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A Serendipitous Experiment in Percolation of Intellectual Property Doctrine[†]

DANIEL R. CAHOY* AND LYNDA J. OSWALD**

What do we sacrifice when we put our faith in a specialized patent court? This article breaks new ground by identifying and investigating a serendipitous natural experiment in the development of intellectual property doctrine under a specialized versus a percolating court system that allows us to address the trade-offs inherent in court structures.

Since 1982, all patent-related appeals from district courts and the U.S. Patent and Trademark Office have been channeled to a single, specialized appellate court: the U.S. Court of Appeals for the Federal Circuit. Only the U.S. Supreme Court has more say on patent issues, and its intervention is necessarily rare. The Federal Circuit was established to eliminate the inconsistency that develops when multiple appellate courts weigh in on an issue, as is the norm in most other areas of the law. Notwithstanding the importance of doctrinal uniformity, scholars have pointed out that multi-court “percolation” of issues has important advantages as well, such as reducing judicial hyperactivity and activism. However, if U.S. patent law suffers from the lack of percolation, there have not been concrete examples to date; there has been only theory and speculation on this point.

A key predicate to our investigation is the fact that the patent and trademark statutes have identical language related to fee shifting, but only the latter currently percolates. Leveraging these contrasting jurisprudential states, our article assesses six decades of patent and trademark case law to understand the impact of these two conditions on doctrinal formation. The empirical evidence uncovered is powerful and provides a novel understanding of a fundamental problem in common law legal theory and policy. Significantly, we find that percolation does indeed have clear advantages—it is more likely to result in doctrine that preserves the function of the trial court and avoids inappropriate policy making. We track how Federal Circuit doctrine moved further and further from that formed through percolation among the regional circuits until the Supreme Court’s 2014 fee-shifting decisions reined in the Federal Circuit and forced its interpretation of the statutory language back toward the path pursued by the generalist circuit courts in the trademark area. The empirical evidence thus provides powerful evidence that, regardless of the importance of uniformity, there is a trade-off for investing a specialized court with the sole power of statutory interpretation.

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In the United States, patent doctrine is unique in that its development is dominated by a single, specialized appellate court.¹ The U.S. Court of Appeals for the Federal Circuit (“Federal Circuit”) hears all patent appeals from federal district courts, as well as appeals from the U.S. Patent and Trademark Office (USPTO) on issues of patentability. It is the practical end point for most patent issues, save the few that are granted an audience before the U.S. Supreme Court. This structure is unparalleled in the U.S. courts and stands out globally as an unusual component of a common law system.²

The specialized nature of the Federal Circuit is no accident or anachronism. It was specifically designed in the Federal Courts Improvement Act of 1982 as a means for increasing the uniformity and predictability of patent doctrine.³ Prior to the creation of the Federal Circuit, policy makers and the business community complained that variability in patent law across the twelve regional federal appellate circuits led to an uncertain environment for patent protection.⁴ They feared this uncertainty could harm the innovation incentive that is a core rationale for patent rights.⁵ Congress

1. “Specialized” is generally used to describe a court whose jurisdiction is demarcated by the subject matter of the cases it hears, as opposed to geography or to being a generalist court. See Edward K. Cheng, *The Myth of the Generalist Judge*, 61 STAN. L. REV. 519, 526–27 (2008); Rochelle C. Dreyfuss, *Forums of the Future: The Role of Specialized Courts in Resolving Business Disputes*, 61 BROOK. L. REV. 1, 5 (1995); Paul R. Gugliuzza, *Rethinking Federal Circuit Jurisdiction*, 100 GEO. L.J. 1437, 1445–46 (2012).

2. The Federal Circuit is currently the only Article III specialized appellate court in the federal court system. LAWRENCE BAUM, *SPECIALIZING THE COURTS* 14–15 tbl. 1.2 (2011).

3. See Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, § 127, 96 Stat. 25, 37–39 (codified at 28 U.S.C. § 1295 (2012)). Congress’s primary stated goals in establishing the Federal Circuit as a specialized appellate court were “increas[ing] doctrinal stability in the field of patent law” and “fill[ing] a void in the judicial system by creating an appellate forum capable of exercising nationwide jurisdiction over appeals in areas of the law [including patent law] where Congress determines there is a special need for nationwide uniformity.” S. REP. NO. 97-275, at 2, 5 (1981).

