property to Patent Law*, 2 N.Y.U. J.L. & LIBERTY 557, 560 (2007) (citing Lawrence Lessig, *The Law of the Horse: What Cyberlaw Might Teach*, 113 HARV. L. REV. 501, 526 (1999)).

¹⁵³ See *Edwards Lifesciences AG v. CoreValve, Inc.*, 699 F.3d 1305, 1314 (Fed. Cir. 2012) (“A patentee’s right to exclude is a fundamental tenet of patent law.” (citing *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989))); Robert P. Merges, *On the Complex Economics of Patent Scope*, 90 COLUM. L. REV. 839, 845 (1990) (noting that patents are “[a]nalogous to the metes and bounds of a real property deed, [and] they distinguish the inventor’s intellectual property from the surrounding terrain”).

¹⁵⁴ See Harold Demsetz, *Toward a Theory of Property Rights*, 57 AM. ECON. REV. 347, 348 (1967).

¹⁵⁵ See Amy Kapczynski & Talha Syed, Essay, *The Continuum of Excludability and the Limits of Patents*, 122 YALE L.J. 1900, 1904 (2013).

The degree to which knowledge is privately appropriable can be increased by raising the penalties for patent violations and by increasing resources for policing patent violations.”¹⁵⁶ Thus, synthesizing Demsetz’s two theories, a patent is essentially valuable because it grants a patentee the right to enforce the patent, exclude potential competitors from practicing the patent, and thereby internalize gains that a competing user of the invention would otherwise enjoy.¹⁵⁷

Following Demsetz’s propositions, a regime that decreases the likelihood of patent enforcement not only undermines the central justifications of awarding patents, but also decreases the monetary value of individual patents. Patent enforcement depends upon private litigants that must balance the likelihood and benefits of success against the potential costs of defeat;¹⁵⁸ fee-shifting regimes alter this calculation by making the costs of defeat much higher. Proponents of fee-shifting regimes in patent disputes argue, of course, that this is exactly the point: fee-shifting chills patentees from bringing frivolous suits or from using the prospective costs of litigation against alleged infringers to obtain settlements or other pecuniary benefits.¹⁵⁹ What such arguments fail to address, however, is that fee-shifting has the same *ex ante* effect on cost calculation for patent trolls as it does for smaller firms, inventors, and other parties that may otherwise have novel or meritorious claims, but may not have sufficient resources or risk tolerance to pur-

¹⁵⁶ Harold Demsetz, *Information and Efficiency: Another Viewpoint*, 12 J.L. & ECON. 1, 9–11 (1969).

¹⁵⁷ See F. Scott Kieff, *Property Rights and Property Rules for Commercializing Inventions*, 85 MINN. L. REV. 697, 717 (2001) (“The creation of a property right to exclude others from partaking in the benefits of commercialization efforts is consistent with the basic thesis of Demsetz that property rights emerge when it becomes economically efficient to internalize benefits and costs.”). Whether such internalization is normatively desirable is beyond the purview of this Note. For a more comprehensive discussion and a dissenting opinion on the subject, see Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031, 1032 (2005) (“[T]he effort to permit inventors to capture the full social value of their invention—and the rhetoric of free riding in intellectual property more generally—are fundamentally misguided.”).

¹⁵⁸ See Kelly T. Murphy, *The Changing Tide of Patentability Standards and Filing Timelines for Biotechnologies*, in THE IMPACT OF RECENT PATENT LAW CASES AND DEVELOPMENTS (2013 ed. 8012) 2011 WL 6742515 at *1 (“The decision to enforce or invalidate a patent must involve weighing the benefits and costs of litigation . . .”).

¹⁵⁹ See, e.g., Steven Seidenberg, *Troll Alert: Federal Circuit Gets Reined in over Patent Fees in Infringement Suits*, 100 A.B.A. J. 19, 19 (2014) (noting that “accused infringers have a strong incentive to fight back because their legal costs may be paid by overly aggressive patentees”).

sue litigation.¹⁶⁰ Such risk-averse patentees must now take into account the increased likelihood of a fee award under *Octane Fitness* but will likely be unable to do so accurately given the unpredictability that *Highmark* injects into the calculation.¹⁶¹ This difficult and inexact calculation is thus likely to chill otherwise meritorious claims by the most deserving of patent enforcement—individual inventors and small firms that are responsible for much of American innovation.¹⁶²

