

# Fee Shifting for PTAB Proceedings

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## Introduction

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Patent litigation is notoriously expensive.<sup>1</sup> Although this sentiment has become somewhat of a cliché, it is nonetheless true. Depending on the stakes, the median costs for patent litigation range from \$600,000 (for suits worth less than \$1 million) to just under \$2 million (for suits worth \$10 to \$25 million).<sup>2</sup> Expert witness fees, document management and production, and technology-related demonstratives all contribute to the expense of patent litigation.<sup>3</sup> But most of the money spent to adjudicate patent disputes is for attorney's fees.<sup>4</sup>

Acknowledging the high cost of patent litigation, Congress created faster and less expensive administrative procedures for challenging patents pursuant to the America Invents Act (AIA) of 2011—the most comprehensive patent reform legislation in fifty years.<sup>5</sup> These new post-grant proceedings are adjudicated at the U.S. Patent and Trademark Office (PTO) by the Patent Trial and Appeal Board (PTAB), a newly-established tribunal of administrative patent judges.<sup>6</sup> These administrative proceedings have been far more popular than anyone anticipated with thousands of petitions for review filed since their implementation in 2012.<sup>7</sup>

Another way litigants and courts have attempted to address the high cost of patent litigation is through fee shifting. Most civil litigation in the United States is governed by the “American Rule,” meaning that each party pays his own attorney's fees.<sup>8</sup> Since the 1940s, however, the Patent Act has allowed courts to award fees to prevailing patent litigants.<sup>9</sup> Yet, for at least two reasons, fee shifting in patent cases has been relatively rare over the past half century. First, the patent fee shifting provision only provides for fees in “exceptional” cases.<sup>10</sup> Second, the United States Court of Appeals for the Federal Circuit—the court with exclusive appellate jurisdiction over patent cases—interpreted “exceptional” very narrowly, making fee awards even harder to come by.<sup>11</sup>

In recent years, the landscape for fee shifting in patent cases has started to change. The U.S. Supreme Court decided two cases in 2014, *Octane Fitness v.*

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<sup>1</sup> See, e.g., Gaia Bernstein, *The Rise of the End User in Patent Litigation*, 55 B.C. L. REV. 1443, 1465 (2014); Megan M. La Belle, *Patent Law As Public Law*, 20 GEO. MASON L. REV. 41, 44 (2012); Gideon Parchomovsky & R. Polk Wagner, *Patent Portfolios*, 154 U. PA. L. REV. 1, 77 (2005); Michael Risch, *Patent Troll Myths*, 42 SETON HALL L. REV. 457, 467 (2012).

<sup>2</sup> AIPLA REPORT OF THE ECONOMIC SURVEY 41 (2015). Available at <http://www.aipla.org/learningcenter/library/books/econsurvey/2015EconomicSurvey/Pages/default.aspx/>.

<sup>3</sup> Bernstein, *supra* note 1, at 1485.

<sup>4</sup> See, e.g., James Bessen & Michael J. Meurer, *The Private Costs of Patent Litigation*, 9 J.L. ECON. & POL'Y 59, 81 (2012).

<sup>5</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011).

<sup>6</sup> *Id.* §§ 6, 7, 18.

<sup>7</sup> See *infra* Part III (discussing recent widespread use of post-grant administrative proceedings, particularly inter partes review).

<sup>8</sup> *Arcambel v. Wiseman*, 3 U.S. 306 (1796).

<sup>9</sup> See *infra* Part II.A (outlining the history of fee shifting in patent cases).

<sup>10</sup> 35 U.S.C. § 285 (1952).

<sup>11</sup> *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1378, 1381-82 (Fed. Cir. 2005).

*ICON* and *Highmark v. Allcare*, that make it easier to shift fees under 35 U.S.C. § 285.<sup>12</sup> While it's too early to know the full impact of *Octane* and *Highmark*, early empirical evidence shows an increase in fee motions being filed and granted.<sup>13</sup> What is more, there are numerous legislative proposals to broaden fee shifting in patent cases even further.<sup>14</sup> To be sure, those bills have been stalled on Capitol Hill for some time, but there are indications that patent reform may be back on the table before long.<sup>15</sup>

This confluence of events—meaning the passage of the AIA, the dramatic rise in litigants' use of PTO administrative proceedings, the decisions in *Octane* and *Highmark*, and Congress's focus on fee shifting in patent cases—makes it likely that courts will more frequently confront an important question about fee shifting that has received surprisingly little attention. That question is whether § 285, or the new fee shifting statutes proposed in Congress, permit prevailing parties in patent cases to recover attorney's fees incurred for proceedings before the PTO. While the Federal Circuit addressed this question almost three decades ago in *PPG Indus., Inc. v. Celanese Polymer Specialties Co., Inc.*,<sup>16</sup> the court's analysis was flawed in light of Supreme Court precedent.<sup>17</sup> Thus, this Article calls on the judiciary to revisit *PPG*, and urges Congress to explicitly resolve this issue in any new patent fee-shifting legislation under consideration.

This Article proceeds in four Parts. Part I compares and contrasts the different fee shifting regimes used in civil litigation in the United States today, and weighs their costs and benefits. Part II turns to fee shifting in patent cases, and discusses the history of awarding attorney's fees, as well as recent developments in this area from both the judicial and legislative branches. Part III summarizes the case law addressing the question whether fees incurred for work before an administrative tribunal are encompassed by fee shifting provisions. Part III then argues that the Supreme Court has adopted a clear framework for analyzing such questions, but that the Federal Circuit failed to apply this well-established precedent when it decided *PPG*. Finally, Part IV recommends that either the Federal Circuit sitting *en banc* or the Supreme Court reconsider *PPG*, and proposes that Congress enact legislation allowing for the recovery of attorney's fees for work before the PTAB.

## I. Civil Litigation and Fee Shifting

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<sup>12</sup> *Octane Fitness LLC v. ICON Health and Fitness, Inc.*, 134 S.Ct. 1749 (2014); *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744 (2014).

<sup>13</sup> See *infra* note 140 (summarizing the findings of recent post-*Octane* empirical studies).

<sup>14</sup> See *infra* Part II.D (outlining various legislative proposals to expand fee shifting in patent cases).

<sup>15</sup> See, e.g., USPTO, Remarks by Director Michelle K. Lee at the IAM Patent Law & Policy Conference (Nov. 15, 2016), <https://www.uspto.gov/about-us/news-updates/remarks-director-michelle-k-lee-iam-patent-law-and-policy-conference>; Peter Harter & Gene Quinn, *Pence, Conservative Views on Patents Likely to Influence Trump* (Nov. 11, 2016), <http://www.ipwatchdog.com/2016/11/11/mike-pence-provides-substance-trumps-patent-policies/id=74631/>.

<sup>16</sup> *PPG Indus., Inc. v. Celanese Polymer Specialties Co.*, 840 F.2d 1565 (Fed. Cir. 1988).

<sup>17</sup> See *infra* Parts III and IV.

The question of who pays attorney's fees in civil litigation is about more than money. Fee shifting regimes are designed to shape litigation conduct, for example by incentivizing certain types of lawsuits and disincentivizing others. The three primary fee shifting regimes utilized in the United States today—no-way fee shifting, one-way fee shifting, and two-way fee shifting—reflect different beliefs about the purpose and value of litigation in our society.<sup>18</sup> The popularity of these fee systems has ebbed and flowed as attitudes about civil litigation have changed over time.

#### A. No-Way Fee Shifting

The norm in the United States is that all litigants, win or lose, pay their own attorney's fees.<sup>19</sup> A no-way fee shifting regime, or the "American Rule" as it is often called, has been the general practice in this country for more than two hundred years.<sup>20</sup> It is hard to say why no-way fee shifting took root in early America, but scholars have advanced various theories. Some contend the American Rule evolved from the popular view of the solitary folk-hero fighting for his rights.<sup>21</sup> Others suggest that this regime—a sharp departure from the British tradition of awarding fees to prevailing parties—developed because of the anti-British sentiment that pervaded post-Revolutionary America.<sup>22</sup> Still others claim it was America's disdain for lawyers that led to no-way fee shifting; colonists distrusted lawyers and thus rejected a rule that allowed for the recovery of fees.<sup>23</sup>

Whatever the original purpose of no-way fee shifting, today the rule is justified primarily as a means for increasing access to justice.<sup>24</sup> The risk of having to pay an opponent's attorney's fees may deter wronged parties from filing meritorious lawsuits.<sup>25</sup> This risk is particularly acute for low-income litigants whose injuries would likely go unremedied in a system that shifts fees.<sup>26</sup> The American Rule, in other

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<sup>18</sup> Keith N. Hylton, *Fee Shifting and Predictability of Law*, 71 CHL-KENT L. REV. 427, 428 (1995); Thomas D. Rowe, Jr., *The Legal Theory of Attorney Fee Shifting: A Critical Overview*, 1982 DUKE L.J. 651, 652-53 (1982).

<sup>19</sup> Rowe, *supra* note 18, at 651.

<sup>20</sup> *Arcambel v. Wiseman*, 3 U.S. 306 (1796).

<sup>21</sup> Comment, *Court Awarded Attorney's Fees and Equal Access to the Courts*, 122 U. PA. L. REV. 636, 641 (1974). *See also* Roscoe Pound, *THE SPIRIT OF THE COMMON LAW* 124 (1921).

<sup>22</sup> *Id.* at 117.

<sup>23</sup> Charles Warren, *A HISTORY OF THE AMERICAN BAR* 4 (1911). Another theory is that, because trials provided a source of entertainment, Americans refused to adopt rules to discourage them. *See* Jane P. Mallor, *Punitive Attorney's Fees for Abuses of the Judicial System*, 61 N.C. L. REV. 613, 616 (1983).

<sup>24</sup> Edward F. Sherman, *From "Loser Pays" to Modified Offer of Judgment Rules: Reconciling Incentives to Settle With Access to Justice*, 76 TEX. L. REV. 1863, 1863-64 (1998).

<sup>25</sup> *Id.* at 1864; Lucia A. Silecchia, *The Catalyst Calamity: Post-Buckhannon Fee-Shifting in Environmental Litigation and A Proposal for Congressional Action*, 29 COLUM. J. ENVTL. L. 1, 7-8 (2004).

<sup>26</sup> *Fleischmann Distilling Corp. v. Maier Brewing Co.*, 386 U.S. 714, 718 (1967) ("[T]he poor might be unjustly discouraged from instituting actions to vindicate their rights if the penalty for losing in-

words, “reflects a certain wealth consciousness” by helping to level the playing field between litigants of modest means and the wealthy, large corporations they are usually suing.<sup>27</sup>

The unpredictability of civil litigation provides another justification for our modern system of no-way fee shifting.<sup>28</sup> Estimating the probability of success in a lawsuit can be difficult, so litigants shouldn’t be punished for merely asserting a claim or defense.<sup>29</sup> This is especially true for cases raising novel legal theories and other complex questions.<sup>30</sup> From a societal perspective, novel claims are fundamental because they allow the law to evolve, adapt, and modernize—for example, with respect to new technologies—often at a much faster pace than if lawmaking was left to the legislative body.<sup>31</sup> Thus, the American Rule facilitates litigation, including litigation of novel legal issues, by eliminating the risk of having to pay the other side’s attorney’s fees.<sup>32</sup>

The American Rule serves important public interests, namely by making courts more accessible to the less fortunate and creating legal precedent that develops the law.<sup>33</sup> In point of fact, Justice Harlan has described our fee shifting regime as “an element of due process.”<sup>34</sup> While some may be unwilling to go that far, the American Rule is unquestionably a deeply-entrenched feature of our jurisprudence.<sup>35</sup>

That does not mean, however, that the American Rule is beyond reproach; indeed, it has been the subject of much criticism. For one, critics argue that no-way fee systems fail to make prevailing parties whole.<sup>36</sup> Not only does this strike many

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cluded the fees of their opponents’ counsel.”).

<sup>27</sup> Sherman, *supra* note 24, at 1865.

<sup>28</sup> *Fleischmann*, 386 U.S. at 718 (“[S]ince litigation is at best uncertain one should not be penalized for merely defending or prosecuting a lawsuit”).

<sup>29</sup> *Id.*

<sup>30</sup> Bernstein, *supra* note 1, at 1486; Hylton, *supra* note 18, at 439-40; Mallor, *supra* note 23, at 618; Silecchia, *supra* note 25, at 8.

<sup>31</sup> Hylton, *supra* note 18, at 445-46; Harold J. Krent, *The Fee-Shifting Remedy: Panacea or Placebo?*, 71 CHI.-KENT L. REV. 415, 418 (1995); Nancy Leong & Aaron Belzer, *Enforcing Rights*, 62 UCLA L. REV. 306, 329 (2015) (recognizing that novel legal theories help develop the law); Daniel J. Solove, NOTHING TO HIDE: THE FALSE TRADEOFF BETWEEN PRIVACY AND SECURITY 165-67 (2011) (advocating for a judicial solution to legal issues involving changing technologies).

<sup>32</sup> Comment, *supra* note 21, at 659.

<sup>33</sup> James W. Hughes & Edward A. Snyder, *Litigation and Settlement Under the English and American Rules: Theory and Evidence*, 38 J.L. & ECON. 225, 249 (1995); William M. Landes & Richard A. Posner, *Legal Precedent: A Theoretical and Empirical Analysis*, 19 J. L. & ECON. 249, 250-251 (1976) (describing legal precedent as a “public good”).

<sup>34</sup> *Boddie v. Connecticut*, 401 U.S. 371, 375 (1971).

<sup>35</sup> *Alyeska Pipeline Serv. Co. v. Wilderness Soc’y*, 421 U.S. 240, 270 (1975) (explaining that American Rule is “deeply rooted in our history and in congressional policy”).