4. H.R. REP. NO. 97-312, at 22 (1981); see also FRANK P. CIHLAR, *THE COURT AMERICAN BUSINESS WANTED AND GOT: THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT* iii (1982) (noting that the reform legislation attracted support from an unusually diverse set of constituencies). The Eleventh Circuit was formed on October 1, 1981, pursuant to the Fifth Circuit Court of Appeals Reorganization Act of 1980, Pub. L. No. 96-452, 94 Stat. 1994 (codified as amended at 28 U.S.C. 41 note (2012) (Amendments)). Prior to that, there were eleven regional circuits (the First through the Tenth and the D.C. Circuit). See *id.*

5. E.g., *Industrial Innovation and Patent and Copyright Law Amendments: Hearings on H.R. 6033, H.R. 6934, H.R. 3806, and H.R. 2414 Before the Subcomm. on Courts, Civil Liberties, and the Admin. of Justice of the H. Comm. on the Judiciary*, 96th Cong. 574–75 (1980) (statement of Sidney A. Diamond, Comm’r of Patents and Trademarks); see also COMM’N ON REVISION OF THE FED. COURT APPELLATE SYS., *STRUCTURE AND INTERNAL PROCEDURES: RECOMMENDATIONS FOR CHANGE* 152 (1975). The commonly-articulated potential benefits of specialized jurisdiction are (1) efficiency; (2) accuracy; and (3) uniformity of doctrine, Gugliuzza, *supra* note 1, at 1447–48, while the potential detriments are (1) potential bias or lack of independent judicial decision making; (2) less qualified judges; and (3) “tunnel vision.” *Id.* at 1449–50. See generally Lynda J. Oswald, *Improving Federal Circuit Doctrine Through Increased Cross-Pollination*, 54 AM. BUS. L.J. 247, 250–60 (2017) (summarizing commentators’ arguments on the pros and cons of court specialization).

intended to remedy the uncertainty by funneling all patent appeals into one specialized circuit court, thereby fostering the development of a true national patent jurisprudence.⁶ Since 1982, the Federal Circuit has been the primary voice on most issues of patent law.

However, cracks have begun to appear in the Federal Circuit's facade as the definitive and most accurate source of patent rules.⁷ Frequently, decisions of the court are criticized for their idiosyncratic and formalistic departures from established legal doctrine in other fields.⁸ In addition, the court has experienced an increase in scrutiny from the Supreme Court. In the first half of the Federal Circuit's existence, the Supreme Court rarely granted certiorari to patent issues, but now it is a substantially more common occurrence.⁹ The Federal Circuit seems more plainly fallible and in need of correction than initially perceived at its outset.

Some argue that the source of the problem is the specialized nature of the Federal Circuit's jurisdiction, which causes all patent appeals to be channeled to a single appellate court.¹⁰ In contrast, issues arising in other areas of intellectual property law such as copyrights and trademarks are appealed from district courts to one of the twelve generalist regional circuits.¹¹ This geographic distribution enables multiple

6. See H.R. REP. NO. 97-312, at 16–27 (1981) (discussing the purpose, background, and need for the legislation).

7. See Gugliuzza, *supra* note 1, at 1442 (noting that scholars argue that “the Federal Circuit’s exclusive jurisdiction leads to poor percolation of legal ideas, less experimentation with legal principles, and, ultimately, a patent law that, although uniform, is insular and severed from economic reality”).

8. See, e.g., Daniel R. Cahoy & Lynda J. Oswald, *Complexity and Idiosyncrasy at the Federal Circuit*, 19 COLUM. SCI. & TECH. L. REV. 216, 225–28 (2018); Timothy R. Holbrook, *Substantive Versus Process-Based Formalism in Claim Construction*, 9 LEWIS & CLARK L. REV. 123 (2005); Timothy R. Holbrook, *The Supreme Court’s Complicity in Federal Circuit Formalism*, 20 SANTA CLARA COMPUTER & HIGH TECH. L.J. 1 (2003); Peter Lee, *Antiformalism at the Federal Circuit: The Jurisprudence of Chief Judge Rader*, 7 WASH. J.L. TECH. & ARTS 405 (2012); Peter Lee, *Patent Law and the Two Cultures*, 120 YALE L.J. 2 (2010); Arti K. Rai, *Engaging Facts and Policy: A Multi-Institutional Approach to Patent System Reform*, 103 COLUM. L. REV. 1035 (2003); David O. Taylor, *Formalism and Antiformalism in Patent Law Adjudication: Rules and Standards*, 46 CONN. L. REV. 415 (2013); John R. Thomas, *Formalism at the Federal Circuit*, 52 AM. U. L. REV. 771, 794 (2003). “Classic formalism embraces the view that the law is a scientific system in which legal institutions use rules to dictate correct outcomes in all cases.” Taylor, *supra*, at 423–24.

9. See Timothy R. Holbrook, Essay, *The Federal Circuit’s Acquiescence(?)*, 66 AM. U. L. REV. 1061, 1082–83 (2017) (noting the shift in the relationship between the Federal Circuit and the Supreme Court from the period of early circuit autonomy to current Federal Circuit acquiescence); cf. Mark D. Janis, *Patent Law in the Age of the Invisible Supreme Court*, 2001 U. ILL. L. REV. 387 (2001) (noting that prior to the formation of the Federal Circuit, the Supreme Court was deeply involved in patent law jurisprudence but took on “benchwarmer” status after 1982).