D. Decreasing the Federal Circuit's Role

In 1982, Congress passed the Federal Courts Improvement Act, which fused the Court of Customs and Patent Appeals with the Court of Claims, forming the United States Court of Appeals for the Federal Circuit.¹⁶³ In doing so, Congress vested the Federal Circuit with exclusive appellate jurisdiction over patent suits, the driving factors in this decision being uniformity in patent law, reduced forum shopping, and enhanced predictability of the strength of a given patent.¹⁶⁴ Indeed, before 1982, circuit courts diverged broadly on, and the Supreme Court did not often issue decisions regarding, patent law, collectively leaving patent law in a state of uncertainty and disrepair.¹⁶⁵

The Federal Circuit swiftly and substantially broadened the rights of patentees, thereby vastly expanding the value of intellectual property rights.¹⁶⁶ Today, the Federal Circuit plays a crucial role in patent cases, reversing approximately thirty to

¹⁶⁰ See Matthew Sag & Kurt Rohde, *Patent Reform and Differential Impact*, 8 MINN. J.L. SCI. & TECH. 1, 67 (2007) (“[F]ee-shifting is only effective if patent holders have the resources to pay an award of costs. . . . [And] the prospect of fee-shifting may have a chilling effect on the assertion of good patents held by risk-averse entities.”).

¹⁶¹ See *supra* section II.B.2.

¹⁶² See generally Jeff A. Ronspies, Comment, *Does David Need a New Sling? Small Entities Face a Costly Barrier to Patent Protection*, 4 J. MARSHALL REV. INTELL. PROP. L. 184, 192–94 (2004) (discussing the contributions of small entities in the American patent system).

¹⁶³ See Brian H. Redmond, Annotation, *Jurisdiction of the United States Court of Appeals for Federal Circuit Under 28 U.S.C.A. § 1292 and 1295*, 97 A.L.R. Fed. 694, § 2[a] (1990).

¹⁶⁴ See Larry D. Thompson, Jr., *Adrift on a Sea of Uncertainty: Preserving Uniformity in Patent Law Post-Vornado Through Deference to the Federal Circuit*, 92 GEO. L.J. 523, 532–33 (2004).

¹⁶⁵ See JAFFE & LERNER, *supra* note 93, at 98–100.

¹⁶⁶ See *id.* at 104–05 (noting that “[w]hereas the circuit courts had affirmed 62 percent of district-court findings of patent infringement in the three decades before the creation of the [Federal Circuit], the [Federal Circuit] in its first eight years affirmed 90 percent of such decisions,” and “when the district court had found that a patent was invalid or not infringed . . . the circuits had reversed only 12 percent of the cases,” while “[i]n the first eight years of the Federal Circuit, 28 percent of these cases were reversed”).

forty percent of all appeals to the Federal Circuit.¹⁶⁷ With presiding judges experienced in patent law, law clerks with technical backgrounds, and technically trained assistants, the Federal Circuit rules over patent appeals with a necessarily heightened degree of expertise.¹⁶⁸

Against this backdrop, the flaw in *Highmark's* holding—allowing the Federal Circuit to overturn a fee award only if it is an abuse of discretion¹⁶⁹—becomes immediately apparent. Specifically, contrary to the Court's view, the standard of review applicable to section 285 fee awards should allow the Federal Circuit substantial leeway to second-guess such a ruling. Two factors highlight this problem. The first is that under *Octane Fitness*, district courts may award fees based on the weakness of a party's claim "considering both the governing law and the facts of the case."¹⁷⁰ Doctrinally, the Federal Circuit should at least be entitled to review such decisions under a *de novo* standard because they involve questions of law.¹⁷¹ But more substantively, Congress created the Federal Circuit exactly for the purpose of second-guessing such determinations given the Federal Circuit's expertise and specialization.¹⁷² A second factor highlighting *Highmark's* fault is the amount of money that may be at stake. Simply put, given the potential fees that go into litigating a patent case,¹⁷³ an award (or lack thereof) based on a faulty analysis could prove to be the death knell for one party and a windfall for another.

IV

PROPOSALS: INTERNALIZING EXTERNAL COSTS

If America is serious about putting an end to abuses of the patent system and the civil litigation system at large, lawmakers and the courts should favor systemic reform rather than post-hoc remedial measures. In this Part, I propose three reforms that would serve this goal. Subpart A provides the normative goal behind these proposals: internalizing the patent

¹⁶⁷ Liang & Berliner, *supra* note 40, at 68–69.

¹⁶⁸ See Rochelle Cooper Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. REV. 1, 4–5, 5 n.29 (1989).