<sup>36</sup> Michael F. Mayer & Wayne Stix, *The Prevailing Party Should Recover Counsel Fees*, 8 AKRON L. REV. 426 (1975); Rowe, *supra* note 18, at 657; John F. Vargo, *The American Rule on Attorney Fee Allocation: The Injured Person’s Access to Justice*, 42 AM. U. L. REV. 1567, 1592 (1993) (American Rule prevents the “little man” from seeking justice in court).

as fundamentally unfair, it contradicts basic principles of remedies law.<sup>37</sup> Commentators also take issue with the American Rule for discouraging plaintiffs with low-value claims from bringing suit since any recovery would be swallowed by attorney's fees.<sup>38</sup> This is most problematic for impoverished plaintiffs who may not be able to retain contingency-fee lawyers for cases with little monetary value.<sup>39</sup>

On the other hand, the American Rule has been impugned for failing to deter—and even encouraging—frivolous litigation.<sup>40</sup> Because defendants have to pay their own fees, even when they win on the merits, settling groundless claims is often less expensive than litigating the case to judgment. In this way, the argument goes, the American Rule functions as a sort of “legalized form of blackmail” that clogs our courts and undermines our justice system.<sup>41</sup>

These shortcomings of the American Rule have led legislatures and courts to implement different types of fee-shifting regimes from time to time. One-way fee shifting, by far the more common exception, awards fees only to prevailing plaintiffs to address the under-enforcement of socially-valuable claims, while two-way fee shifting aims to make prevailing parties whole and discourages frivolous litigation.

### B. One-Way Fee Shifting

For over a century, exceptions to the American Rule were few and far between.<sup>42</sup> Congress crafted limited exceptions for antitrust, securities, copyright, and—most relevant to this article—patent cases.<sup>43</sup> Courts, relying on their equitable powers, allowed for the recovery of attorney's fees when the losing party acted in

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<sup>37</sup> Mayer & Stix, *supra* note 36, at 426 (“No party in a breach of contract situation. . . should be left following the breach with less in hand than he would have had if his adversary had lived up to his bargain. But. . . this is precisely what happens under the present cost and damage structure when litigation occurs.”); Rowe, *supra* note 18, at 657 (“Undeniably, the American rule’s effect of reducing a successful plaintiff’s recovery by the amount of his lawyer’s fee conflicts with the make-whole idea underlying much of the law of remedies.”).

<sup>38</sup> Jonathan Fischbach & Michael Fischbach, *Rethinking Optimality in Tort Litigation: The Promise of Reverse Cost-Shifting*, 19 BYU J. PUB. L. 317, 327 (2005); Mallor, *supra* note 23, at 616.

<sup>39</sup> Fischbach & Fischbach, *supra* note 38, at 327.

<sup>40</sup> Calvin A. Kuenzel, *The Attorney’s Fee: Why Not a Cost of Litigation?*, 49 IOWA L. REV. 75, 78 (1963); Michael P. Stone & Thomas J. Miceli, *The Impact of Frivolous Lawsuits on Deterrence: Do They Have Some Redeeming Value?*, 10 J.L. ECON. & POL’Y 301, 327 (2014) (switching from American Rule to English Rule will discourage frivolous lawsuits).

<sup>41</sup> Kuenzel, *supra* note 40, at 78; Mallor, *supra* note 23, at 617.

<sup>42</sup> Dan B. Dobbs, *Awarding Attorney Fees Against Adversaries: Introducing the Problem*, 1986 DUKE L.J. 435, 435 (1986).

<sup>43</sup> *Mach. Corp. of Am. v. Gullfiber AB*, 774 F.2d 467, 471 (Fed. Cir. 1985) (explaining that Patent Act was amended in 1946 to add fee-shifting provision); Michael D. Green, *From Here to Attorney’s Fees: Certainty, Efficiency, and Fairness in the Journey to the Appellate Courts*, 69 CORNELL L. REV. 207, 218 (1984) (“Several older statutes, such as the Clayton Act, the Securities Act of 1933, and the Copyright Act authorize fee shifting as well.”).

bad faith,<sup>44</sup> or when the litigation benefitted the public, such as cases involving a common fund.<sup>45</sup> Because these exceptions were relatively rare, they received little attention from courts and commentators.

That changed in the second half of the twentieth century with the emergence of public law, or public impact, litigation.<sup>46</sup> Public law litigation began with structural challenges by public interest groups to segregated schools and other government institutions.<sup>47</sup> But soon the pool of challengers expanded to individuals who were incentivized by lawmakers to privately enforce public laws.<sup>48</sup> These so-called “private attorneys general” were incentivized, of course, by the prospect of recovering damages in many cases. Even more important were the one-way fee shifting provisions included in civil rights and environmental legislation that entitled only prevailing plaintiffs to attorney’s fees.<sup>49</sup>

The idea behind one-way fee shifting is relatively straightforward. Certain areas of substantive law—civil rights, environmental, and consumer protection, for example—are socially valuable, and so enforcement is particularly important.<sup>50</sup> While government agencies police and enforce such laws, limited resources and personnel mean that some violators go unpunished.<sup>51</sup> One alternative is for private citizens (and their lawyers) to step in and fill that gap. But for that to work, the potential benefits of litigation must outweigh its costs.<sup>52</sup> Various means could be used in an

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<sup>44</sup> F.D. Rich Co., Inc. v. U.S. for Use of Indus. Lumber Co., Inc., 417 U.S. 116, 129 (1974).

<sup>45</sup> John P. Dawson, *Lawyers and Involuntary Clients in Public Interest Litigation*, 88 HARV. L. REV. 849 (1975); John P. Dawson, *Lawyers and Involuntary Clients: Attorney Fees From Funds*, 87 HARV. L. REV. 1597 (1974). *But see Ayleska*, 421 U.S. at 269 (declining to adopt the “private attorney general” exception to the American Rule in federal court).

<sup>46</sup> Abram Chayes, *The Role of the Judge in Public Law Litigation*, 89 HARV. L. REV. 1281, 1284 (1976); La Belle, *supra* note 1, at 48-49.

<sup>47</sup> *Brown v. Bd. of Ed.*, 347 U.S. 483 (1954); Owen M. Fiss, *Foreword: The Forms of Justice*, 93 HARV. L. REV. 1, 2 (1979) (“Structural reform is premised on the notion that the quality of our social life is affected in important ways by the operation of large-scale organizations, not just by individuals acting either beyond or within these organizations.”).

<sup>48</sup> La Belle, *supra* note 1, at 48-49.

<sup>49</sup> Rowe, *supra* note 18, at 662-63.

<sup>50</sup> *See, e.g.*, 42 U.S.C. § 1988(b) (2000) (civil rights suits); Clean Water Act, 33 U.S.C. § 1365 (d); Truth in Lending Act, 15 U.S.C. § 1640(a) (1988); Equal Access to Justice Act, 5 U.S.C. § 504 (1988). Some of these Acts provide for one-way fee shifting on their face, while others have been interpreted by courts—based on legislative history—to sometimes allow fee shifting only in favor of prevailing plaintiffs. *See, e.g.*, *Christiansburg Garment Co. v. Equal Emp’t Opportunity Comm’n*, 434 U.S. 412 (1978); *Razore v. Tulalip Tribes of Washington*, 66 F.3d 236 (9th Cir. 1995); *see also* Paul Taylor, *The Difference Between Filing Lawsuits and Selling Widgets: The Lost Understanding That Some Attorneys’ Exercise of State Power Is Subject to Appropriate Regulation*, 4 PIERCE L. REV. 45, 58 (2005) (“By the 1980’s, the Supreme Court went even further by reading one-way fee-shifting statutes broadly and encouraging enforcement under such statutes in a way that tended to grant fees to prevailing plaintiffs while denying them to prevailing defendants.”).

<sup>51</sup> *See* Pamela H. Bucy, *Private Justice*, 76 S. CAL. L. REV. 1, 12-13 (2002); Seth Davis, *Implied Public Rights of Action*, 114 COLUM. L. REV. 1, 27 (2014).

<sup>52</sup> *See* Harold J. Krent, *Explaining One-Way Fee Shifting*, 79 VA. L. REV. 2039, 2048-50 (1993) (“[F]ee shifting may . . . be an effective way for Congress to deter wrongdoing or, in other words, to

attempt to tip the scales in favor of litigation. Lawmakers could provide for enhanced damages, lower the plaintiff's burden of proof, increase the availability of class relief, or allow third parties to finance litigation.<sup>53</sup> For the most part, though, legislatures have opted instead for fee shifting rules that advantage plaintiffs.

By the 1990s, there were over 2,000 fee shifting statutes in the United States, the vast majority of which operate one way in favor of plaintiffs.<sup>54</sup> The general consensus is that these laws have worked as intended, meaning they have improved—although certainly not perfected—access to justice for plaintiffs.<sup>55</sup> Indeed, some commentators believe that one-way fee shifting works too well in that it facilitates frivolous claims along with meritorious ones.<sup>56</sup> As a result, defendants subject to one-way fee shifting provisions are often forced to settle meritless suits because litigating is just too risky.<sup>57</sup>

On the flip side, one-way fee shifting is criticized for having a dampening effect on settlement. Simply put, the rule may discourage settlement because plaintiffs have little to lose and much to gain from litigating to judgment.<sup>58</sup> For this criticism to be persuasive, we must suppose that settlement is the ultimate goal; that it's always the best way to resolve litigation. Yet, in some cases—particularly the type of public law litigation where one-way fee shifting is used—adjudicating to final judgment is a better solution than settling.<sup>59</sup> Thus, by discouraging settlement, one-way fee shifting is arguably working exactly how intended.

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improve the primary conduct of both the government and private firms.”).

<sup>53</sup> *Id.* at 2048-49, 2048 n.39; Geoffrey J. Lysaught & D. Scott Hazelgrove, *Economic Implications of Third-Party Litigation Financing on the U.S. Civil Justice System*, 8 J.L. ECON. & POL'Y 645, 645 (2012).

<sup>54</sup> Krent, *supra* note 31, at 416 ; Vargo, *supra* note 36, at 1629.

<sup>55</sup> *See* Evans v. Jeff D., 475 U.S. 717, 741 (1986) (finding that “the Fees Act has given the victims of civil rights violations a powerful weapon that improves their ability to employ counsel, to obtain access to the courts, and thereafter to vindicate their rights by means of settlement or trial”); Jack B. Weinstein, *Adjudicative Justice in A Diverse Mass Society*, 8 J.L. & POL'Y 385, 390 (2000) (“There are many grounds for pride in our successes in opening up the adjudication system to all. . .includ[ing]. . .statutes. . .providing for fee shifting”). *But see* Issachar Rosen-Zvi, *Just Fee Shifting*, 37 FLA. ST. U. L. REV. 717, 721-22 (2010) (“The overall impact of. . .fee-shifting statutes on access to justice has been limited at best”).

<sup>56</sup> *See, e.g.*, Robert G. Bone, *Modeling Frivolous Suits*, 145 U. PA. L. REV. 519, 587 n. 211 (1997); Jeffrey C. Bright, *Unilateral Attorney's Fees Clauses: A Proposal to Shift to the Golden Rule*, 61 DRAKE L. REV. 85, 108 (2012); Thomas D. Rowe, Jr., *Predicting the Effects of Attorney Fee Shifting*, 47 LAW & CONTEMP. PROBS. 139, 153 (1984).

<sup>57</sup> *See, e.g.*, *Coast Bank v. Holmes*, 19 Cal. App. 3d 581, 596-97 (Ct. App. 1971) (“One-sided attorney's fees clauses can thus be used as instruments of oppression to force settlements of dubious or unmeritorious claims.”).

<sup>58</sup> Sean J. Griffith, *Correcting Corporate Benefit: How to Fix Shareholder Litigation by Shifting the Doctrine on Fees*, 56 B.C. L. REV. 1, 29 (2015) (“[B]ecause [fee-shifting] amplifies the parties' relative optimism and degree of information asymmetry, fee-shifting discourages settlement under most economic models.”); Robert S. Miller, *Attorneys' Fees for Contractual Non-Signatories Under California Civil Code Section 1717: A Remedy in Search of a Rationale*, 32 SAN DIEGO L. REV. 535, 541 (1995).

<sup>59</sup> *See* Owen M. Fiss, *Against Settlement*, 93 YALE L.J. 1073, 1075 (1984).

As quickly as support for one-way fee shifting grew in the 1960s and 1970s, the momentum faded by the end of the twentieth century. Where lawmakers, courts, and the public once favored fee shifting that spurs litigation,<sup>60</sup> the focus moved to fee shifting that hampers litigation. There was supposedly a “litigation explosion” plaguing our judicial system that two-way fee shifting would help fix.<sup>61</sup>

### C. Two-Way Fee Shifting

The claim that the U.S. justice system was in crisis and was suffering from a litigation explosion became ubiquitous by the late 1980s.<sup>62</sup> Politicians, big companies, and the popular media subscribed to the notion that overly litigious plaintiffs (and their lawyers) were burdening our courts and needed to be reined in.<sup>63</sup> Though little empirical evidence supported these allegations,<sup>64</sup> the Bush administration joined the chorus and called for litigation reform.<sup>65</sup> To this end, then-Vice President Dan Quayle was appointed to lead the Council on Competitiveness, an organization committed to protecting American business interests.<sup>66</sup>

After conducting hearings, the Quayle Council published its *Agenda for Civil Justice Reform* in 1991.<sup>67</sup> Among its many proposals was the recommendation that two-way fee shifting, or the English Rule, be implemented in federal diversity suits.<sup>68</sup> A “loser pays” rule arguably reduces the number of baseless lawsuits, encourages meritorious ones, and makes prevailing parties whole.<sup>69</sup> Moreover, parties subject to two-way fee shifting are less likely to engage in excessive discovery and motion practice.<sup>70</sup>

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<sup>60</sup> See, e.g., Rosen-Zvi, *supra* note 55, at 760 (scholars commonly argue that one-way fee shifting “increase[s] the overall number of actions filed”). But see Richard A. Posner, *ECONOMIC ANALYSIS OF LAW* 585, 593 (6th ed. 2003) (“[O]ne-way indemnity may not even generate more litigation than the American (no-indemnity) rule does.”).