10. For a summary of this debate, see Oswald, *supra* note 5, at 250–55.

11. The Judiciary Act of 1891 (commonly known as the Evarts Act) created the first nine courts of appeals and gave them jurisdiction over most appeals arising from the U.S. district courts. Ch. 517, 26 Stat. 826. The D.C., Tenth, and Eleventh Circuits were added in 1893, 1929, and 1980, respectively. *The U.S. Courts of Appeals and the Federal Judiciary*, FED. JUD. CTR., <https://www.fjc.gov/node/6766> [<https://perma.cc/KK3D-JX3B>].

courts to rule on the same issue (albeit in different cases),¹² theoretically permitting more doctrinal experimentation and the opportunity to reach a more informed consensus on the proper rule. This distributed decision-making is known as “percolation.”¹³ That the Federal Circuit lacks percolation is well covered in the literature as a theoretical topic.¹⁴ However, to date, it has not been possible to definitively establish in the real world how a particular issue would be handled differently in isolation versus percolation. A particular doctrine either percolates or it does not, depending upon whether multiple courts or a single court has jurisdiction to hear the issue.

This Article fills a gap in the literature by providing novel and unique empirical evidence of the impact of percolated intellectual property doctrine versus the impact of isolated doctrine from a specialized court. It relies on the U.S. Supreme Court’s paired decisions in 2014 in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*¹⁵ and *Highmark, Inc. v. Allcare Health Management Systems, Inc.*¹⁶ to highlight a natural forum for evaluating the effects of percolation on federal legal doctrine. At issue in those cases was the fee-shifting language of Section 285 of the Patent Act: “The court in exceptional cases may award reasonable attorney fees to the prevailing party.”¹⁷ Fortuitously, Section 1117(a) of the Lanham Act, enacted twenty-two years after Section 285, contains the *identical provision* for the trademark and specific types of unfair competition cases that arise under it.¹⁸ Moreover, while patent appeals are now heard exclusively by the Federal Circuit, appeals from Lanham Act cases go to the regional circuits.¹⁹ The treatment of Lanham Act fee shifting in comparison to

12. See *Bonner v. Prichard*, 661 F.2d 1206, 1209 (11th Cir. 1981) (“[T]he decisions of one circuit are not binding on other circuits.”).

13. See Oswald, *supra* note 5, at 255–60 (discussing role of percolation in the federal court system).

14. See, e.g., Jeremy W. Bock, *Restructuring the Federal Circuit*, 3 N.Y.U. J. INTELL. PROP. & ENT. L. 197 (2014); Rochelle C. Dreyfuss, *Percolation, Uniformity, and Coherent Adjudication: The Federal Circuit Experience*, 66 SMU L. REV. 505 (2013); Samuel Estreicher & John E. Sexton, *A Managerial Theory of the Supreme Court’s Responsibilities: An Empirical Study*, 59 N.Y.U. L. REV. 681 (1984); John M. Golden, *The Supreme Court as “Prime Percolator”: A Prescription for Appellate Review of Questions in Patent Law*, 56 UCLA L. REV. 657 (2009); Paul R. Gugliuzza, *Saving the Federal Circuit*, 13 CHI.-KENT J. INTELL. PROP. 350 (2014); Daniel J. Meador, *An Appellate Court Dilemma and a Solution Through Subject Matter Organization*, 16 U. MICH. J.L. REFORM 471 (1983); Craig Allen Nard & John F. Duffy, *Rethinking Patent Law’s Uniformity Principle*, 101 NW. U. L. REV. 1619 (2007); Richard A. Posner, *Will the Federal Courts of Appeals Survive Until 1984? An Essay on Delegation and Specialization of the Judicial Function*, 56 S. CAL. L. REV. 761 (1983); Richard L. Revesz, *Specialized Courts and the Administrative Lawmaking System*, 138 U. PA. L. REV. 1111 (1990); Jeffrey W. Stempel, *Two Cheers for Specialization*, 61 BROOK. L. REV. 67 (1995); Larry D. Thompson, Jr., *Adrift on a Sea of Uncertainty: Preserving Uniformity in Patent Law Post-Vornado Through Deference to the Federal Circuit*, 92 GEO. L.J. 523 (2004).

15. 572 U.S. 545 (2014).

16. 572 U.S. 559 (2014). While separate actions, these two cases were argued before the Court on the same day (February 26, 2014) and decided on the same day (April 29, 2014).

17. 35 U.S.C. § 285 (2012).

18. 15 U.S.C. § 1117(a) (2012).

19. By statute, all cases arising under the Patent Act are appealed exclusively to the

Patent Act fee shifting is thus a serendipitous natural experiment that allows a comparison of two forms of doctrinal development.