¹⁶⁹ *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 687 F.3d 1300, 1320 (2012).

¹⁷⁰ *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014).

¹⁷¹ See *supra* Part II.B.2.

¹⁷² See Dreyfuss, *supra* note 168, at 6–8.

¹⁷³ Indeed, *Highmark* itself exemplifies this potential magnitude: the district court in that case awarded \$4,694,727.40 in attorneys' fees and \$209,626.56 in expenses. See *Highmark*, 687 F.3d at 1308.

system's otherwise external costs; subpart B proposes reforms to the patent system; and subpart C proposes an option for civil litigation reform within the realm of e-discovery.

A. Normative Goals: Internalization

The rationale that *Octane Fitness* and *Highmark* implicitly espouse reflects the rationale that Demsetz purported underlies all property law: internalizing externalities.¹⁷⁴ However, the resulting framework for awarding fees in patent disputes will not likely realize this objective. Essentially, this implicit rationale is that by liberalizing fee-shifting in patent litigation, courts may force patent trolls to internalize costs that they impose on their adversaries. In other words, the central objection to abusive patent litigation is that it unfairly creates litigation costs for parties that would not otherwise suffer such expenses; potentially shifting these costs to the party that creates them will therefore—in theory—either make the victim of the abusive litigation financially whole or deter the abusive litigant from suing in the first instance.¹⁷⁵

The foundational flaws in the *Octane Fitness-Highmark* framework¹⁷⁶ require alternative measures in order to achieve the ultimate goal of internalizing the external costs of abusive patent litigation. Specifically, I propose three reforms that have the potential to extinguish abusive patent litigation. The first two proposals seek to prevent patent litigation by increasing efficiency in patent acquisition and assuring the validity of issued patents. The third proposal seeks to limit the costs of e-discovery by adopting an approach that the Federal Circuit has advocated. The following proposals are based upon the premise that, in order to reduce patent trolling, reform should seek to eliminate systemic flaws, rather than adopting post hoc, reactionary countermeasures such as fee-shifting that target particular litigants rather than the inefficiencies that such litigants take advantage of.

B. Systemic Patent Reform: Preventing Abusive Patent Litigation

In order to obtain a patent, an invention must pass the PTO's standards of utility, novelty, and nonobviousness.¹⁷⁷ Furthermore, the language of a patent must be sufficiently defi-

¹⁷⁴ See *supra* notes 154–156 and accompanying text.

¹⁷⁵ See Rowe, Jr., *supra* note 17, at 657–61.

¹⁷⁶ See *supra* Part III.

¹⁷⁷ See *United States v. Adams*, 383 U.S. 39, 48 (1966).

nite to set a claimed invention apart from others.¹⁷⁸ In recent history, however, the PTO has been infamously permissive in awarding patents, resulting in “bad patents” that are overly broad or otherwise should not have issued.¹⁷⁹ Bad patents pose major problems to the integrity of the current patent system and often form the basis of a patent troll’s infringement claim.¹⁸⁰ The tendency to conflate the bad patent dilemma with patent trolling, however, is another example of blaming patent trolls for larger systemic issues; indeed, practicing and nonpracticing entities alike may assert bad patents against alleged infringers.¹⁸¹ For example, the well-known jam and jelly manufacturer J. M. Smucker Co. once sued a small Michigan grocer for infringing on Smucker’s patent for a “sealed crustless sandwich.”¹⁸²

Litigation over bad patents transfers the costs of the PTO’s faulty issuance to potential infringers in the form of legal expenses and increased research and development.¹⁸³ These costs are therefore negative externalities of the patent system. Such externalities are avoidable, however, if the PTO denies a low quality patent application in the first instance or invali-

¹⁷⁸ See *Interval Licensing, LLC v. AOL, Inc.*, 766 F.3d 1364, 1369 (Fed. Cir. 2014) (“A patent must ‘conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as [the] invention.’” (alteration in original) (quoting 35 U.S.C. § 112 (2006))).

¹⁷⁹ Examples of bad patents include “obvious inventions like the crustless peanut butter and jelly sandwich, ridiculous ideas like a method of exercising a cat with a laser pointer, and impossible concepts like traveling faster than the speed of light.” Mark Lemley et al., *What to Do About Bad Patents?*, REG., Winter 2005-2006, at 10, 10.

¹⁸⁰ Indeed, one economist found that fifty-nine percent of patents that patent trolls assert would be at least partially invalidated if subject to anticipation or obviousness decisions before issuance. See Shawn P. Miller, *Where’s the Innovation?: An Analysis of the Quantity and Qualities of Anticipated and Obvious Patents*, 18 VA. J.L. & TECH. 1, 5–7 (2013).