<sup>61</sup> Arthur R. Miller, *The Pretrial Rush to Judgment: Are the “Litigation Explosion,” “Liability Crisis,” and Efficiency Cliches Eroding Our Day in Court and Jury Trial Commitments?*, 78 N.Y.U. L. REV. 982, 985 (2003); Jack B. Weinstein, *Procedural Reform as a Surrogate for Substantive Law Revision*, 59 BROOK. L. REV. 827, 829 (1993).

<sup>62</sup> See, e.g., Randy M. Mastro, *The Myth of the Litigation Explosion*, 60 FORDHAM L. REV. 199 (1991).

<sup>63</sup> See, e.g., Marc Galanter, *Real World Torts: An Antidote to Anecdote*, 55 MD. L. REV. 1093, 1094-95 (1996); Miller, *supra* note 61, at 985-86.

<sup>64</sup> Galanter, *supra* note 63, at 1098.

<sup>65</sup> *Symposium on Civil Justice Reform: Forward*, 42 AM. U. L. REV. 1245, 1245 (1993).

<sup>66</sup> Paul D. Carrington, *Politics and Civil Procedure Rulemaking: Reflections on Experience*, 60 DUKE L.J. 597, 627-28 (2010).

<sup>67</sup> *Id.* at 628.

<sup>68</sup> Mark S. Stein, *Is One-Way Fee Shifting Fairer than Two-Way Fee Shifting?*, 141 F.R.D. 351, 351 (1992).

<sup>69</sup> See, e.g., *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 525 (1994) (“The most common reason advanced in support of the dual approach is that, by awarding attorney’s fees to prevailing plaintiffs as a matter of course, it encourages litigation of meritorious claims of copyright infringement.”); Walter Olson & David Bernstein, *Loser-Pays: Where Next?*, 55 MD. L. REV. 1161, 1161 (1996).

<sup>70</sup> *Id.*

This movement toward the English system gained some traction in the 1990s. Not only was the public's interest in the topic piqued,<sup>71</sup> lawmakers gave it serious consideration too. A loser pays bill passed the House of Representatives,<sup>72</sup> Congress enacted the Private Securities Litigation Reform Act with a two-way fee shifting provision,<sup>73</sup> and a few states adopted loser pays statutes for certain types of civil suits.<sup>74</sup> With time, however, the fervor for fee shifting waned due in part to the Clinton Administration's opposition to loser pays rules as "tilt[ing] the legal playing field dramatically to the disadvantage of consumers and middle-class citizens."<sup>75</sup> This is especially true for those plaintiffs relying on contingency fee arrangements.<sup>76</sup>

For the past two decades, civil litigation reform has taken a different course. The judiciary—the Supreme Court in particular—has addressed topics ranging from pleading standards to class certification to arbitration clauses to personal jurisdiction.<sup>77</sup> The Court's decisions on all these matters are considered "pro-defendant," in that they make it more difficult for plaintiffs to sue.<sup>78</sup> So while widespread two-way fee shifting failed to take root in the U.S., the landscape of our civil litigation system has been transformed nonetheless.

Despite these substantial changes, there have been calls for further reform with respect to patent litigation.<sup>79</sup> Similar to the rhetoric of the late twentieth century, critics say we have a patent litigation "crisis" or "explosion" on our hands.<sup>80</sup> They claim that this crisis has been caused primarily by patent assertion entities (PAEs), more pejoratively known as "patent trolls," which are companies that own and enforce patents, but do not practice them.<sup>81</sup> PAEs—much like the supposedly overly-litigious plaintiffs of the early 1990s—rely heavily on contingency fee arrange-

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<sup>71</sup> Krent, *supra* note 31, at 415.

<sup>72</sup> 141 Cong. Rec. H2749-02 (daily ed. Mar. 7, 1995) (Roll Call Vote No. 207).

<sup>73</sup> 15 U.S.C. §§ 77z-1(c), 78u-4(c) (2000).

<sup>74</sup> Olson & Bernstein, *supra* note 69, at 1175-80.

<sup>75</sup> 53 Cong. Q. 744, 745 (Mar. 11, 1995) (quoting letter from Attorney General Janet Reno and White House Counsel Abner J. Mikva to House Speaker Newt Gingrich).

<sup>76</sup> Mallor, *supra* note 23, at 618 ("Even a litigant who had a contingent fee arrangement with his own attorney would be deterred from filing suit; this would cancel the benefit of the contingency fee as a means of financing litigation for litigants of modest means.").

<sup>77</sup> Arthur R. Miller, McIntyre *in Context: A Very Personal Perspective*, 63 S.C. L. REV. 465, 471-72 (2012).

<sup>78</sup> *Id.* at 472-74.

<sup>79</sup> Paul R. Gugliuzza, *Patent Litigation Reform: The Courts, Congress, and the Federal Rules of Civil Procedure*, 95 B.U. L. REV. 279, 281 (2015).

<sup>80</sup> See, e.g., James Bessen & Michael J. Meurer, *The Patent Litigation Explosion*, 45 LOY. U. CHI. L.J. 401, 402 (2013); Dan L. Burke & Mark A. Lemley, *The Patent Crisis and How the Courts Can Solve It*, 23 SYRACUSE SCI. & TECH. L. REP. 1, 1 (2009).

<sup>81</sup> See, e.g., Colleen V. Chien & Mark A. Lemley, *Patent Holdup, the ITC, and the Public Interest*, 98 CORNELL L. REV. 1, 2 (2012); Colleen V. Chien, *Of Trolls, Davids, Goliaths, and Kings: Narratives and Evidence in the Litigation of High-Tech Patents*, 87 N.C. L. REV. 1571, 1573-74 (2009).

ments.<sup>82</sup> Thus, numerous bills have been introduced in Congress to overhaul the way patent cases are litigated.<sup>83</sup> Although the Patent Act already allows for fee-shifting in exceptional cases,<sup>84</sup> many of these bills feature robust fee shifting provisions.

## II. Fee Shifting in Patent Cases

Two-way fee shifting is rare in the United States, yet has been available in patent cases for the past seventy years. That said, Congress intended fee shifting to be invoked only in a small subset of patent cases. Courts have heeded that advice, limiting fee shifting in some circumstances perhaps even more than Congress had expected. The questions now facing Congress are whether the time has come to re-tool the patent fee shifting statute to make it broader and, if so, what that new statute should look like.

### A. History of § 285

Historically, patent cases were governed by the American Rule like most other types of civil suits.<sup>85</sup> That changed in 1946 when Congress amended the Patent Act to provide for two-way fee shifting. The purpose of this new law was two-fold. First, Congress believed it would deter willful infringement “by anyone thinking that all he would be required to pay if he loses the suit would be a royalty.”<sup>86</sup> Second, two-way fee shifting would “enable the court to prevent a gross injustice to an alleged infringer.”<sup>87</sup>

The original patent fee shifting statute, then-codified at 35 U.S.C. § 70, stated that a court “may in its discretion award reasonable attorney’s fees to the prevailing party upon the entry of judgment in any patent case.”<sup>88</sup> On its face, the statute lacked guidance about when to award fees. But the legislative history and cases interpreting § 70 make clear that fee shifting was reserved for “extraordinary circumstances,” such as cases involving inequitable conduct or vexatious litigation.<sup>89</sup>

The Patent Act of 1952 amended the fee shifting statute and recodified it at 35 U.S.C. § 285, where it remains in the same form today. Section 285, in its entirety, provides that “[t]he court in exceptional cases may award reasonable attorney fees

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<sup>82</sup> See David L. Schwartz, *The Rise of Contingent Fee Representation in Patent Litigation*, 64 ALA. L. REV. 335, 355-56 (2012).

<sup>83</sup> Gugliuzza, *supra* note 79, at 281.

<sup>84</sup> 35 U.S.C. § 285.

<sup>85</sup> *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S.Ct. 1749, 1753 (2014).

<sup>86</sup> S. Rep. No. 1503 (1946), *in* 1946 U.S.C.C.S. 1386, 1387.

<sup>87</sup> *Id.*

<sup>88</sup> 35 U.S.C. § 70 (1946 ed.).

<sup>89</sup> *Pennsylvania Crusher Co. v. Bethlehem Steel Co.*, 193 F.2d 445, 451 (3d Cir. 1951); *Park-in-Theaters, Inc. v. Perkins*, 190 F.2d 137, 142 (9th Cir. 1951); S. Rep. No. 1503 (1946), *in* 1946 U.S.C.C.S. 1386, 1387.

to the prevailing party.”<sup>90</sup> While the language differed from the 1946 version, Congress did not intend to change the substance of the statute.<sup>91</sup> Instead, this was a clarifying amendment to “expres[s] the intention of the [1946] statute as shown by its legislative history and as interpreted by the courts.”<sup>92</sup> Thus, in the decades after recodification—just as in the years before—district courts interpreted and applied the patent fee shifting statute in a discretionary manner, considering the totality of the circumstances and deciding whether a particular case was “exceptional” to warrant fees.<sup>93</sup>

Although the 1952 Act did not change the way courts approached fee shifting, it overhauled many other features of the patent system.<sup>94</sup> The Act strengthened patent owners’ rights, ultimately leading to more applications at the PTO and more issued patents.<sup>95</sup> At the same time, courts were invalidating patents at very high rates,<sup>96</sup> and the circuits were sharply divided on many substantive patent law doctrines.<sup>97</sup> This fracture among the courts created a sense of unfairness, generated instability, and promoted forum shopping in patent cases.<sup>98</sup> In an effort to address these deficiencies, Congress created the U.S. Court of Appeals for the Federal Circuit in 1982.<sup>99</sup>

#### B. The Federal Circuit’s Approach to Fee Shifting

The primary purpose of the Federal Circuit was to bring greater uniformity to patent law.<sup>100</sup> The idea was that a “single court of appeals for patent cases [would]

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<sup>90</sup> 35 U.S.C. § 285.

<sup>91</sup> *Octane*, 134 S.Ct. at 1753; 1 PATENT LAW CODIFICATION & REVISION 77, 108-09 (1952).

<sup>92</sup> *Octane*, 134 S. Ct.

<sup>93</sup> *Id.* at 1753.

<sup>94</sup> Robert P. Merges, *One Hundred Years of Solicitude: Intellectual Property Law, 1900-2000*, 88 CAL. L. REV. 2187, 2221-24 (2000).

<sup>95</sup> James E. Daily & F. Scott Kieff, *Anything Under the Sun Made by Humans: Patent Law Doctrines As Endogenous Institutions for Commercializing Innovation*, 62 EMORY L.J. 967, 971 n.15 (2013) (“Diverse jurists immediately recognized the power of the 1952 Act in strengthening patents”); Merges, *supra* note 94, at 2221-24 (discussing how the 1952 Act benefitted patent owners).

<sup>96</sup> John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 206 n.53 (1998) (reporting that in the 1970s, only about thirty-five percent of litigated patents were held valid).

<sup>97</sup> David O. Taylor, *Formalism and Antiformalism in Patent Law Adjudication: Rules and Standards*, 46 CONN. L. REV. 415, 468 (2013).

<sup>98</sup> *See Comm’n on Revision of the Fed. Court Appellate Sys. Structure & Internal Procedures: Recommendations for Change* (1975), reprinted in 67 F.R.D. 195, 220 (“[D]isparity in results in different circuits leads to widespread forum shopping[which] ‘demeans the entire judicial process and the patent system as well.’”); Megan M. La Belle, *The Local Rules of Patent Procedure*, 47 AZ. ST. L.J. 63, 83-84 (2015).

<sup>99</sup> Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, § 101, 96 Stat. 25.

<sup>100</sup> H.R. REP. NO. 97-312, at 20 (1981) (“Patent litigation long has been identified as a problem area, characterized by undue forum-shopping and unsettling inconsistency in adjudications.”); S. REP. NO. 97-275, at 5 (1981) (“The creation of the Court of Appeals for the Federal Circuit will produce desirable uniformity in this area of the law. Such uniformity will reduce the forum-shopping that is common to patent litigation.”).

promote certainty,”<sup>101</sup> and so the Federal Circuit was granted exclusive appellate jurisdiction over most patent-related cases. Commentators generally agree that the Federal Circuit has taken this congressional mandate to heart, and patent doctrine has become more uniform over the past three decades.<sup>102</sup>

One way the Federal Circuit has accomplished this uniformity goal is by preferring bright-line rules to more flexible standards.<sup>103</sup> There is a rich literature discussing this trend in the Federal Circuit and the impact it has had on patent law.<sup>104</sup> The court adopted such bright-line rules for patentable subject matter, obviousness, declaratory judgment jurisdiction, and permanent injunctions, to name just a few.<sup>105</sup>

The Federal Circuit’s proclivity toward bright-line rules is similarly apparent in its fee shifting jurisprudence. As noted above, for a long time after the 1952 Act, district courts decided exceptionalism for fee shifting purposes under a totality of the circumstances test.<sup>106</sup> But that changed in 2005 when the Federal Circuit rejected this well-established, malleable standard in *Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.*<sup>107</sup>

The accused infringer in *Brooks Furniture* sought a declaratory judgment of noninfringement and invalidity with respect to a design patent for rocking chair trim.<sup>108</sup> The district court granted summary judgment of noninfringement, determined the case was exceptional under § 285, and awarded attorney’s fees.<sup>109</sup> The court awarded fees because it believed the patent owner’s litigation tactics were inappropriate and its infringement position was frivolous.<sup>110</sup>

The Federal Circuit reversed on appeal and announced a new rule for deciding whether a case is exceptional under § 285. Cases are exceptional, the court explained, in only two circumstances.<sup>111</sup> First, “when there has been some material inappropriate conduct related to the matter in litigation.”<sup>112</sup> Such conduct might include willful infringement, fraud or inequitable conduct in procuring the patent,

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<sup>101</sup> H.R. Rep. No. 97-312, at 23.