Using this experimental lens, we engage in a detailed analysis of fee-shifting cases and compare the results under percolation and specialization. Based on the literature, our hypothesis is that percolation is likely to produce doctrine that, while nonuniform, actually adheres more closely to statutory intent. We expect that the percolation blunts the type of judicial hyperactivity²⁰ and activism that mars the decision-making of a specialized court like the Federal Circuit. And indeed, our results bear this out. They demonstrate, for the first time, that lack of percolation led to weaker doctrine in the Federal Circuit than in the regional circuits, despite identical statutory language.

Part I of this Article puts the experiment in context by explaining the role of generalist versus specialized courts in developing legal doctrine and the clear trade-off between uniformity of doctrine and the advantages of percolation. It provides the theoretical construct that is so in need of empirical validation. Part II begins the empirical study by considering over six decades of Patent Act fee-shifting case law, beginning with the first enactment of a statutory provision in 1946. It describes how, when patent fee-shifting doctrine percolated through the regional circuits from 1946 to 1982, it was relatively stable, and outcomes were noncontroversial and largely congruent with the Supreme Court's rulings in *Octane Fitness* and *Highmark* half a century later. However, with the 1982 introduction of the Federal Circuit as the sole voice in intermediate patent appeals, percolation ceased. Patent fee-shifting doctrine started to harden along rigid and inappropriate lines, eventually taking on the formalistic, inflexible format that was ultimately struck down by the Court in 2014.

In Part III, the Article presents the contrasting case of Lanham Act fee-shifting case law. The Lanham Act fee-shifting provision was adopted in 1974 and has always percolated through the regional circuit courts. Doctrine developed under the Lanham Act provision is less uniform than that found in patent law, as one would expect from percolating doctrine. However, we demonstrate that the Lanham Act fee-shifting

Federal Circuit. 28 U.S.C. § 1295(a)(1) (2012). The Federal Circuit also hears trademark cases arising from the U.S. Patent and Trademark Office (USPTO) and the Trademark Trial and Appeal Board, addressing issues such as registration, cancellation, and renewal. 28 U.S.C. § 1295(a)(4) (2012). The Federal Circuit has exclusive jurisdiction over an eclectic collection of other subject matters as well, including international trade, government contracts, federal personnel, and veterans' benefits. *Court Jurisdiction*, U.S. CT. APPEALS FOR FED. CIR., <http://www.cafc.uscourts.gov/the-court/court-jurisdiction> [https://perma.cc/GUW7-H9LL]. However, the court's caseload is increasingly being dominated by patent appeals. In fiscal year 2018, for example, two-thirds of the Federal Circuit's caseload consisted of patent appeals originating in either the district courts or the USPTO. *Appeals Filed, by Category, FY 2018*, U.S. CT. APPEALS FOR FED. CIR., http://www.cafc.uscourts.gov/sites/default/files/the-court/statistics/CaseloadbyCategory2018_-_Final.pdf [https://perma.cc/8W57-CUVC]. Most other cases arising from the federal district courts, including trademark infringement cases under the Lanham Act, are appealed to the relevant regional circuit court. *See* 28 U.S.C. § 1291 (2012).

20. *See, e.g.*, William C. Rooklidge & Matthew F. Weil, *Judicial Hyperactivity: The Federal Circuit's Discomfort with its Appellate Role*, 15 BERKELEY TECH. L.J. 725, 735–39 (2000) (describing the Federal Circuit's hyperactivity in considering arguments raised for the first time on appeal).

doctrine was more consistent with the Supreme Court's eventual edicts in *Octane Fitness* and *Highmark* than was the nonpercolating doctrine of the specialized Federal Circuit. Part IV concludes that percolation does indeed have clear advantages; it is more likely to result in doctrine that preserves the function of the trial court and avoids inappropriate policy making, although at the cost of uniformity in doctrine. Trade-offs indeed must be made when choosing court structures. We discuss our findings and suggest lessons to be learned that may lead to improvements and more informed analysis of the Federal Circuit.

I. SETTING THE STAGE FOR A NATURAL EXPERIMENT IN PERCOLATION

The Federal Circuit's specialized jurisdiction is intentionally designed to diverge from the standard way that legal questions move through the federal court system. Before addressing this unique structure, it is useful to consider how doctrine normally develops under the multi-circuit scheme of the U.S. courts. The theoretical structural advantages and disadvantages of the Federal Circuit then become clearer in contrast. With that contrast in mind, one appreciates the power of identifying, for comparison and contrast, a specific legal rule that has been developed under both conditions, in serial and parallel time periods.

A. Percolation Versus Specialization

When a decision from one of the United States' ninety-four judicial districts is appealed, it is assigned to the appropriate regional circuit court.²¹ Because those circuits are separate equals, they can hear the same issue and determine their own resolution, unless and until the Supreme Court renders a nationwide rule. The way that doctrinal issues bubble up somewhat unpredictably from circuit to circuit is appropriately described as "percolation."