¹⁸¹ See McDonough III, *supra* note 10, at 202; see also Jason Rantanen, *Slaying the Troll: Litigation as an Effective Strategy Against Patent Threats*, 23 SANTA CLARA COMPUTER & HIGH TECH. L.J. 159, 167 (2006) (“[T]he concept of ‘bad’ patents and that of patent trolls should be kept separate. While patent trolls may tend to use overlooked or older patents, it is a stretch to say that they are driving the creation of bad patents, or that ‘patent trolling’ is equivalent to enforcing bad patents.”).

¹⁸² See JAFFE & LERNER, *supra* note 93, at 25–26, 32–34.

¹⁸³ See Jay P. Kesan & Andres A. Gallo, *Why “Bad” Patents Survive in the Market and How Should We Change?—The Private and Social Costs of Patents*, 55 EMORY L.J. 61, 77 (2006) (“The existence of a ‘bad’ patent, unless challenged successfully, creates a private cost: firms have to pay licensing fees to use the technology, and consumers have to pay higher prices to buy the patentee’s products. A ‘bad’ patent also creates a social cost: the sum of all the private costs plus the externalities over the investment processes of competing firms.”).

dates a bad patent early in its lifespan.¹⁸⁴ Although Congress and the courts have recently taken substantial steps to remedy these issues, such reform does not adequately assure patent quality. Ultimately, Congress, courts, and the PTO should focus their energy toward issuing quality patents rather than attempting to punish patent trolling after the fact.

1. *Limiting Bad Patent Issuance*

Issuing bad patents has produced a “vicious cycle” that invites poorly conceived patent applications in greater amounts, thereby overwhelming the PTO’s patent examiners and causing them to issue even more patents that do not meet the requirements of utility, novelty, and nonobviousness.¹⁸⁵ As the PTO currently operates, examiners are strapped for time, spending approximately sixteen to seventeen hours over three to four years on each application.¹⁸⁶ Examiners also suffer from a deficit of adequate research resources, which exacerbates their time constraints.¹⁸⁷ Furthermore, examiners’ compensation is tied to the amount of applications awarded or rejected, and because applicants may alter or appeal rejected patents, examiners have a financial incentive to err on the side of awarding patents and to do so swiftly.¹⁸⁸

To add to examiners’ pressures, applicants have an incentive to draft vague patent claims that may be read narrowly during examination to avoid rejection but expansively in litigation to prove infringement.¹⁸⁹ In response to this incentive, the Supreme Court recently lowered the standard for invalidating patents for indefiniteness, rendering a patent invalid if its claims fail to “inform those skilled in the art about the scope of the invention with reasonable certainty.”¹⁹⁰ Despite this new

¹⁸⁴ See Miller, *supra* note 180, at 27 (“If justified by the costs non-innovative patents impose, the most effective reforms may increase the ability of potential infringers to challenge the validity of claimed ideas during the application process or at least prior to litigation.”).

¹⁸⁵ JAFFE & LERNER, *supra* note 93, at 175–76.

¹⁸⁶ Doug Lichtman & Mark A. Lemley, *Rethinking Patent Law’s Presumption of Validity*, 60 STAN. L. REV. 45, 53 (2007).

¹⁸⁷ See Justin Pats, *Preventing the Issuance of “Bad” Patents: How the PTO Can Supplement its Practices and Procedures to Assure Quality*, 48 IDEA 409, 414 (2008).

¹⁸⁸ See JAFFE & LERNER, *supra* note 93, at 136.

¹⁸⁹ BESSEN & MEURER, *supra* note 94, at 57.

¹⁹⁰ *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120, 2128–29 (2014) (“[T]he definiteness requirement must take into account the inherent limitations of language”; however, “patent applicants face powerful incentives to inject ambiguity into their claims.”). The previous standard of definiteness rendered a claim invalid “only when it is ‘not amenable to construction’ or ‘insolubly ambiguous.’”

standard, a number of Patent Trial and Appeal Board (PTAB) decisions reveal that claims with broad language will likely still survive indefiniteness review, at least before patentees litigate such claims in court.¹⁹¹