<sup>102</sup> La Belle, *supra* note 98, at 84.

<sup>103</sup> Taylor, *supra* note 97, at 478.

<sup>104</sup> See, e.g., Peter Lee, *Patent Law and the Two Cultures*, 120 YALE L.J. 2 (2010); Taylor, *supra* note 97, at 468-69; John R. Thomas, *Formalism at the Federal Circuit*, 52 AM. U. L. REV. 771, 794 (2003).

<sup>105</sup> See, e.g., *Bilski v. Kappos*, 561 U.S. 593, 136 (2010) (patentable subject matter); *KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398, 418-19 (2007) (obviousness); *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007) (declaratory judgment jurisdiction); *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006) (permanent injunctions).

<sup>106</sup> *Octane*, 134 S. Ct. at 1753.

<sup>107</sup> See *Brooks Furniture Mfg., Inc. v. Dutailier Int’l, Inc.*, 393 F.3d 1378 (Fed. Cir. 2005), *abrogated* by *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014).

<sup>108</sup> *Brooks Furniture*, 393 F.3d at 1379-80.

<sup>109</sup> *Id.* at 1380.

<sup>110</sup> *Id.* at 1382.

<sup>111</sup> *Id.* at 1381-82.

<sup>112</sup> *Id.* at 1381.

misconduct during litigation, vexatious or unjustified litigation, or conduct that violates Federal Rule of Civil Procedure 11.<sup>113</sup>

Second, a case may be deemed exceptional if the litigation was brought in subjective bad faith and the litigation is objectively baseless. A prevailing defendant must prove, in other words, that the plaintiff *actually knew* the litigation was objectively baseless.<sup>114</sup> And the defendant can only do that, the Federal Circuit pronounced, with clear and convincing evidence because “[t]here is a presumption that the assertion of infringement of a duly granted patent is made in good faith.”<sup>115</sup> Applying this new test, the court reversed the fee award in *Brooks Furniture* because the accused infringer could not prove by clear and convincing evidence that the patent owner knew its case was objectively baseless.<sup>116</sup>

Like in *Brooks Furniture*, prevailing defendants in patent cases generally have struggled to recover attorney’s fees.<sup>117</sup> A recent study by Saurabh Vishnubhakat analyzed over 200 fee awards from 2003-2013 and found that only 29% of the fee awards that are granted go to defendants, with 71% going to plaintiffs.<sup>118</sup> Notably, however, Vishnubhakat found that in the rare instances when defendants were awarded fees, the median amounts were much higher than for plaintiffs.<sup>119</sup> The study further concludes that fee awards vary by district and based on the underlying technology.<sup>120</sup>

Though difficult to prove empirically, it seems reasonable to conclude that the Federal Circuit’s bright-line rule in *Brooks Furniture* is one of the reasons that fee awards for defendants have been so elusive. In some cases, district courts refused to award fees because the *Brooks Furniture* framework was not met,<sup>121</sup> while in others the district court awarded fees only to be reversed by the Federal Circuit.<sup>122</sup> As with many areas of patent law, commentators called for reform and the Supreme Court stepped in.<sup>123</sup>

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<sup>113</sup> *Id.*

<sup>114</sup> *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1377 (Fed. Cir. 2011). The Federal Circuit in *iLOR* also clarified that “objectively baseless” means “so unreasonable that no reasonable litigant could believe it would succeed.” *Id.* at 1378.

<sup>115</sup> *Brooks Furniture*, 393 F.3d at 1382.

<sup>116</sup> *Id.* at 1385.

<sup>117</sup> See, e.g., James Bessen & Michael J. Meurer, *The Private Costs of Patent Litigation*, 9 J.L. ECON. & POL’Y 59, 81 tbl. 6 (2012) (finding that 68% of fee awards were to plaintiffs and 32% to defendants); Mark Liang & Brian Berliner, *Fee Shifting in Patent Litigation*, 18 VA. J.L. & TECH. 59, 87-88 (2013) (finding that 68% of fee awards were to plaintiffs and 32% to defendants); Saurabh Vishnubhakat, *What Patent Attorney Fee Awards Really Look Like*, 63 DUKE L.J. ONLINE 15, 25 (2014) (finding that 71% of fee awards were to plaintiffs and 29% to defendants).

<sup>118</sup> *Id.*

<sup>119</sup> *Id.*

<sup>120</sup> *Id.* at 26-29.

<sup>121</sup> See, e.g., *Octane*, 134 S.Ct. at 1755.

<sup>122</sup> See, e.g., *Highmark*, 134 S.Ct. at 1747.

<sup>123</sup> See, e.g., Randall R. Rader, Colleen V. Chien & David Hricik, Op-Ed, *Making Patent Trolls Pay in Court*, N.Y. TIMES, June 5, 2013, at A25.

### C. The Supreme Court's Approach to Fee Shifting

In 2014, the Supreme Court decided two cases—*Octane Fitness LLC v. ICON Health and Fitness, Inc.* and *Highmark, Inc. v. Allcare Health Mgmt. Sys., Inc.*—that have turned the tide for fee shifting in patent cases. *Octane* addressed the question of what makes a case “exceptional” under § 285, while *Highmark* addressed the standard that appellate courts should use in reviewing fee decisions. Consistent with recent trends in the patent space,<sup>124</sup> the Supreme Court reversed the Federal Circuit in both cases.

*Octane* involved a patent dispute over an elliptical exercise machine.<sup>125</sup> ICON, the patent owner, sued Octane for infringement in the U.S. District Court for the District of Minnesota. After prevailing on a motion for summary judgment based on noninfringement, Octane sought attorney’s fees.<sup>126</sup> The court denied the fee motion under the *Brooks Furniture* rule, finding that ICON’s claim was neither objectively baseless nor brought in subjective bad faith.<sup>127</sup> On appeal, the Federal Circuit affirmed rejecting Octane’s argument that the *Brooks Furniture* rule was “overly restrictive.”<sup>128</sup>

The Supreme Court granted Octane’s petition for certiorari and reversed, explaining that the *Brooks Furniture* framework is “unduly rigid” and “encumbers the statutory grant of discretion to district courts.”<sup>129</sup> In reaching this conclusion, the Court focused on the plain language of § 285, which simply requires that a case be “exceptional” to warrant a fee award. Because the Patent Act does not define “exceptional,” the Court ascribed the term its ordinary meaning: uncommon, rare, or not ordinary.<sup>130</sup>

Thus, the Court held, a case is exceptional under § 285 as long as it “stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.”<sup>131</sup> The Court went on to say that lower courts should decide exceptionalism on a case-by-case basis considering the totality of the circumstances.<sup>132</sup> Hence, *Octane*—like many other recent Supreme Court patent decisions—rejected the Federal Circuit’s bright-line rule for a more flexible standard.

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<sup>124</sup> See, e.g., Daniel Kazhdan, *Beyond Patents: The Supreme Court’s Evolving Relationship With the Federal Circuit*, 94 J. PAT. & TRADEMARK OFF. SOC’Y 275, 278-82 (2012) (discussing trends in the Supreme Court’s patent opinions).

<sup>125</sup> *Octane*, 134 S.Ct. at 1754.

<sup>126</sup> *Id.* at 1755.

<sup>127</sup> *Id.*

<sup>128</sup> *Id.*

<sup>129</sup> *Id.*

<sup>130</sup> *Id.* at 1756.

<sup>131</sup> *Id.*

<sup>132</sup> *Id.*

*Highmark*, the companion case to *Octane*, addressed the appropriate standard of review for fee shifting decisions. Highmark, Inc., a health insurance company, filed an action in the U.S. District Court for the Northern District of Texas against Allcare Health, the owner of a patent covering “utilization review” in managed health care systems.<sup>133</sup> Highmark sought a declaratory judgment that Allcare’s patent was invalid, unenforceable, and not infringed, and Allcare counterclaimed for infringement.<sup>134</sup> The district court entered summary judgment of noninfringement in favor of Highmark.

Highmark then filed a motion for attorney’s fees under 35 U.S.C. § 285. The district court determined that the case was exceptional because Allcare engaged in “vexatious” and “deceitful” litigation conduct, and pursued infringement claims despite its own experts demonstrating that such claims lacked merit.<sup>135</sup> Accordingly, the district court granted the motion and awarded Highmark more than \$5 million in fees.<sup>136</sup> On appeal, the Federal Circuit—applying a *de novo* standard of review—reversed the exceptional case determination with respect to one of the patent claims in issue.<sup>137</sup>

The Supreme Court granted certiorari in *Highmark* and once again reversed the Federal Circuit. Relying on *Octane*, the Court held that the question whether a case is “exceptional” is committed to the discretion of the district court.<sup>138</sup> Thus, the Court explained, all aspects of the § 285 determination are reviewed on appeal for an abuse of discretion, not *de novo* as was the Federal Circuit’s practice.<sup>139</sup>

Taken together, *Octane* and *Highmark* have the potential to shift the landscape of patent litigation. While it’s still too soon to understand the full impact of these cases, early studies suggest that parties are bringing fee motions at higher rates, courts are more willing to grant them, and accused infringers are more likely to recover than in the pre-*Octane* era.<sup>140</sup> Whatever changes they ultimately achieve, *Octane* and *Highmark* are probably not a panacea for the problems supposedly plaguing our patent litigation system.<sup>141</sup> Consequently, reformers continue to advocate for a broader fee shifting statute for patent cases.

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<sup>133</sup> *Id.* at 1747.

<sup>134</sup> *Id.*

<sup>135</sup> *Id.*

<sup>136</sup> *Id.*

<sup>137</sup> *Id.*

<sup>138</sup> *Id.* at 1748.

<sup>139</sup> *Id.* at 1749.

<sup>140</sup> See, e.g., Hannah Jiam, *Fee Shifting and Octane Fitness: An Empirical Approach Toward Understanding “Exceptionalism,”* 30 BERKELEY TECH L.J. 611, 623, 630 (2015) (finding that the number of fees motion has risen and courts are more likely to grant those motions post *Octane*); Mallun Yen, *Fee-Shifting Before and After the Supreme Court Decisions*, INSIDE COUNSEL, <http://www.insidecounsel.com/2015/02/25/fee-shifting-before-and-after-the-supreme-court-de> (Feb. 25, 2015) (finding that accused infringers are winning fee awards at higher rates than before *Octane*).

<sup>141</sup> See, e.g., Eric Coe, *Collecting Fees Still Tough After Octane, Highmark Cases*, LAW 360 (Aug. 28, 2015) (discussing the limitations on fee shifting even after *Octane* and *Highmark*); Yen, *supra* note 139 (“reformers assert that fee-shifting won’t be truly effective without further legislation”).

#### D. Legislative Proposals for Fee Shifting

Congress passed the America Invents Act, the most significant overhaul to the U.S. patent system in over half a century, in 2011.<sup>142</sup> Yet, less than two years later, calls for further reform began. More than a dozen bills were introduced in Congress between 2013 and 2015, many of which included fee shifting provisions.<sup>143</sup> The fee provisions in these bills varied. Some were one-way, awarding fees only to the accused infringer, while others were two-way, allowing either prevailing party to recover.<sup>144</sup> Certain of these bills targeted PAEs, while others drew no distinctions based on the identity of the parties.<sup>145</sup>

This legislative effort culminated with two leading bills emerging from the House and the Senate. The Innovation Act—the House version of the bill—and the Protecting American Talent and Entrepreneurship (PATENT) Act—the Senate version of the bill—contain relatively similar fee shifting provisions.<sup>146</sup> Although a detailed analysis of these provisions is beyond the scope of this Article, a few key points should be highlighted.

First, the bills are two-way, meaning a court may award fees to either a prevailing patent owner or accused infringer.<sup>147</sup> Second, both bills make fee shifting mandatory unless the court finds that (1) the losing party's position and conduct was reasonable, or (2) special circumstances (e.g., undue economic hardship) would make an award unjust.<sup>148</sup> Third, the bills contemplate the joinder of interested parties to facilitate the recovery of fees.<sup>149</sup> Fourth, the bills include exceptions for universities and certain technology transfer organizations.<sup>150</sup> Finally, and most pertinent to this Article, both bills allow for the recovery of fees incurred "in connection with a civil action."<sup>151</sup>

What neither the Innovation Act nor the PATENT Act (nor any other bill for that matter) clarifies is what it means to incur fees "in connection with a civil action." Does that only include fees for work before the district court? Or does it also include fees for proceedings conducted before an administrative body, namely the

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<sup>142</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011).

<sup>143</sup> See Patent Progress, *Patent Progress's Guide to Federal Patent Reform Legislation*, available at <http://www.patentprogress.org/patent-progress-legislation-guides/patent-progress-guide-patent-reform-legislation/> (collecting and summarizing patent reform bills that have been introduced since 2013); Gugliuzza, *supra* note 79, at 281 (discussing various bills and their provisions).

<sup>144</sup> Bernstein, *supra* note 1, at 1493-94.

<sup>145</sup> *Id.*

<sup>146</sup> Innovation Act, H.R. 9 (2015); PATENT Act, S. 1137 (2015).

<sup>147</sup> H.R. 9, § 3(b); S. 1137 § 7(b).

<sup>148</sup> H.R. 9, § 3(b); S. 1137 § 7(b).