Simply put, percolation arises when multiple courts consider and develop the law simultaneously in multiple settings.²² It occurs automatically in the bulk of the federal system. The distributed nature of intermediate appellate jurisdiction enables the issues these courts hear to be fully explored and developed through successive or contemporaneous court opinions, which may or may not be congruent. As discussed by Professors Estreicher and Sexton, this exploration can lead to deeper analysis and more innovative doctrine as a result of coequal courts considering each other's decisions,²³ may allow the regional circuits to work their way to consistent doctrine

21. The geographic boundaries of the regional circuits are shown at *Geographic Boundaries of the United States Courts of Appeals and United States District Courts*, U.S. CTS., http://www.uscourts.gov/sites/default/files/u.s._federal_courts_circuit_map_1.pdf [<https://perma.cc/B34H-CBNC>].

22. See Oswald, *supra* note 5, at 255–60.

23. Estreicher & Sexton, *supra* note 14, at 699 n.68; see also SAMUEL ESTREICHER & JOHN SEXTON, REDEFINING THE SUPREME COURT'S ROLE: A THEORY OF MANAGING THE FEDERAL JUDICIAL PROCESS 47 (1986); MICHAEL E. SOLIMINE & JAMES L. WALKER, RESPECTING STATE COURTS: THE INEVITABILITY OF JUDICIAL FEDERALISM 57 (1999); Charles L. Black, Jr., *The National Court of Appeals: An Unwise Proposal*, 83 YALE L.J. 883, 898 (1974); Revesz, *supra* note 14, at 1114.

without Supreme Court involvement,²⁴ and encourages experimentation with different doctrines that can more fully inform future Supreme Court action if circuit conflicts do not resolve on their own.²⁵ In short, the percolation that arises automatically in a federal court system having multiple, coequal appellate courts helps ensure that alternatives are thoroughly analyzed and considered before doctrine is settled.

The downside of percolation, of course, is the potential for at least short-term lack of uniformity in doctrine. Because each regional circuit court sets its own precedents,²⁶ percolation can result in a period of disuniformity in federal doctrine (i.e., circuit splits) where federal doctrine (which theoretically should be uniform) diverges among the circuits.²⁷ Circuit splits can result in some obvious detriments, including uncertainty in the law, disparate outcomes for similarly situated parties, and incentives for forum shopping.²⁸ Nonetheless, a certain level of disuniformity is not only tolerated but embraced within the federal legal system because of the advantages that arise from having multiple courts address issues in a variety of manners.²⁹ As Estreicher and Sexton explained: “It may be that such disuniformity was an unintended byproduct of a geographically dispersed, decentralized judicial structure; but it is a feature that has endured . . . because the system’s commitment to uniformity is qualified by a policy in favor of intercircuit experimentation.”³⁰ In a sense, circuit splits are the price we pay to obtain the benefits of doctrinal percolation.

Some commentators view this as a worthwhile trade-off. For example, Professor Dreyfuss argued that “in a country as complex as the United States, the adjudicatory system is stronger when courts have overlapping jurisdiction and the independence to question one another, modify each other’s outcomes, and resolve similar issues differently.”³¹ She concluded that “the Supreme Court benefits from—and depends upon—this activity; and that percolation provides important information to Congress.”³² Similarly, Professors Nard and Duffy argued that circuit splits

24. Estreicher & Sexton, *supra* note 14, at 699 n.68.

25. *Id.*

26. Each circuit’s precedents then become binding on all district courts within its circuit (but not upon any outside its circuit). See *Bonner v. City of Prichard*, 661 F.2d 1206, 1209 (11th Cir. 1981) (citation omitted); WILLIAM BURNHAM, INTRODUCTION TO THE LAW AND LEGAL SYSTEM OF THE UNITED STATES 173–74 (4th ed. 2006).

27. See generally Amanda Frost, *Overvaluing Uniformity*, 94 VA. L. REV. 1567 (2008) (discussing the role of circuit splits in the federal legal system).

28. Tracey E. George & Chris Guthrie, *Remaking the United States Supreme Court in the Courts’ of Appeals Image*, 58 DUKE L.J. 1439, 1449 (2009).

29. E.g., John Paul Stevens, *Some Thoughts on Judicial Restraint*, 66 JUDICATURE 177, 183 (1982); see also Arthur D. Hellman, *Preserving the Essential Role of the Supreme Court: A Comment on Justice Rehnquist’s Proposal*, 14 FLA. ST. U. L. REV. 15, 22 (1986) (discussing Justice William Rehnquist’s approval of percolation prior to a grant of certiorari that he articulated in *United States v. Mendoza*, 464 U.S. 154, 160 (1984)).

30. ESTREICHER & SEXTON, *supra* note 23, at 48 (citation omitted), *quoted in* Nard & Duffy, *supra* note 14, at 1651 n.111; see also Oswald, *supra* note 5, at 255 n.37 (citing sources arguing that circuit splits are often inconsequential or even promote sound doctrinal development).