Although demanding greater patent quality from the PTO would invariably require greater resources, doing so would lessen the amount of bad patents issued, which ultimately waste even greater resources in the courts.¹⁹² Nonetheless, some argue that operating the PTO under stricter standards would require an investment that would largely go to waste because only a fraction of all issued patents actually become valuable and thus litigated.¹⁹³ However, applying stricter standards that would require more adequate examination (and frankly, more money) would reverse the “vicious cycle” of bad patents by incentivizing applicants to expend more resources on drafting higher quality applications, or not applying at all.¹⁹⁴ Furthermore, more exacting patent examination would force applicants to internalize at least a portion of the costs of bad patents and would also free resources at the PTO to reinvest in quality examinations because of a reciprocal decrease in patent applications.¹⁹⁵

A pattern of patent issuance producing fewer patents of higher quality would also beneficially impact abusive patent litigation. Specifically, patents that ultimately become involved in disputes would contain more deftly drafted claims that courts would be able to interpret more efficiently.¹⁹⁶ Indeed,

Id. at 2127 (quoting *Biosig Instruments, Inc. v. Nautilus, Inc.*, 715 F.3d 891, 898 (Fed. Cir. 2013) (citation omitted)).

¹⁹¹ See, e.g., *Ex parte Oliver*, No. 2012-005758, 2014 WL 5490441, at *2 (P.T.A.B. Oct. 29, 2014) (overturning an examiner’s finding of indefiniteness because a claim that “provid[es] many preferences to [a] user . . . only indicates breadth of the recited feature” rather than indefiniteness); *Zodiac Pool Sys. Inc. v. Aqua Prods. Inc.*, No. 2013-00159 (P.T.A.B. Aug. 22, 2014) (rejecting indefiniteness arguments and noting that a patentee’s “claim may be broad in scope, but the breadth of a claim is not to be equated with indefiniteness”).

¹⁹² See BESSEN & MEURER, *supra* note 94, at 16–19 (attributing the rise in patent litigation to low quality patents that are “vaguely worded, overly abstract, [and] of uncertain scope”); see also JAFFE & LERNER, *supra* note 93, at 175 (arguing that “it would be inefficient to provide thorough examination for all applications at the current rate of patent application,” but “while the out-of-pocket cost of litigation may be tolerable, the intangible cost of a system with pervasive low-quality patents is much higher than just the cost of paying lawyers to file and defend patent cases”).

¹⁹³ See Lemley, Lichtman & Sampat, *supra* note 179, at 12.

¹⁹⁴ See JAFFE & LERNER, *supra* note 93, at 176.

¹⁹⁵ See *id.*

¹⁹⁶ See Dargaye Churnet, *Patent Claims Revisited*, 11 NW. J. TECH. & INTELL. PROP. 501, 507 (2013) (“[U]nder the current system, many bad patents are

more efficient and predictable claim construction at the district court level would likely decrease expenditure on claim construction at the appellate level as well.¹⁹⁷ Furthermore, a court would be less likely to invalidate such patents, which would make the outcome of a given case more predictable *ex ante*.¹⁹⁸ In turn, this would increase the likelihood of pretrial disposition, thereby decreasing litigation costs and lessening patent trolls' leverage for extracting settlements.¹⁹⁹

2. Invalidating Bad Patents

After the PTO awards a patent, the patent enjoys a presumption of validity, which places the burden on a party challenging the patent in court to provide "clear and convincing" evidence that the PTO should not have issued the patent, and that the patent is therefore invalid.²⁰⁰ Congress created *ex parte* reexamination to allow patentees or third parties to request that the PTO review a patent's validity; however, this procedure suffers from a number of defects that render it underutilized.²⁰¹ As an alternative to invalidating patents through *ex parte* reexamination or litigation, the America Invents Act replaced *inter partes* reexamination with *inter partes* review (IPR),²⁰² and created post-grant review (PGR), both of

granted. This leads to unwanted effects in patent litigation—namely, rising litigation costs through time spent in claim construction and the emergence of patent trolls abusing the patent system.”).

¹⁹⁷ See BESSEN & MEURER, *supra* note 94, at 55 (noting that during the 1990s the Federal Circuit reversed 34.5% of district court claim constructions).

¹⁹⁸ See Ronald J. Mann, *Do Patents Facilitate Financing in the Software Industry?*, 83 TEX. L. REV. 961, 1026 (2005) (“To the extent problems with patent quality make it hard to predict whether a particular patent is or is not valid, they increase the uncertainty and thus the threat value of trollish litigation.”).

¹⁹⁹ See Rogers & Jeon, *supra* note 12, at 299 (discussing the incentive for defendants to settle even questionable suits if the outcome is unpredictable because of high litigation costs).