<sup>149</sup> H.R. 9, § 3(b); S. 1137 § 7(b).

<sup>150</sup> H.R. 9, § 3(b); S. 1137 § 7(b).

<sup>151</sup> H.R. 9, § 3(b); S. 1137 § 7(b).

PTO? In light of the steep rise in the use of PTO proceedings since the AIA,<sup>152</sup> these are important questions to answer.

### III. Fee Shifting for Administrative Proceedings

The AIA effected major changes in American patent law. Our priority system switched from first-to-invent to first-to-file,<sup>153</sup> the definition of prior art expanded,<sup>154</sup> and the ability to join defendants in patent suits was restricted.<sup>155</sup> Perhaps the most substantial change, however, was the creation of the Patent Trial and Appeal Board (PTAB) and various administrative proceedings for challenging patent validity at the PTO.<sup>156</sup> Though the PTO conducted post-grant proceedings before the AIA, Congress designed the new proceedings—including inter partes review (IPR), post-grant review (PGR), and covered business method review (CBM)—so they would be more effective for litigants.<sup>157</sup> That is to say, Congress hoped to encourage the use of PTAB proceedings as a means of streamlining and reducing the cost of patent litigation.<sup>158</sup>

PTAB proceedings, it turns out, are far more popular than anyone anticipated.<sup>159</sup> Between September 16, 2012 (when the AIA became effective) and October 31, 2016, 5,811 PTAB petitions were filed (5,292 IPRs, 481 CBMs, and 38 PGRs).<sup>160</sup> Early data show that challengers are enjoying high rates of success at the PTAB, meaning that a significant percentage of patent claims have been cancelled.<sup>161</sup> There is also evidence that the vast majority of PTAB proceedings involve parallel district court litigation.<sup>162</sup> The popularity of these proceedings has led some critics

<sup>152</sup> See, e.g., Brian J. Love & Shawn Ambwani, *Inter Partes Review: An Early Look at the Numbers*, 81 U. CHI. L. REV. DIALOGUE 93, 93 (2014) (“In the roughly two years since *inter partes* review. . . replaced *inter partes* reexamination, petitioners have filed almost two thousand requests for the Patent Trial and Appeal Board. . . to review the validity of issued U.S. patents.”).

<sup>153</sup> Leahy-Smith America Invents Act, *supra* note 5, § 3.

<sup>154</sup> *Id.*

<sup>155</sup> *Id.* § 19 at 331-33.

<sup>156</sup> *Id.* §§ 6, 7, 18 at 299-316, 329-31.

<sup>157</sup> *Id.* §§ 6, 18. For example, PTAB proceedings are resolved much faster than their predecessors, the estoppel provisions are more forceful, and there are additional procedural protections, including the right to discovery and an oral hearing. *Id.* §§ 6, 18.

<sup>158</sup> See Joe Matal, *A Guide to the Legislative History of the America Invents Act: Part II of II*, 21 FED. CIR. B.J. 539, 653 (2012).

<sup>159</sup> See, e.g., Rochelle Cooper Dreyfuss, *Giving the Federal Circuit A Run for Its Money: Challenging Patents in the PTAB*, 91 NOTRE DAME L. REV. 235, 251 (2015) (“[T]hese statistics speak loudly about the public’s eagerness and ability to use these procedures to ‘weed out’ bad patents”).

<sup>160</sup> United States Patent & Trademark Office, *Patent Trial and Appeal Board Statistics*, available at [https://www.uspto.gov/sites/default/files/documents/aia\\_statistics\\_october2016.pdf](https://www.uspto.gov/sites/default/files/documents/aia_statistics_october2016.pdf) (Oct. 31, 2016). PGR applies only to those patents issued under the new first-to-file system, and very few first-to-file patents have been issued so far.

<sup>161</sup> Love & Ambwani, *supra* note 152, at 101-02. A more recent study shows that, since 2012, the rate at which the PTAB is invalidating claims has slowly and consistently declined. Saurabh Vishnubhakat, Arti K. Rai, & Jay P. Kesan, *Strategic Decision Making in Dual PTAB and District Court Proceedings*, 31 BERKELEY TECH L.J. 45, 78 (2016).

<sup>162</sup> Love & Ambwani, *supra* note 152, at 103 (finding that in 80% of IPRs the challenged patent was also asserted in litigation between petitioner and respondent); Vishnubhakat, et al., *supra* note 161,

to refer to the PTAB as a “death squad”<sup>163</sup> and “killing field.”<sup>164</sup> Other commentators claim the PTAB is simply doing what Congress intended: eliminating bad patents.<sup>165</sup>

Without wading into this debate, what’s clear is that patent owners and accused infringers alike are expending significant resources, including attorney’s fees, on PTAB proceedings. The median cost of IPR, for example, is \$275,000 through the PTAB hearing or \$350,000 if appealed to the Federal Circuit.<sup>166</sup> So, if a prevailing party in a patent litigation is entitled to recover reasonable expenses and fees, does that include fees for work before the PTO? Notably, this question is not one of first impression for the Federal Circuit, as the court addressed it almost three decades ago in *PPG Indus., Inc. v. Celanese Polymer Specialties Co., Inc.* in the context of pre-AIA administrative proceedings.<sup>167</sup> The decision in *PPG*, which I argue is flawed, is explored below in Subsection C. Before addressing *PPG*, however, this Part provides a summary of the Supreme Court’s and other Circuit Courts’ jurisprudence on fee shifting for administrative proceedings outside of the patent context.

#### A. Supreme Court Jurisprudence

The 1960s and 1970s witnessed a substantial expansion of the administrative state with the creation of agencies like the Equal Employment Opportunity Commission (EEOC) and the Environmental Protection Agency (EPA), among many others.<sup>168</sup> Concomitantly, Congress was enacting civil rights and environmental legislation that included fee shifting provisions to encourage enforcement of these new rights.<sup>169</sup> It comes as no surprise, then, that courts soon faced the question whether prevailing parties—absent explicit guidance from Congress—may recover attorney’s fees for work performed before administrative tribunals.

##### 1. Fee Shifting in Civil Rights Cases

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at 69 (finding that about 87.6% of IPR- and CBM-challenged patents are also being litigated in federal court).

<sup>163</sup> Rob Sterne & Gene Quinn, *PTAB Death Squads: Are all Commercially Viable Patents Invalid?*, IP WATCHDOG (Mar. 24, 2014), <http://www.ipwatchdog.com/2014/03/24/ptab-death-squads-are-all-commercially-viable-patents-invalid/id=48642/> (quoting the comments of former Federal Circuit Chief Judge Randall Rader made at the 2013 AIPLA annual meeting in Washington, DC).

<sup>164</sup> Erich Spangenberg, *Patent Predictions for 2015*, IPNAV BLOG (Jan. 2015), <http://www.ipnav.com/blog/erich-spangenbergs-patent-predictions-for-2015/>.

<sup>165</sup> See Ryan Davis, *PTAB’s “Death Squad” Label Not Totally Off-Base, Chief Says*, LAW 360 (Aug. 14, 2014) (quoting the former Chief Judge of the PTAB, James Smith, as saying that if the PTAB was not “doing some ‘death squadding,’ [it] would not be doing what the [AIA] calls on [the PTAB] to do”); Dreyfuss, *supra* note 159, at 255 (saying that many claims cancelled by the PTAB “deserve to die”).

<sup>166</sup> LAW PRACTICE MANAGEMENT COMMITTEE, AMERICAN INTELLECTUAL PROPERTY LAW ASS’N, REPORT OF THE ECONOMIC SURVEY 38 (2015).

<sup>167</sup> *PPG Indus., Inc. v. Celanese Polymer Specialties Co.*, 840 F.2d 1565, 1567 (Fed. Cir. 1988).

<sup>168</sup> See Kristen Hickman & Richard Pierce, Jr., FEDERAL ADMINISTRATIVE LAW (2010).

<sup>169</sup> See *supra* Part I.B.

Beginning in 1980, the Supreme Court decided a trilogy of cases addressing this question in the civil rights context. The first case, *New York Gaslight Club, Inc. v. Carey*,<sup>170</sup> involved a plaintiff who claimed she was denied a position as a cocktail waitress because of her race.<sup>171</sup> As required by Title VII of the Civil Rights Act, the plaintiff Carey filed a complaint with the EEOC, and the EEOC referred her complaint to the New York State Division of Human Rights (“Division”).<sup>172</sup> The Division found probable cause that Carey had been unlawfully discriminated against and, after a hearing, ordered New York Gaslight Club (“Club”) to offer her employment and pay back wages.<sup>173</sup>

While the Club appealed the Division’s decision, Carey pursued her EEOC charge. Relying largely on the Division’s findings, the EEOC also found probable cause and issued Carey a right to sue letter.<sup>174</sup> Carey then filed suit under Title VII in federal district court in New York seeking damages, injunctive relief, and attorney’s fees.<sup>175</sup> Soon after filing the federal action, the Division’s decision was affirmed on appeal and the Club agreed to comply with the Division’s order.<sup>176</sup> Thus, the only issue remaining for the court was Carey’s request for attorney’s fees, the vast majority of which were incurred for work before the Division and EEOC.<sup>177</sup> The district court refused to award Carey fees, the Second Circuit reversed, and the Supreme Court granted certiorari.<sup>178</sup>

The Supreme Court affirmed the Second Circuit holding that Carey was entitled to recover attorney’s fees incurred in connection with the administrative proceedings. The Court began its analysis with the language of the relevant fee shifting provision, section 706(k) of the Civil Rights Act of 1964. Section 706(k) provided that “[i]n **any action or proceeding** under this title the court, in its discretion, may allow the prevailing party, other than the Commission or the United States, a reasonable attorney’s fee as part of the costs.”<sup>179</sup> The fact that the statute referred not only to “action” but to “proceeding” was critically important to the Court. “The words of § 706(k) leave little doubt that fee awards are authorized for legal work done in ‘proceedings’ other than court actions.”<sup>180</sup> This is particularly true where, as here, the administrative proceedings in question were mandatory.<sup>181</sup>

What is more, the *Carey* Court opined, this plain language interpretation of § 706(k) is supported by the legislative history. Allowing a prevailing plaintiff like

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<sup>170</sup> *New York Gaslight Club, Inc. v. Carey*, 447 U.S. 54 (1980).

<sup>171</sup> *Id.* at 56.

<sup>172</sup> *Id.* at 57.

<sup>173</sup> *Id.*

<sup>174</sup> *Id.* at 58.

<sup>175</sup> *Id.*

<sup>176</sup> *Id.* at 58-59.

<sup>177</sup> *Id.* at 59.

<sup>178</sup> *Id.* at 59-60.

<sup>179</sup> 42 U.S.C. § 2000(e)-5(k) (emphasis added).

<sup>180</sup> *Carey*, 447 U.S. at 61.

<sup>181</sup> *Id.* at 63.

Carey to recover fees for administrative proceedings furthers the objective of § 706(k), namely to “facilitate the bringing of discrimination complaints.”<sup>182</sup> A contrary rule would force victims of discrimination to bear the costs of mandatory administrative proceedings, which no doubt would deter the enforcement of many meritorious civil rights claims.<sup>183</sup>

The second case in the trilogy—*Webb v. Dyer County Board of Education*—presented a similar set of facts as *Carey*, but involved a different statutory scheme.<sup>184</sup> Leonard Webb, a schoolteacher, claimed he was terminated on the basis of his race and pursued administrative remedies as provided by Tennessee law. After several hearings, the Board of Education of Dyer County, Tennessee, upheld Webb’s dismissal.<sup>185</sup> Webb then filed a federal action under 42 U.S.C. § 1983 alleging violations of civil rights laws and the Constitution. The lawsuit ultimately settled with a consent order pursuant to which Webb was reinstated to his former teaching position and awarded \$15,400 in damages.<sup>186</sup> Webb subsequently filed a motion for attorney’s fees pursuant to 42 U.S.C. § 1988, seeking to recover, *inter alia*, fees incurred during the administrative proceedings.<sup>187</sup> The district court rejected Webb’s request for such fees, the Court of Appeals affirmed, and the Supreme Court granted certiorari.<sup>188</sup>

This time, the Court refused to allow the plaintiff to recover fees for time spent in administrative proceedings. As in *Carey*, the Court started with the relevant statutory language and found that § 1988, like § 706(k) of the Civil Rights Act, authorizes an award of attorney’s fees in “**any action or proceeding** to enforce a provision” of this title.<sup>189</sup> The Court nonetheless distinguished *Carey* on the grounds that the administrative proceedings in that case were mandatory. Webb, on the other hand, was not required to exhaust administrative remedies before suing under § 1983; the administrative proceedings Webb pursued were optional.<sup>190</sup> The Court then explained that work completed during optional administrative proceedings might be compensable if it was “both useful and of a type ordinarily necessary to advance” the litigation.<sup>191</sup> Because Webb failed to make such a showing, the district court properly denied fees.<sup>192</sup>

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<sup>182</sup> *Id.*

<sup>183</sup> *Id.*

<sup>184</sup> 471 U.S. 234 (1985).

<sup>185</sup> *Id.* at 236-37.

<sup>186</sup> *Id.* at 237.

<sup>187</sup> *Id.* at 238.

<sup>188</sup> *Id.*

<sup>189</sup> 42 U.S.C. § 1988 (2000) (emphasis added).

<sup>190</sup> *Webb*, 471 U.S. 234 at 241; see also Marjorie A. Silver, *Evening the Odds: The Case for Attorneys’ Fee Awards for Administrative Resolution of Title VI and Title VII Disputes*, 67 N.C. L. REV. 379, 391-92 (1989) (“It is evident that the *Webb* majority saw a clear distinction between the mandatory nature of the state proceedings under Title VII in *Carey* and the optional state proceedings pursued by plaintiff in *Webb*.”).