31. Dreyfuss, *supra* note 14, at 523.

32. *Id.*

contribute to better lawyering, better and more comprehensive presentation of information by the litigants, and hence, better judicial decision-making.³³

However, some commentators argue that the disuniformity produced by percolation offsets any advantages that might arise from having multiple courts analyzing and creating doctrine. Former Chief Justice Rehnquist, for example, found this aspect of percolation troubling: “[T]hat it is actually desirable to allow important questions of federal law to ‘percolate’ in the lower courts for a few years before the Supreme Court takes them on seems to me a very strange suggestion; at best it is making a virtue of necessity.”³⁴ Professor Meador, a key architect of the Federal Circuit, dismissed percolation in the statutory interpretation setting as “a euphemism for incoherence.”³⁵ Similarly, Professor Bator declared that “percolation is not a purposeful project. It is just a way of postponing decision”³⁶ However, unless the Supreme Court steps in or Congress avails itself of the opportunity to pass clarifying legislation to resolve a circuit split, the conflict in federal law will persist unless the regional circuits work their way toward consensus on their own through successive panel or en banc decisions.³⁷

The use of a specialized appellate court is a choice against percolation. It greatly reduces the potential for disuniformity and eliminates the risk of circuit splits, but at the cost of short circuiting the percolation effect of diverse intermediate appellate courts.³⁸ Without peer courts issuing opinions in the same area, some scholars fear,

33. Nard & Duffy, *supra* note 14, at 1633.

34. William H. Rehnquist, *The Changing Role of the Supreme Court*, 14 FLA. ST. U. L. REV. 1, 11 (1986).

35. Daniel J. Meador, *A Challenge to Judicial Architecture: Modifying the Regional Design of the U.S. Courts of Appeals*, 56 U. CHI. L. REV. 603, 634 (1989).

36. Paul M. Bator, *What is Wrong with the Supreme Court?*, 51 U. PITT. L. REV. 673, 690 (1990); *see also id.* at 689 (arguing that “perpetuating uncertainty and instability during a process of percolation exacts important and painful costs” upon litigants); Erwin N. Griswold, *The Federal Courts Today and Tomorrow: A Summary and Survey*, 38 S.C. L. REV. 393, 406 (1987) (arguing that law based upon percolating doctrine rather than a clear binding precedent is “difficult to ascertain, unpredictable, and highly dependent on the outlook of a particular judge who considers the case”).

37. The Supreme Court Rules list an intercircuit split on an “important matter” as one of several factors to be considered in determining whether the Court should grant a petition for writ of certiorari. SUP. CT. R. 10 (“Considerations Governing Review on Certiorari”). However, the Supreme Court grants certiorari in fewer than one-half of the circuit splits presented to it each year. *See* Tracey E. George & Michael E. Solimine, *Supreme Court Monitoring of the United States Courts of Appeals En Banc*, 9 SUP. CT. ECON. REV. 171, 193 tbl.2 (2001) (detailing data from the 1986 through 1999 Supreme Court terms); George & Guthrie, *supra* note 28, at 1449. Lack of Supreme Court action does not necessarily mean that the circuit split will persist, however. As Justice Ginsburg noted: “There is, of course, an ideal intercircuit conflict resolver. . . . Congress itself. On the correct interpretation of federal statutes, no assemblage is better equipped to say which circuit got it right.” *See A Bill to Establish an Intercircuit Panel, and for Other Purposes: Hearing on S. 704 Before the Subcomm. on Courts of the S. Comm. on the Judiciary*, 99th Cong. 115 (1985) (statement of J. Ruth Bader Ginsburg) (Justice Ginsburg was a judge on the D.C. Circuit at the time).

38. Rochelle Cooper Dreyfuss, *The Federal Circuit as an Institution: What Ought We to Expect?*, 43 LOY. L.A. L. REV. 827, 828–29 (2010).

the specialized court may not be motivated to generate detailed or persuasive opinions, and may fall back on arcane or dense vocabulary, complex, overly refined rule systems, or excessive formalism.³⁹ Lack of percolation thus may lead to suboptimal doctrine.

In addition to shortfalls in doctrinal formation, a lack of percolation may foster problematic tendencies in overall judicial decision-making. Of particular concern is “hyperactivity.” As Professors Rooklidge and Weil articulated the concept, hyperactivity is an appellate court’s improper intrusion into the established role of the trial court.⁴⁰ Specialized courts are more likely to succumb to the temptation to intrude due to their mandate of uniformity and belief in their own expertise.⁴¹ In contrast, percolating generalist courts are less inclined toward hyperactivity due to the sheer burden of their caseloads. The variety of cases they hear make the production of complex and detailed enhancements of doctrine more difficult and less desirable.⁴² A percolating court will tend to restrain itself to its proper role.