²⁰⁰ Lichtman & Lemley, *supra* note 186, at 51.

²⁰¹ See Eric Williams, *Remembering the Public's Interest in the Patent System – A Post-Grant Opposition Designed to Benefit the Public*, 2006 B.C. INTELL. PROP. & TECH. F. 110702 (“[E]x parte reexamination . . . failed to meet the legislative objective of providing a prompt, effective, and inexpensive alternative to litigation for invalidating bad patents for four principle reasons: 1) limited participation allowed by third parties; 2) narrow substantive grounds for which a review can be requested . . . ; 3) lack of meaningful legal effect because courts are not bound by the PTO's decision and because reexamination and litigation can occur simultaneously; and 4) biased procedural measures causing an examiner to be more inclined to favor granting reexamination.”).

²⁰² Andrei Iancu et al., *Challenging Validity of Issued Patents Before the PTO: Inter Partes Reexam Now or Inter Partes Review Later?*, 94 J. PAT. & TRADEMARK OFF. SOC'Y 148, 148 (2012). Although Congress created *inter partes* reexamination in 1999, it never caught on as an alternative to invalidating patents in court.

which allow accused infringers and third parties not yet ensnared in litigation to challenge the validity of a patent before the PTO.²⁰³

These procedures are significant developments toward improved patent quality and a reciprocal decrease in abusive patent litigation, as well as a direct tool to invalidate bad patents. IPR and PGR provide a variety of advantages over invalidating patents via litigation that decrease the cost of defending against infringement suits, and the procedures allow potential infringers to avoid such suits before they arise.²⁰⁴ Specifically, IPR and PGR proceedings guarantee a decision on validity within eighteen months of petitioning for review, and also allow limited discovery, which collectively decrease costs, complexity, and contingencies associated with prolonged litigation.²⁰⁵ More substantively, petitioners in IPR or PGR proceedings enjoy lessened claim construction and evidentiary standards that ease the burden of invalidating patents as opposed to doing so in litigation.²⁰⁶ On one hand, a patent in such a proceeding is not presumptively valid, and a petitioner in either proceeding must prove invalidity only by a preponderance of the evidence rather than by clear and convincing evidence.²⁰⁷ On the other hand, a petitioner may utilize a broader range of prior art to prove invalidity because the PTO will give claims in such proceedings their “broadest reasonable construction.”²⁰⁸ Furthermore, these proceedings may be particularly useful as a defense to patent trolls. Indeed, one study found that in the first year IPR was available, nonpracticing entities owned thirty-five percent of patents challenged through IPR, and also constituted eighty-one percent of patent owners that settled IPR proceedings.²⁰⁹ Nonetheless, both IPR and PGR are un-

See Jonathan Tamimi, Note, *Breaking Bad Patents: The Formula for Quick, Inexpensive Resolution of Patent Validity*, 29 BERKELEY TECH. L.J. 587, 589–90 (2014).

²⁰³ See Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 6, 125 Stat. 284, 299–313 (2011) (codified as amended at 35 U.S.C. §§ 311–319, 321–329 (2013)). The AIA also created a procedure to challenge business method patents before the PTO. See *id.* § 18.

²⁰⁴ See Irah H. Donner, *Three Litigation Alternatives for Potential Defendants Under the America Invents Act*, INTELL. PROP. & TECH. L.J., Nov. 2014 at 12, 12 (“Companies should familiarize themselves with the potential benefits of these . . . litigation alternatives, which in some cases, may enable them to avoid litigation completely.”).

²⁰⁵ See Tamimi, *supra* note 202, at 594–602.

²⁰⁶ See *id.* at 617–18.

²⁰⁷ *Id.* at 617.

²⁰⁸ *Id.* at 617–18 (quoting C.F.R. §§ 42.100(b), 42.200(b) (2013)).

²⁰⁹ See Yasser El-Gamal et al., *The New Battlefield: One Year of Inter Partes Review Under the America Invents Act*, 42 AIPLA Q.J. 39, 51–52 (2014).

available in certain cases, and IPR disallows certain invalidity arguments, leaving alleged infringers of bad patents little remedy but to proceed to litigation.