<sup>191</sup> *Webb*, 471 U.S. at 243.

<sup>192</sup> *Id.* at 244.

*North Carolina Department of Transportation v. Crest Street Community Council, Inc.* is the third case in the civil rights trilogy.<sup>193</sup> In *Crest*, the plaintiff filed an administrative complaint with the U.S. Department of Transportation challenging a plan to build a federally-funded highway through a predominantly black neighborhood as violative of Title VI of the civil rights laws.<sup>194</sup> The parties settled the administrative dispute, and plaintiff subsequently filed an action in federal court exclusively to recover attorney's fees under 42 U.S.C. § 1988. The Supreme Court granted certiorari because the courts of appeal were split on the question whether such an independent action for fees is sustainable.<sup>195</sup>

In a decision that has drawn significant criticism,<sup>196</sup> the Court held that plaintiffs could not file a separate lawsuit under § 1988 to recover fees incurred during administrative proceedings. The Court read literally the language of § 1988, which allows for the recovery of fees for "any action or proceeding *to enforce a provision of* 1981, 1981a, 1982, 1983, 1985, and 1986 of this title."<sup>197</sup> Because a separate action for fees did not seek to enforce any of these laws, § 1988 was not satisfied. The Court defended this conclusion saying that it is "entirely reasonable to limit the award of attorney's fees to those parties who, in order to obtain relief, found it necessary to file a complaint in court."<sup>198</sup> Moreover, the Court reasoned, this rule should incentivize potential civil rights defendants to resolve disputes quickly instead of risking a lawsuit and liability for attorney's fees.<sup>199</sup>

## 2. Fee Shifting in Environmental Cases

Around the same time the Supreme Court was deciding the civil rights trilogy, it confronted a similar issue in an environmental case, *Pennsylvania v. Delaware Valley Citizens' Council for Clean Air*.<sup>200</sup> In *Delaware Valley*, a public interest group filed a suit in federal court to compel the Commonwealth of Pennsylvania to implement a vehicle emission inspection and maintenance program (I/M Program) as required by the Clean Air Act (CAA).<sup>201</sup> The parties entered into a consent decree pursuant to which Pennsylvania agreed to establish an I/M Program for several

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<sup>193</sup> 479 U.S. 6 (1986).

<sup>194</sup> *Id.* at 9.

<sup>195</sup> *Id.* at 11.

<sup>196</sup> See, e.g., Julie Davies, *Federal Civil Rights Practice in the 1990's: The Dichotomy Between Reality and Theory*, 48 HASTINGS L.J. 197, 210 (1997) (noting that recent Supreme Court decisions are "at odds with Congress' intent to encourage attorneys to take civil rights cases"); David Luban, *Settlements and the Erosion of the Public Realm*, 83 GEO. L.J. 2619, 2631 n. 51 (1995) ("[T]he Supreme Court has made it increasingly difficult for civil rights attorneys to recover attorneys' fees."); Silver, *supra* note 190, at 415-19.

<sup>197</sup> *Crest*, 479 U.S. at 12 (emphasis added).

<sup>198</sup> *Id.* at 14.

<sup>199</sup> *Id.* at 15.

<sup>200</sup> *Pennsylvania v. Delaware Valley Citizens' Council for Clean Air*, 478 U.S. 546 (1986), supplemented, 483 U.S. 711 (1987).

<sup>201</sup> *Id.* at 549.

counties in the state.<sup>202</sup> However, implementation of the program did not proceed smoothly, and Delaware Valley pursued proceedings at the EPA to enforce the consent decree.<sup>203</sup> As a result, the parties negotiated a new compliance schedule.

Delaware Valley then moved for attorney's fees to recoup the money it spent during the EPA proceedings.<sup>204</sup> The district court granted the motion, and the Third Circuit affirmed relying on the "useful and ordinarily necessary" standard of *Webb*.<sup>205</sup> The Supreme Court granted certiorari, and affirmed the lower courts on this issue. In so doing, the Court began with the language of the relevant fee shifting statute, as it had in *Carey* and *Webb*.<sup>206</sup> Unlike § 706(k) and § 1988, however, the fee shifting provision of the CAA, § 304(d), explicitly referred only to the "action" not to "proceedings."<sup>207</sup> But, the Court decided, the statutory language alone was not determinative of Congress's intent. Instead, the Court looked to the legislative history of the CAA and found that it used the terms "action" and "proceedings" interchangeably.<sup>208</sup> More to the point, because § 304(d) had the same objective as §§ 706(k) and 1988—"to promote citizen enforcement of important federal policies"—their fee shifting provisions should carry the same meaning.<sup>209</sup>

After addressing the plain language and legislative history of § 304(d), the Court turned to the mandatory/optional nature of the administrative proceedings.<sup>210</sup> While the administrative proceedings in question were optional, the Court agreed that the work before the EPA was "useful and necessary" as contemplated by *Webb*. Put simply, "participation in these administrative proceedings was crucial to the vindication of Delaware Valley's rights under the consent decree."<sup>211</sup> Accordingly, the district court did not abuse its discretion by awarding fees to the plaintiff in this case.

Piecing together the holdings of *Carey*, *Webb*, *Crest*, and *Delaware Valley*, a framework emerges for deciding whether a prevailing party may recover attorney's fees incurred before an administrative agency.<sup>212</sup> First, the plaintiff must file a lawsuit to enforce the underlying rights, not an independent action solely to recover attorney's fees. Second, the court must determine if either the plain language of the

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<sup>202</sup> *Id.*

<sup>203</sup> *Id.*

<sup>204</sup> *Id.* at 553.

<sup>205</sup> *Id.* at 556.

<sup>206</sup> *Id.* 557-58.

<sup>207</sup> 42 U.S.C. § 7604(d) ("The court, in issuing any final order *in any action brought pursuant to subsection (a) of this section*, may award costs of litigation (including reasonable attorney and expert witness fees) to any party, whenever the court determines such award is appropriate." (emphasis added)).

<sup>208</sup> *Delaware Valley*, 478 U.S. at 559.

<sup>209</sup> *Id.* at 560.

<sup>210</sup> *Id.* at 561.

<sup>211</sup> *Id.*

<sup>212</sup> See Michael J. Davidson, *Crest: Judicial Preclusion of an Independent Suit Solely for Attorneys' Fees Under Title VII?*, 18 DEL. J. CORP. L. 425, 450-51 (1993).

fee shifting statute or its legislative history makes clear that Congress contemplated fees for “proceedings,” not just lawsuits. Finally, the court must determine if the administrative proceedings at issue were mandatory or optional. Whereas a prevailing party is presumptively entitled to fees for mandatory proceedings, fees for optional proceedings are only recoverable if they were both “useful and ordinarily necessary” to advance the litigation.<sup>213</sup>

#### B. Lower Courts’ Interpretations of Supreme Court Jurisprudence

Fee shifting provisions are found in many different laws, and therefore lower courts have faced the question whether to include fees for work before an administrative tribunal in a number of contexts. Examples include the Handicapped Children’s Protection Act (HCPA),<sup>214</sup> the Employment Retirement Income Security Act (ERISA),<sup>215</sup> and the Age Discrimination in Employment Act (ADEA).<sup>216</sup> Courts have generally allowed the recovery of such fees in HCPA cases,<sup>217</sup> precluded recovery in ERISA cases,<sup>218</sup> and split on the issue in ADEA cases.<sup>219</sup> A lengthy discussion of all of these cases is beyond the scope of this Article, so it addresses only the ERISA cases—which were decided most recently—in greater detail.

*Cann v. Carpenters’ Pension Trust Fund for Northern California* was the first circuit decision in the ERISA context to address the question whether a prevailing party could recover attorney’s fees for administrative proceedings.<sup>220</sup> Cann filed two federal lawsuits and pursued administrative remedies regarding his pension eligibility.<sup>221</sup> Upon settling the merits, Cann requested \$51,600 in attorney’s fees, some of which were incurred during administrative proceedings.<sup>222</sup> Cann argued that he was entitled to recover such fees because the administrative proceedings were mandatory, i.e., exhaustion of administrative remedies was a prerequisite to filing suit.<sup>223</sup> The district court nevertheless limited Cann’s recovery to fees incurred during the federal court actions.

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<sup>213</sup> *Id.*

<sup>214</sup> *See, e.g.*, *Moore v. District of Columbia*, 907 F.2d 165 (D.C. Cir. 1990) (en banc); *Duane M. v. Orleans Par. Sch. Bd.*, 861 F.2d 115, 118 (5th Cir. 1988); *Eggers v. Bullitt Cty. Sch. Dist.*, 854 F.2d 892, 894 (6th Cir. 1988).

<sup>215</sup> *See, e.g.*, *Rego v. Westvaco Corp.*, 319 F.3d 140 (4th Cir. 2003); *Peterson v. Continental Cas. Co.*, 282 F.3d 112 (2d Cir. 2002); *Cann v. Carpenters’ Pension Trust Fund for N. Cal.*, 989 F.2d 313 (9th Cir. 1993).

<sup>216</sup> *See, e.g.*, *Reichman v. Bonsignore, Brignati & Mazzotta P.C.*, 818 F.2d 278 (2d Cir. 1987); *Kenedy v. Whitehurst*, 690 F.2d 951 (D.C. Cir. 1982).

<sup>217</sup> *See Davidson, supra* note 212, at 444.

<sup>218</sup> *See infra* Part III.B (discussing ERISA cases in greater detail).

<sup>219</sup> *See Silver, supra* note 190, at 407-09.

<sup>220</sup> *Cann v. Carpenters’ Pension Trust Fund*, 989 F.2d 313 (9th Cir. 1993).

<sup>221</sup> *Id.* at 314.

<sup>222</sup> *Id.* at 314-15.

<sup>223</sup> *Id.* at 315

Following the framework set out by the Supreme Court, the Ninth Circuit began by examining the plain language of the ERISA fee shifting provision.<sup>224</sup> It provided that “[i]n any action under this subchapter. . . by a participant, beneficiary, or fiduciary, the court in its discretion may allow a reasonable attorney’s fee and costs of action to either party.”<sup>225</sup> Unlike § 706(k) and § 1988, the ERISA provision mentioned only “actions” and not “proceedings.”<sup>226</sup> Therefore, the court concluded, the plain language of the statute limits awards to fees incurred in litigation in court.<sup>227</sup>

But the inquiry didn’t end there. Guided by *Delaware Valley*, the court next considered the legislative history of ERISA.<sup>228</sup> Congress’s intention was to promote “the soundness and stability of [pension] plans with respect to adequate funds to pay promised benefits.”<sup>229</sup> The court believed that this objective would not be furthered, and might even be undermined, by allowing the recovery of fees for administrative proceedings.<sup>230</sup> Nor, the court reasoned, was there anything else in the legislative history that “supported a nonliteral interpretation of [the term] ‘action’” in the ERISA fee shifting provision.<sup>231</sup> For these reasons, the Ninth Circuit affirmed the district court’s denial of attorney’s fees.

Over the next decade, several other circuit courts faced the same question about fee shifting in ERISA cases. Starting with *Anderson v. Procter & Gamble Co.*,<sup>232</sup> the Sixth Circuit found the reasoning in *Cann* persuasive and held that “ERISA does not authorize recovery of attorney’s fees for work performed during the administrative exhaustion phase of a benefits proceedings.”<sup>233</sup> Likewise, in *Peterson v. Continental Casualty Co.*, the Second Circuit limited recovery to attorney’s fees incurred in court based on the text of the ERISA fee-shifting provision.<sup>234</sup> In reaching this conclusion, the *Peterson* court relied on dictionary definitions of “action,” the use of the term “action” in other provisions of the ERISA statute, and the decisions in *Cann* and *Anderson*.<sup>235</sup>

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<sup>224</sup> *Id.*

<sup>225</sup> 29 U.S.C. § 1132(g)(1) (emphasis added).

<sup>226</sup> *Cann*, 989 F.2d at 316.

<sup>227</sup> *Id.*

<sup>228</sup> *Id.* at 316-17.

<sup>229</sup> 29 U.S.C. § 1001(a).

<sup>230</sup> *Cann*, 989 F.2d at 316 (“This purpose might be undermined by awards which, by encouraging plans to pay questionable claims in order to avoid liability for attorneys’ fees, could reduce their ‘soundness and stability.’”).

<sup>231</sup> *Id.* at 317. The Ninth Circuit also distinguished *Delaware Valley* on the ground that the administrative proceedings in that case occurred after the civil action and were necessary to enforce an already-litigated consent decree, whereas in *Cann* the administrative proceedings preceded the lawsuit. *Id.*

<sup>232</sup> *Anderson v. Procter & Gamble Co.*, 220 F.3d 449 (6th Cir. 2000).

<sup>233</sup> *Id.* at 456.

<sup>234</sup> *Peterson v. Cont’l Cas. Co.*, 282 F.3d 112, 114 (2d Cir. 2002).

<sup>235</sup> *Id.* at 119-20.