Another concern is that specialization may lead to judicial activism. Judicial activism (at least by some definitions) is the tendency of a court to craft law in furtherance of certain ideology or make policy instead of reserving such power to the political branches.⁴³ A more isolated court can fall prey to the temptation to place itself above policymakers due to its confidence in its superior expertise.⁴⁴ Such

39. See, e.g., David Charny, *The New Formalism in Contract*, 66 U. CHI. L. REV. 842, 848 (1999); Rochelle Cooper Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. REV. 1, 3 (1989); Gugliuzza, *supra* note 1, at 1440–41 (citing PAUL D. CARRINGTON, DANIEL J. MEADOR & MAURICE ROSENBERG, JUSTICE ON APPEAL 168 (1976)); Simon Rifkind, *A Special Court for Patent Litigation? The Danger of a Specialized Judiciary*, 37 A.B.A. J. 425, 426 (1951); Thomas, *supra* note 8, at 796–808.

40. Rooklidge & Weil, *supra* note 20, at 726.

41. See Ted L. Field, “Judicial Hyperactivity” in *the Federal Circuit: An Empirical Study*, 46 U.S.F. L. REV. 721, 775 (2012) (noting that the average number of cases pending per judge for the regional circuits in 2008 was 426.7, but was only 78.9 for the Federal Circuit, and suggesting that this may be a reason for the Federal Circuit’s hyperactivity); Arti K. Rai, *Specialized Trial Courts: Concentrating Expertise on Fact*, 17 BERKELEY TECH. L.J. 877, 883 (2002) (“[T]he Federal Circuit has asserted power over fact. . . . [B]y simply declaring claim construction to be a pure question of law subject to de novo review.”).

42. Cf. Richard H. Seamon, *The Provenance of the Federal Courts Improvement Act of 1982*, 71 GEO. WASH. L. REV. 543, 589 (2003) (suggesting that hyperactivity in the Federal Circuit may be the result of its large patent caseload and perceived mandate to clarify patent law).

43. See Cass R. Sunstein, *Lochner’s Legacy*, 87 COLUM. L. REV. 873, 874 (1987) (defining judicial activism as “an illegitimate intrusion by the courts into the realm properly reserved to the political branches of government”).

44. Pauline Newman, *The Federal Circuit: Judicial Stability or Judicial Activism?*, 42 AM. U. L. REV. 683, 688 (1993). Judge Newman described how activism could specifically impact the Federal Circuit:

The Federal Circuit has been shielded, by its diverse jurisdiction and the breadth of experience of its judges, from the pitfalls of a “specialized” court wherein a cadre of experts, secure in its superior knowledge of the policy that the law should serve, comes to view itself as judge, advocate, and jury. Caution is needed lest our increasing maturity expose us to this pitfall. It is policy choices that lead to departure from precedent, into the judicial activism that weighs against legal

activism is less likely in the case of a percolating court because of the diversity of cases it hears.⁴⁵

At the time of the Federal Circuit's creation in 1982, Congress's primary stated goals were to "increase doctrinal stability in the field of patent law"⁴⁶ and to "fill a void in the judicial system by creating an appellate forum capable of exercising nationwide jurisdiction over appeals in areas of the law [including patent law] where Congress determines there is a special need for nationwide uniformity."⁴⁷ Congress expressly recognized that some of the regional circuits were seen as "'pro-patent' and other [sic] 'anti-patent'" and found that the divergent approaches to patent law among the regional circuits were counterproductive and expensive.⁴⁸ By contrast, the creation of a single appellate court for patents would provide a mechanism for ensuring that patent rights would be "more stable and predictable."⁴⁹ In short, in creating the Federal Circuit, Congress made a conscious decision to reject the benefits of percolation in order to advance the benefits of court specialization—particularly, the fostering of uniformity of patent law.

But given the advantages of percolation and pitfalls of specialization, what impact has the trade-off chosen by Congress had upon the development of patent doctrine? That historically has been a difficult question to answer empirically. Scholars have examined the role of percolation in the specialized court setting, but these analyses have been largely theoretical.⁵⁰ However, the recent decisions of the Supreme Court in *Octane Fitness* and *Highmark*, coupled with the fortuitous happenstance of identical fee-shifting provisions in the Patent and Lanham Acts, provide a rare and remarkable ready-made experiment for evaluating the role that percolation plays in shaping accurate federal doctrine.

B. Two Observable Settings for Intellectual Property Doctrinal Development

Parallel sections of the Patent and Lanham Acts use identical language in granting the district courts discretion in awarding attorney fees: "The court in exceptional cases may award reasonable attorney fees to the prevailing party."⁵¹ Patent appeals, of course, fall under the specialized jurisdiction of the Federal Circuit; Lanham Act

stability. Although all judicial decisions reflect, to some degree, the judge's personal predilections, policy choices are not the province of judges.

Id.

45. *See id.*

46. S. REP. NO. 97-275, at 5 (1981).

47. *Id.* at 2; *see also* H.R. REP. NO. 97-312, at 16–27 (1981) (discussing the purpose, background, and need for H.R. 4482, 97th Cong. (1981) (enacted), which established the Federal Circuit).