Though petitioners may invalidate any patent through litigation or IPR, a straightforward limitation of PGR is that it is only available for patents filed on or after March 16, 2013.²¹⁰ Furthermore, a petitioner must seek PGR within nine months of a patent's issuance, and a petitioner may only pursue IPR after this nine-month window, or after a PGR filed within such window is terminated.²¹¹ Despite this dissymmetry, the more broadly available IPR only allows petitioners to raise invalidity arguments on novelty or nonobviousness grounds, and further limits such arguments by only allowing a petitioner to rely on prior art consisting of patents and printed publications.²¹² Conversely, PGR petitioners may challenge a patent on any ground "relating to invalidity of the patent or any claim,"²¹³ and enjoy unlimited selection of prior art.²¹⁴

Despite the advantages of IPR and PGR, the limitations of these procedures burden their use in at least two ways that are especially problematic in the context of abusive or frivolous patent disputes. First, because PGR is only available for challenging patents filed after March 16, 2013, a PGR petitioner may not invalidate older patents, which PAEs often amass in order to assert against practitioners of modern technology even if the older, potentially unused patent could not have contemplated a newer, more innovative practice.²¹⁵ Second, because the only grounds available for challenging patents through IPR are novelty and obviousness, a petitioner may not challenge a patent in IPR for indefiniteness, which is another particularly problematic source of patent litigation.²¹⁶

²¹⁰ See Olga Berson, *Challenging Patent Validity Under the AIA: Strategic and Tactical Considerations When Deciding Whether to Pursue Ex Parte Reexamination or Inter Partes Review as Part of the Overall Litigation Strategy*, in *THE IMPACT OF RECENT PATENT LAW CASES AND DEVELOPMENTS* (2013 ed. 2012), 2012 WL 6636452, at *1.

²¹¹ See 35 U.S.C. §§ 311(c), 321(c).

²¹² See Tamimi, *supra* note 202, at 627.

²¹³ Leahy-Smith America Invents Act, Pub. L. No. 112–29, § 6, 125 Stat. 284, 306, 334 (2011) (codified as amended at 35 U.S.C. § 321(b)).

²¹⁴ See Tamimi, *supra* note 202, at 627–28.

²¹⁵ See Ashley Chuang, Note, *Fixing the Failures of Software Patent Protection: Detering Patent Trolling by Applying Industry-Specific Patentability Standards*, 16 S. CAL. INTERDISC. L.J. 215, 242 (2006) ("The limited opportunity for a post-grant opposition thus does not shield any individual or corporation from the Trolling Resurrector—corporations like Ampex Corporation, which use decade-old patents to solicit licenses on newly developed technology.").

²¹⁶ See *supra* notes 191–93 and accompanying text.

Remedies for these problems would be broadened windows of availability for PGR proceedings and expanded grounds of raising invalidity arguments in IPR proceedings. Many, however, would likely lament such reforms because of the increased administrative costs that this would impose on the PTO.²¹⁷ Such reasoning, however, reflects a flaw that is similar to the flawed rationale in support of fee-shifting in patent litigation—namely, that the patent system should avoid costs upfront and simply deal with the resulting costs when they accrue. Conversely, the patent system should internalize such costs at the outset, before the PTO, rather than allowing such costs to develop into more expensive disputes in the courts.

C. E-Discovery Reform: Updating Modern Civil Litigation

Although the current patent system has led to abundant patent litigation, much of the massive costs involved in such disputes are not specifically attributable to the patent system but are symptomatic of defects in modern civil litigation generally.²¹⁸ One such symptom is the current state of e-discovery—patent disputes rely extraordinarily on e-discovery, and the difficulty of resolving these cases short of trial only exacerbates discovery costs.²¹⁹ In response, the Federal Circuit proposed a Model Order for e-discovery in patent cases with the goal of making discovery more efficient and effective, as well as preventing abusive discovery practices.²²⁰

Despite the Model Order's specific tailoring to patent disputes, it has the ambition—and potential—to advance modern civil litigation generally.²²¹ Indeed, the first item in the Model Order reflects this ambition by quoting the first rule of the Federal Rules of Civil Procedure: “This order . . . streamlines Electronically Stored Information (‘ESI’) production to promote a ‘*just, speedy, and inexpensive determination*’ of [an] action.”²²² Because of “disproportionate, overbroad email pro-

²¹⁷ See, e.g., James W. Beard, Note, *A Better Carrot Incentivizing Patent Reexamination*, 1 HASTINGS SCI. & TECH. L.J. 169, 179–83 (2009) (noting that additional measures, such as “[e]xpanding the scope of evidence considered by the PTO,” would increase the costs of proceedings).

²¹⁸ See *supra* section I.B.2.

²¹⁹ See Liang & Berliner, *supra* note 40, at 70.

²²⁰ See Fed. Circuit Advisory Council, *An E-Discovery Model Order*, 21 FED. CIR. B.J. 347, 348 (2012).