In *Rego v. Westvaco Corporation*,<sup>236</sup> the Fourth Circuit reached the same conclusion about fee shifting in ERISA cases. While the *Rego* court agreed with the rationale of its sister circuits, it offered an additional reason for not allowing the recovery of fees for administrative proceedings.<sup>237</sup> Making such fees recoverable, the court suggested, would encourage parties to retain lawyers to represent them during administrative proceedings.<sup>238</sup> And if lawyers were injected into this process, “it would establish a far higher degree of formality and lead to more protracted litigation in a great many cases.”<sup>239</sup>

The Eighth Circuit most recently joined this line of cases in *Parke v. First Reliance Standard Life Insurance Co.*<sup>240</sup> The *Parke* court found it significant that the ERISA fee shifting provision referred only to “actions,” not “proceedings.”<sup>241</sup> The court also spent a good deal of time distinguishing *Delaware Valley*.<sup>242</sup> Not only did the environmental legislation at issue in *Delaware Valley* have a different congressional design, the procedural posture of the case was different. As noted by the Ninth Circuit in *Cann*,<sup>243</sup> the administrative proceedings in *Delaware Valley* occurred after the civil action and were necessary to enforce the already-litigated consent decree, whereas the administrative proceedings in the ERISA context pre-dated the plaintiff’s lawsuit.<sup>244</sup>

In all of these ERISA cases, as well as in the HCPA and ADEA cases mentioned above,<sup>245</sup> lower courts begin with the plain language of the statute and the Supreme Court’s decision in *Carey* to decide whether fees for administrative proceedings are recoverable. As discussed in the next Section, however, when the Federal Circuit confronted this question regarding fees for PTO proceedings, it skipped the first part of the analysis and focused only on the inquiry from *Webb*—whether the administrative proceedings were mandatory or optional.<sup>246</sup> Because the Federal Circuit’s analysis was flawed, the question whether courts may award fees for PTO proceedings remains open.

### C. Fee Shifting for PTO Proceedings

The AIA vastly expanded the ability to challenge patent validity through administrative proceedings at the PTO. But even before the AIA, various administrative proceedings were available to patent owners and other interested parties—including

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<sup>236</sup> *Rego v. Westvaco Corp.*, 319 F.3d 140 (4th Cir. 2003).

<sup>237</sup> *Id.* at 150.

<sup>238</sup> *Id.*

<sup>239</sup> *Id.*

<sup>240</sup> *Bernhardt, L.L.C. v. Collezione Europa USA, Inc.*, 368 F.3d 999 (8th Cir. 2010), *abrogated by* *Egyptian Goddess, Inc. v. Swisa, Inc.*, 543 F.3d 665 (Fed. Cir. 2008).

<sup>241</sup> *Id.* at 1010.

<sup>242</sup> *Id.* at 1011.

<sup>243</sup> *Cann*, 989 F.2d at 317.

<sup>244</sup> *See supra* note 231.

<sup>245</sup> *See supra* notes 214, 216.

<sup>246</sup> *See infra* Part III.C.

reissue, ex parte reexamination, and inter partes reexamination—all of which were used at times in conjunction with litigation.<sup>247</sup> During this pre-AIA era, in a case called *PPG Indus., Inc. v. Celanese Polymer Specialties Co., Inc.*, the Federal Circuit addressed the question about shifting fees for work before the PTO.

### 1. *PPG v. Celanese*

PPG Industries, the owner of patents related to electrodeposition of coating compositions, sued Celanese for infringement.<sup>248</sup> Celanese uncovered relevant prior art during discovery, and so PPG sought reissue of the patents-in-suit.<sup>249</sup> The district court stayed the federal court action pending the PTO's resolution of the reissue proceedings, and Celanese actively participated in the reissue proceedings as a protestor and intervenor.<sup>250</sup> The PTO refused to reissue PPG's patents because the claims were obvious in light of the prior art, and because PPG engaged in inequitable conduct by intentionally withholding this prior art during the initial examination.<sup>251</sup> The district court then lifted the stay, entered judgment for Celanese, and Celanese moved for attorney's fees under 35 U.S.C. § 285. Although the district court determined the case was "exceptional" and granted the motion, it did not award the full amount Celanese requested, including approximately \$275,000 for "legal services rendered before the PTO in opposing PPG's reissue applications."<sup>252</sup> Celanese appealed, and the Federal Circuit reversed.

What's most remarkable about the Federal Circuit's decision in *PPG* is what's missing from it, namely any reference to the text of § 285 or the Supreme Court's decision in *Carey*.<sup>253</sup> Instead of starting with the plain language of the relevant fee shifting provision—as *Carey* instructs and as all other circuit courts deciding this question have done—the Federal Circuit only discussed *Webb* and the designation of the reissue proceedings as mandatory or optional.<sup>254</sup> The court held that, at least in this case, the reissue proceedings were mandatory because Celanese had to participate in them once PPG requested reissue.<sup>255</sup> And even if considered optional, the court explained, the reissue proceedings were "useful and of a type ordinarily nec-

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<sup>247</sup> See, e.g., La Belle, *supra* note 1, at 56-58 (setting forth the history of ex parte and inter partes reexamination); Willis B. Rice & William L. Grossman, *Reissued Patents and Intervening Rights*, 43 YALE L.J. 766, 770 (1934) (exploring the history of reissue proceedings).

<sup>248</sup> *PPG Indus., Inc. v. Celanese Polymer Specialties Co.*, 840 F.2d 1565, 1566 (Fed. Cir. 1988).

<sup>249</sup> *Id.*

<sup>250</sup> *Id.* at 1567. At the time *PPG* was decided, third parties could participate in reissue proceedings pursuant to the "Dann Amendments." *Id.* at 1568. After Congress enacted legislation providing for reexamination, it repealed the Dann Amendments. *Id.*

<sup>251</sup> *Id.* at 1566.

<sup>252</sup> *Id.* at 1568.

<sup>253</sup> Interestingly, the district courts that addressed this question before the Federal Circuit's *PPG* decision also failed to consider *Carey* and the plain language of § 285. See *Scott Paper Co. v. Moore Bus. Forms, Inc.*, 604 F.Supp. 835 (D. Del. 1984); *PPG Indus., Inc. v. Celanese Polymer Specialties Co., Inc.*, 658 F. Supp. 555 (W.D. Ky. 1987).

<sup>254</sup> *PPG Indus., Inc. v. Celanese Polymer Specialties Co.*, 840 F.2d 1565, 1568-69 (Fed. Cir. 1988).

<sup>255</sup> *Id.* at 1568.

essary” as contemplated in *Webb*.<sup>256</sup> Celanese, therefore, was entitled to recover the attorney’s fees incurred during reissue proceedings before the PTO.

## 2. Lower Courts’ Applications of *PPG*

Since the Federal Circuit decided *PPG* almost three decades ago, this fee shifting issue has garnered little attention. From time-to-time, district courts have had to decide whether to award fees for work before the PTO.<sup>257</sup> In most of these reported opinions, the courts have allowed such fees with little explanation.<sup>258</sup> The courts may have been relying on *PPG*, but that is not always clear.

With the passage of the AIA, the popularity of the new post-grant proceedings, and the rise in fee shifting motions after *Octane* and *Highmark*, courts are likely to face this issue on a much more regular basis.<sup>259</sup> Indeed, a recent district court decision on the matter—*Deep Sky Software, Inc. v. Southwest Airlines Co.*—received a good bit of attention from various commentators and was picked up by several blogs.<sup>260</sup> In *Deep Sky*, the plaintiff filed a patent infringement action in 2010, and soon thereafter the defendant filed a request for inter partes reexamination.<sup>261</sup> The

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<sup>256</sup> *Id.* at 1568-69.

<sup>257</sup> See *Deep Sky Software, Inc. v. Southwest Airlines Co.*, Case No. 10-cv-1234-CAB (KSC), at 3-5 (S.D. Cal. Aug. 19, 2015); *Intellect Wireless, Inc. v. HTC Corp.*, 2015 WL 136142, at \* 9 (N.D. Ill. Jan. 8, 2015); *IA Labs CA, LLC v. Nintendo Co., Ltd.*, 2012 WL 1565296, at \*4 (D. Md. May 1, 2012); *Howes v. Medical Components, Inc.*, 761 F. Supp. 1193, 1199 (E.D. Pa. 1990).

<sup>258</sup> See *Deep Sky*, Case No. 10-cv-1234, at 4 (“[U]nder the unique circumstances of this case, defendant may recover fees for the reexamination proceedings.”); *IA Labs*, 2012 WL 1565296, at \*4 (“[T]he Court accepts Nintendo’s calculation of the number of hours reasonably expended on the matter as a result of IA Labs’ baseless claim—including those related to the reexamination proceeding before the PTO.”); *Howes*, 761 F. Supp. at 1198 (concluding that fees for reexamination proceedings were recoverable because they were “reasonably necessary to this litigation”). *But see Intellect Wireless*, 2015 WL 136142, at \*9 (“To the extent the present fee petition contains time for work before the USPTO, such time should not be included in the fee award.”).

<sup>259</sup> See *infra* Part IV. A related issue that at least one district court has already faced is whether prevailing parties in patent cases can be awarded the costs (as opposed to attorney’s fees) associated with PTAB proceedings. See *Credit Acceptance Corp., v. Westlake Servs., LLC*, CV 13-01523 SJO (MRWx), at 5-6 (C.D. Cal. Jan. 5, 2016). In *Credit Acceptance*, the patent owner sued for infringement, and the defendant successfully challenged the patent in CBM before the PTAB. The defendant then sought to recover costs associated with the CBM, namely \$73,200 in filing fees. *Id.* at 5. Despite being the “prevailing party,” the district court held that defendant could not recover the CBM-related filing fees pursuant to the Central District of California’s Local Rules, which only allowed fees paid to the “Clerk” to be recoverable. *Id.* at 6. Since the \$73,200 in fees was paid to the PTO, and not the court clerk, they were not taxable costs. *Id.*

<sup>260</sup> See, e.g., Gregory S. Cordrey, *District Court Awards Defendant Its IPR-Related Fees Under § 285*, PATENT LAWYER BLOG, <http://patentlaw.jmbm.com/2015/09/district-court-awards-defendan.html> (Sept. 1, 2015); Kevin Penton, *Southwest Wins Attorney Fees for Patent Re-examination Period*, LAW 360, <http://www.law360.com/articles/693876/southwest-wins-atty-fees-for-patent-re-examination-period> (Aug. 21, 2015); Hans Smith, *Attorney Fees for Post-Grant Patent Challenge Proceedings Before the USPTO May Be Recoverable in Exceptional Cases Under 35 U.S.C. § 285*, IP INTELLIGENCE, <http://www.ipintelligence.com/2015/08/26/attorney-fees-for-post-grant-patent-challenge-proceedings-before-the-uspto-may-be-recoverable-in-exceptional-cases-under-35-u-s-c-%C2%A7-285/> (Aug. 26, 2015).

<sup>261</sup> *Deep Sky*, Case No. 10-cv-1234, at 1.

parties filed a joint motion to stay the case pending the outcome of the reexamination, which the court granted.<sup>262</sup>

After the PTO cancelled all the claims of the patent, the district court lifted the stay and Southwest moved for attorney's fees under § 285, including fees for the reexamination.<sup>263</sup> The district court, which had previously determined the case was exceptional, granted the motion. In so doing, the court did not examine the text of § 285, consider its legislative history, or discuss any of the Supreme Court cases on point. Instead, relying on *PPG*, the court held that "the reexamination proceedings essentially substituted for work that would otherwise have been done before this court," and therefore Southwest was entitled to those fees.<sup>264</sup>

Although *Deep Sky* involved pre-AIA administrative proceedings (*i.e.*, inter partes reexamination), no doubt district courts will approach the fee shifting question similarly with respect to IPR, PGR, and CBM. Stated simply, courts will follow *PPG* and allow prevailing parties to recover fees incurred during PTO proceedings. Perhaps from a policy perspective the Federal Circuit got it right in *PPG*, but its legal analysis was unsound. The final Part of this Article therefore makes two suggestions for addressing this problem going forward. First, it calls on either an *en banc* Federal Circuit or the Supreme Court to revisit *PPG*, and second it urges Congress to address this matter.

#### IV. The Future of Fee Shifting for PTAB Proceedings

##### A. The Judiciary Should Revisit *PPG*

When the Federal Circuit decided *PPG* almost thirty years ago, the language of § 285 was the same as it is today: "The court in exceptional cases may award reasonable attorney fees to the prevailing party."<sup>265</sup> This language should have been the Federal Circuit's starting point, as the Supreme Court explicated in *Carey* and its progeny.<sup>266</sup> Of course, the "rule" announced in *Carey* is not unique to the circumstances of that case. It is a basic principle of statutory construction that courts begin with the language of the statute.<sup>267</sup> The Federal Circuit itself has acknowledged this maxim time and again.<sup>268</sup>

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<sup>262</sup> *Id.*

<sup>263</sup> *Id.* at 2.

<sup>264</sup> *Id.* at 4. The district court did cite one other Federal Circuit case, *Cent. Soya Co. v. Geo. A. Hormel & Co.*, 723 F.2d 1573, 1578 (Fed. Cir. 1983), for the proposition that attorney's fees may include "those sums that the prevailing party incurs in the preparation for and performance of legal services related to the suit." But *Soya* is not on point. In *Soya*, the question was whether courts may award expenses—such as fees for paralegals, expert witness fees, photocopying charges, travel expenses, etc.—or whether § 285 is limited to attorney's fees. *Id.* at 1577-78. *Soya* did not address the question whether attorney's fees for administrative proceedings are recoverable under § 285.

<sup>265</sup> 35 U.S.C. § 285.

<sup>266</sup> *See supra* Part III.A.

<sup>267</sup> *See, e.g.*, *Barnhart v. Thomas*, 540 U.S. 20, 26 (2003); *Duncan v. Walker*, 533 U.S. 167, 172 (2001); *Consumer Prod. Safety Comm'n v. GTE Sylvania, Inc.*, 447 U.S. 102, 108 (1980); *see also*

Yet, for unexplained reasons, the *PPG* court skipped this critical first step when interpreting § 285. Maybe a court would choose not to address the statutory language if it were sufficiently clear. But if the statute's language was clear, then why would the parties be litigating about it in the first place? In the end, whether such a hypothetical situation might arise in some other case is neither here nor there because the language of § 285 is *not* clear—it does *not* unambiguously allow prevailing parties to recover fees for administrative proceedings.