²²¹ See Philip J. Favro & Derek P. Pullan, *New Utah Rule 26: A Blueprint for Proportionality Under the Federal Rules of Civil Procedure*, 2012 MICH. ST. L. REV. 933, 958.

²²² *An E-Discovery Model Order*, *supra* note 220, ¶ 1, at 352 (quoting FED. R. CIV. P. 1) (emphasis added).

duction requests, [which] carry staggering time and production costs that have a debilitating effect on litigation,”²²³ the Model Order recommends that parties request email production only after the parties disclose basic information that is central to any patent case.²²⁴ Furthermore, requests for email production must be sufficiently specific, and the Model Order limits such requests to five custodians per producing party, with five narrowly tailored search terms per custodian.²²⁵ Under the Model Order, a court may shift costs to a requesting party for discovery requests that go beyond the Model Order’s limitations on custodians and search terms.²²⁶ In addition, a court may shift costs for “disproportionate ESI production requests” while allowing consideration of “a party’s nonresponsive or dilatory discovery tactics,”²²⁷ or, conversely, “meaningful compliance with [the Model] Order and efforts to promote efficiency and reduce costs.”²²⁸

The Model Order’s simple, cost-effective approach to e-discovery makes it one that any area of litigation should embrace as a prototype to deal with the complications of e-discovery. Indeed, a number of courts have adopted the Model Order in specific cases or are implementing similar programs in patent cases or broader commercial litigation settings.²²⁹ Furthermore, the Model Order’s cost-shifting provisions incentivize parties to treat discovery only as a means of uncovering relevant facts rather than improperly using discovery as negotiation leverage. As opposed to fee-shifting under section 285, the Model Order’s targeted focus toward discovery does not require a court to analyze the merits of a case.²³⁰ In addition, this more particularized cost-shifting mechanism, with expressly stated triggers that parties may modify as they see fit,²³¹ makes the costs of litigation more predictable *ex ante*, largely eliminating the uncertainty surrounding fee-shifting under section

²²³ *Id.* at 348.

²²⁴ *See id.* ¶ 8, at 352.

²²⁵ *See id.* ¶¶ 7, 9, 10, 11, at 352–53.

²²⁶ *See id.* ¶¶ 10, 11, at 353.

²²⁷ *Id.* ¶ 3, at 352.

²²⁸ *Id.* ¶¶ 3, 4, at 352.

²²⁹ *See* Peter J. Corcoran, III, *Strategies to Save Resources and Reduce E-Discovery Costs in Patent Litigation*, 21 TEX. INTELL. PROP. L.J. 103, 113–25 (2013) (listing the adoption of model orders and programs in the Eastern District of Texas, Northern District of California, International Trade Commission, Seventh Circuit Court of Appeals, District of Delaware, and Southern District of New York).

²³⁰ *See supra* subpart III.A.

²³¹ *See An E-Discovery Model Order*, *supra* note 220, ¶¶ 2, 10, 11, at 352–53.

285. Indeed, cost-shifting under the Model Order is more a matter of attributing costs to the party that creates them (i.e., internalization) than punishing or deterring such activities.²³² This increased certainty and emphasis on internalizing externalities is therefore not only an effective preventive measure toward abusive litigation practices in patent cases, but in modern civil litigation generally, which courts should follow.

CONCLUSION

Awarding attorneys' fees liberally in patent cases and curbing the Federal Circuit's ability to second-guess such decisions is a framework that will likely create more negative effects than improvements for litigants, patentees, and the patent and civil litigation systems. This interpretation of section 285 will be difficult to apply, increase litigation costs, deter settlement, and chill patent enforcement, and the Federal Circuit's decreased role will only exacerbate these consequences. Instead of looking to punish certain patent litigants, courts, Congress, and commentators should focus their efforts toward systemic reforms that would force the patent system to internalize social costs that develop as a result of poor patent quality. More ambitiously, abusive patent litigation should be a call to update American civil litigation by seeking out and implementing novel approaches such as the Federal Circuit's Model Order.

²³² See Lance Shapiro, *E-Discovery: Bargaining Bytes for Settlement*, 27 GEO. J. LEGAL ETHICS 887, 893 (2014) (Cost-shifting under the Model Order "is significant because it puts the cost of the data in the hands of the seeker, rather than the provider," and "if the requesting party believes that additional discovery will be beneficial, then the discovering party will conduct a cost-benefit analysis to determine the optimal level of discovery.").