To the contrary, unlike sections 706(k) and 1988 of the Civil Rights Act, § 285 makes no mention of “proceedings.”<sup>269</sup> Rather, the statute says only that courts may award fees in “cases.” The term “case” is synonymous with “action,”<sup>270</sup> and courts have interpreted “action” to mean a proceeding in court, not an administrative proceeding.<sup>271</sup> A “case,” moreover, is defined as “a question contested before a *court* of justice” or “an aggregate of facts which furnishes occasion for the exercise of the jurisdiction of a *court* of justice.”<sup>272</sup> In short, the statutory language of § 285 does not support the Federal Circuit's conclusion in *PPG* that fees may be awarded for PTO proceedings.

But even where, as here, the statute is silent, courts may still award fees for administrative proceedings if that's what Congress intended.<sup>273</sup> The purpose of § 285 is “to compensate the prevailing party for its monetary outlays in the prosecution or defense of the suit.”<sup>274</sup> To be sure, allowing prevailing parties in patent litigation to recover fees for PTO proceedings would be “compensatory.” However, it's impossible to say—as the Supreme Court did in *Delaware Valley*—that Congress *intend-*

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Debra Lyn Bassett, *Statutory Interpretation in the Context of Federal Jurisdiction*, 76 GEO. WASH. L. REV. 52, 69 (2007).

<sup>268</sup> See, e.g., *Federal Nat. Mortgage Ass'n v. United States*, 379 F.3d 1303, 1307 (Fed. Cir. 2004) (“[S]tatutory interpretation begins with the language of the statute.”); *Associated Elec. Co-op., Inc. v. United States*, 226 F.3d 1322, 1326 (Fed. Cir. 2000) (“To determine Congressional intent, we begin, of course, with the language of the statutes at issue.”); *Demko v. United States*, 216 F.3d 1049, 1052 (Fed. Cir. 2000) (“Statutory interpretation begins with the language of the statute itself.”).

<sup>269</sup> 42 U.S.C. §§ 1988, 2000(e)-5(k).

<sup>270</sup> CASE, BLACK'S LAW DICTIONARY (10TH ED. 2014) (defining “case” as “[a] civil or criminal proceeding, *action*, cause, suit, or controversy, at law or in equity”) (emphasis added).

<sup>271</sup> See, e.g., *Peterson v. Cont'l Cas. Co.*, 282 F.3d 112, 119 (2d Cir. 2002) (“Used in a statute, the term ‘action’ traditionally connotes a formal adversarial proceeding under the jurisdiction of a court of law.”); *Cann v. Carpenters' Pension Trust Fund*, 989 F.2d 316, 316 (9th Cir. 1993) (“action” generally refers to “proceedings in court, not administrative proceedings even though necessary and valuable”).

<sup>272</sup> BLACK'S, *supra* note 270 (emphasis added).

<sup>273</sup> See *Pennsylvania v. Delaware Valley Citizens' Council for Clean Air*, 478 U.S. 546, 559, (1986).

<sup>274</sup> *Cent. Soya Co. v. Geo. A. Hormel & Co.*, 723 F.2d 1578 (Fed. Cir. 1983); see also *Codex Corp. v. Milgo Electronic Corp.*, 541 F.Supp. 1198, 1201 (D. Mass.1982) (“The compensatory purpose of § 285 is best served if the prevailing party is allowed to recover his reasonable expenses in prosecuting the entire action.”).

*ed* for these fees to be recoverable because, at the time § 285 was enacted, these PTO proceedings did not even exist.<sup>275</sup>

Because neither the plain language of § 285 nor its legislative history support the recovery of fees for work before the PTO, the Federal Circuit's legal analysis in *PPG* was wrong. Under the Supreme Court's framework, the Federal Circuit never should have reached the question whether PTO proceedings are mandatory or optional because there was no explicit or implicit statutory authority for awarding fees for administrative proceedings.<sup>276</sup> Thus, the Supreme Court or an *en banc* panel of the Federal Circuit should revisit and reverse *PPG*.

For all its flaws, however, the *PPG* decision is sound as a matter of policy, especially in light of the objectives of the AIA. One purpose of the AIA was to address the country's bad patent problem, which Congress believed was hampering innovation and technological advancement.<sup>277</sup> To that end, Congress created PTAB proceedings as a quicker and less expensive alternative to district court litigation.<sup>278</sup> Congress's goal, in other words, was to encourage the use of PTAB proceedings to invalidate bad patents.

While various means could be used to encourage PTAB challenges, fee shifting is an important one. Simply put, when there's a possibility of recovering attorney's fees, parties are more likely to seek PTAB review in the first place, and more likely to pursue such challenges to a final decision.<sup>279</sup> On the other hand, if there's no possibility of fee shifting, parties may choose a different path. They may challenge a patent only in federal court (i.e., not at the PTAB), settle the case (thereby allowing an invalid patent to remain in force), or not challenge the patent at all.<sup>280</sup>

In short, the policy underlying *PPG* makes good sense because allowing prevailing parties to recoup attorney's fees for PTAB proceedings furthers the aims of the AIA. But even assuming the Federal Circuit wanted to award fees for work at the PTAB, its hands are tied by the plain language of § 285, the statute's legislative

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<sup>275</sup> Instead, the legislative history indicates that Congress believed fee shifting in patent cases would "enable the court to prevent a gross injustice to an alleged infringer" and deter willful infringement "by anyone thinking that all he would be required to pay if he loses the suit would be a royalty." S. Rep. No. 1503 (1946), in 1946 U.S.C.C.S. 1386, 1387.

<sup>276</sup> See *supra* Part III.A (setting out the Supreme Court's framework for analyzing fee shifting for administrative proceedings).

<sup>277</sup> See, e.g., 157 Cong. Rec. S5409-10 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer) ("[T]he bill streamlines review of patents to ensure that the poor-quality patents can be weeded out through administrative review rather than costly litigation."); 157 Cong. Rec. S5433 (daily ed. Sept. 8, 2011) (statement of Sen. Grassley) (arguing that post-grant administrative review will "protect inventor's rights," "strengthen patent quality," "reduce costs," "curb litigation abuses," and "improve certainty for investors and innovators").

<sup>278</sup> See Matal, *supra* note 158, at 653.

<sup>279</sup> See *supra* Part I (discussing how different fee shifting regimes influence litigation conduct).

<sup>280</sup> See *id.*

history, and Supreme Court precedent. Accordingly, it is up to Congress to provide a legislative fix.

#### B. Congress Should Allow for Recovery of PTAB Fees

Since 2013, several bills have been introduced in Congress proposing broader fee shifting for patent cases.<sup>281</sup> Many provisions in these bills have been the subject of significant debate, including whether fee shifting should be mandatory or discretionary, how to recover fees from the “real party in interest,” whether to adopt a one-way or two-way fee shifting scheme, the standard for fee shifting, and whether certain entities (e.g., universities) should be exempted from the fee shifting provisions.<sup>282</sup> Yet, none of these bills tackles the question whether prevailing parties should be able to recover fees incurred during PTAB proceedings.

If Congress ultimately adopts one of these fee shifting bills, it should permit courts to award fees for IPR, PGR, and CBM (e.g., by including the word “proceedings” in the statute). Congress should also provide district courts some guidance on when such fees are appropriately granted. For example, district courts might be more likely to award fees for PTAB proceedings if they simplified the litigation or substituted for work that otherwise would have been done before the court.<sup>283</sup> On the other hand, if PTAB proceedings were duplicative or brought for harassment purposes, recovery should not be allowed.<sup>284</sup> While such decisions should be left to the discretion of the court, laying out factors in the statute for the court to consider would be helpful. To be completely upfront, I am not advocating for the passage of any of these fee shifting bills. But if Congress decides to revamp § 285, it should take that opportunity to clarify this issue about recouping administrative fees.

Even in the event Congress does not pass comprehensive fee shifting legislation, it should still address this issue. Patent litigants who employ PTAB proceedings in a way that advances the AIA’s objectives ought to recover their attorney’s fees.<sup>285</sup> To allow for that, Congress would need to amend § 285—at the very

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<sup>281</sup> See *supra* Part II.D (introducing various fee shifting proposals).

<sup>282</sup> See Patent Progress, *Patent Progress’s Guide to Federal Patent Reform Legislation*, available at <http://www.patentprogress.org/patent-progress-legislation-guides/patent-progress-guide-patent-reform-legislation/> (collecting and summarizing patent reform bills that have been introduced since 2013).

<sup>283</sup> See, e.g., *Delaware Valley*, 478 U.S. at 562 (“We agree that participation in these proceedings was crucial to the vindication of Delaware Valley’s rights under the consent decree and find that compensation for these activities was entirely proper and well within the ‘zone of discretion ‘afforded to the District Court.’”); *Deep Sky*, Case No. 10-cv-1234, at 4 (S.D. Cal. Aug. 19, 2015).

<sup>284</sup> See, e.g., Gregory Dolin, *Dubious Patent Reform*, 56 B.C. L. REV. 881, 932-33 (2015) (discussing how parties have abused PTAB proceedings); Vishnubhakat, et al., *supra* note 161, at 55 (explaining that some PTAB petitions may be used for harassment and delay).

<sup>285</sup> See *Carey*, 447 U.S. at 66 (“It would be anomalous to award fees to the complainant who is unsuccessful or only partially successful in obtaining state or local remedies, but to deny an award to the complainant who is successful in fulfilling Congress’ plan that federal policies be vindicated at the state or local level.”).

least—to refer to “proceedings” in the text of the statute. Ideally, as noted above, Congress would also provide some guidance to help courts discern when fees for administrative work are warranted and when they are not.

One last suggestion is that Congress consider granting the PTAB power to award attorney’s fees to prevailing parties, as it has done for a number of other agencies.<sup>286</sup> That way, parties who litigate only at the PTAB (and not also in federal court) can recover fees. This is important because, while most IPRs and CBMs involve a parallel federal court suit,<sup>287</sup> some do not. Moreover, with respect to PGRs, there’s less likely to be parallel litigation since they must be initiated within nine months of the patent’s issuance.<sup>288</sup> Allowing the PTAB to award fees would further the AIA’s objective of encouraging parties to use PTAB proceedings as a substitute for, rather than in addition to, federal court litigation.<sup>289</sup> Plus, having the agency decide fee motions avoids the difficulty courts face when assessing a fee request for work conducted before a different tribunal.<sup>290</sup>

## Conclusion

The PTAB is transforming the way patent litigation is conducted in the United States. Where patents were once litigated solely in federal court, today the PTAB

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<sup>286</sup> See, e.g., Fair Housing Act, 42 U.S.C. § 3612(p) (“In any administrative proceeding brought under this section, or any court proceeding arising therefrom, or any civil action under this section, *the administrative law judge* or the court, as the case may be, in its discretion, may allow the prevailing party, other than the United States, a reasonable attorney’s fee and costs.”) (emphasis added); Federal Mine Safety and Health Act of 1977, 30 U.S.C. § 815(c)(3) (“Whenever an order is issued sustaining the complainant’s charges under this subsection, a sum equal to the aggregate amount of all costs and expenses (including attorney’s fees) *as determined by the Commission* to have been reasonably incurred by the miner, applicant for employment or representative of miners for, or in connection with, the institution and prosecution of such proceedings shall be assessed against the person committing such violation.”) (emphasis added); Longshore and Harbor Workers’ Compensation Act, 33 U.S.C. §§ 928(a)-(b) (“If . . . the person seeking benefits shall thereafter have utilized the services of an attorney at law in successful prosecution of his claim, there shall be awarded . . . a reasonable attorney’s fee against the employer or carrier in an amount *approved by the deputy commissioner, Board, or court, as the case may be.*”) (emphasis added); Shipping Act of 1984, 46 U.S.C. § 41305(e) (authorizing the Federal Maritime Commission to award reasonable attorney fees to the prevailing party in any action brought under the act).

<sup>287</sup> See Love & Ambwani, *supra* note 152, at 103; Vishnubhakat, et al., *supra* note 161, at 70-72.

<sup>288</sup> *Id.* at 58.

<sup>289</sup> *In re Cuozzo Speed Techs., LLC*, 793 F.3d 1268, 1284-85 (Fed. Cir. 2015) (Newman, J., dissenting) (arguing that the PTAB was meant to serve as a “surrogate for district court litigation”); Vishnubhakat, et al., *supra* note 161, at 70 (noting the “intended uses of IPR and CBM review as substitutes for federal court litigation”).

<sup>290</sup> See, e.g., *PPG Indus. v. Celanese Polymer Specialties, Co.*, 658 F. Supp. 555, 561 (W.D. Ky. 1987) (“[I]t would be very difficult or almost impossible for the court to award those fees accurately regarding the conduct of a separate action before a different kind of tribunal.”). Notably, the PTAB did award attorney’s fees recently, albeit in a different context. In *RPX Corp. v. Applications in Internet Time LLC*, the PTAB ordered the patent owner to pay \$13,500 in attorney’s fees as a sanction for violating a protective order. See IPR 2015-011750, 01751 & 01752. In so doing, the PTAB relied on C.F.R. § 42.12, which allows the Board to impose sanctions against a party for “misconduct.”

plays a key role in resolving patent disputes. While PTAB proceedings are far less expensive than federal court litigation,<sup>291</sup> parties still incur significant attorney's fees adjudicating before the PTO. These administrative fees should be recoverable by prevailing patent litigants, but Supreme Court jurisprudence makes clear that § 285's plain language and legislative history preclude such an award. Therefore, in furtherance of the AIA's objective of encouraging PTAB proceedings as a substitute for federal court litigation, Congress should enact legislation entitling parties who prevail at the PTAB to recover attorney's fees.

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<sup>291</sup> Vishnubhakat, et al., *supra* note 161, at 59 ("Thus far, the new AIA proceedings do appear to be substantially cheaper than district court litigation.").