48. H.R. REP. NO. 97-312, at 20–21.

49. S. REP. NO. 97-275, at 6.

50. *See supra* note 14. Commentators have lamented the difficulty of constructing an instrument that would allow accurate measurement of the Federal Circuit's overall success or failure as a specialized court in meaningful, significant empirical terms. *See, e.g.,* Rochelle Cooper Dreyfuss, *The Federal Circuit: A Continuing Experiment in Specialization*, 54 CASE W. RES. L. REV. 769, 772 (2004); Chad M. Oldfather, *Judging, Expertise, and the Rule of Law*, 89 WASH. U. L. REV. 847, 850–54 (2012).

51. 15 U.S.C. § 1117(a) (2012); 35 U.S.C. § 285 (2012).

appeals, by contrast, are heard by the regional circuits.⁵² As a result, the fee-shifting language of these two acts provides a unique opportunity to evaluate the effects of percolation by examining doctrinal development of identical statutory provisions in two settings: one arising in a specialized court context with no percolation and one in a generalist court context with significant percolation.

Litigation procedure in the United States generally follows the “American Rule,” under which, in the absence of a statutory or contractual provision to the contrary, each litigant pays his or her own attorney fees, regardless of success or failure in the litigation.⁵³ The American Rule was recognized by the Supreme Court as early as 1796.⁵⁴ It stands in stark contrast to the “English Rule,” under which the losing party is responsible for the attorney fees of its opponent as well as its own.⁵⁵ A 1974 Senate report discussed the historical context of the American Rule and its development in the early years of the country’s development, noting that in a system in which few litigants hired attorneys, the issue of fee awards rarely arose.⁵⁶ When it did arise, courts were fearful that allowing such awards would restrict access to the courts, discourage litigants from bringing suits in which outcomes were not certain, encourage excessive attorney fees, and pose difficulties for courts in calculating appropriate fees.⁵⁷

52. See *supra* note 19 and accompanying text (explaining the jurisdiction of the Federal Circuit in patent and trademark cases).

53. *Hardt v. Reliance Standard Life Ins. Co.*, 560 U.S. 242, 252–53 (2010) (“‘Our basic point of reference’ when considering the award of attorney’s fees is the bedrock principle known as the ‘‘American Rule’’: Each litigant pays his own attorney’s fees, win or lose, unless a statute or contract provides otherwise.” (citations omitted)). See generally *Alyeska Pipeline Serv. Co. v. Wilderness Soc’y*, 421 U.S. 240, 247–63 (1975) (providing history of the American Rule); John Leubsdorf, *Toward a History of the American Rule on Attorney Fee Recovery*, 47 LAW & CONTEMP. PROBS. 9 (1984); Jane P. Mallor, *Punitive Attorneys’ Fees for Abuses of the Judicial System*, 61 N.C. L. REV. 613, 613–14 (1983); Kenneth W. Starr, *The Shifting Panorama of Attorneys’ Fees Awards: The Expansion of Fee Recoveries in Federal Court*, 28 S. TEX. L. REV. 189 (1986); John F. Vargo, *The American Rule on Attorney Fee Allocation: The Injured Person’s Access to Justice*, 42 AM. U. L. REV. 1567, 1570–90 (1993).

54. See *Arcambel v. Wiseman*, 3 U.S. (3 Dall.) 306, 306 (1796) (per curiam) (“The general practice of the United States is in opposition [sic] to [fee shifting]; and even if that practice were not strictly correct in principle, it is entitled to the respect of the court, till it is changed, or modified, by statute.” (emphasis omitted)).

55. Werner Pfennigstorf, *The European Experience with Attorney Fee Shifting*, 47 LAW & CONTEMP. PROBS. 37, 46–47 (1984); Jacob Singer, Note, *Bad Faith Fee-Shifting in Federal Courts: What Conduct Qualifies?*, 84 ST. JOHN’S L. REV. 693, 695 (2010).

56. S. REP. NO. 93-1400, at 4–5 (1974), reprinted in 1974 U.S.C.C.A.N. 7132, 7133 (prepared in conjunction with the statutory amendment allowing recovery of attorney fees in the trademark context).

57. *Id.* As summarized by the Supreme Court, the American Rule promotes broad access to the courts by not penalizing a party “for merely defending or prosecuting a lawsuit.” *Fleischmann Distilling Corp. v. Maier Brewing Co.*, 386 U.S. 714, 718 (1967); see also Richard J. Leighton, *Awarding Attorneys’ Fees in “Exceptional” Lanham Act Cases: A “Jumble” of “Murky” Law*, 102 TRADEMARK REP. 849, 852 (2012) (explaining the theory behind the American Rule).

Despite over two hundred statutes today authorizing awards of attorney fees in specific types of cases,⁵⁸ fee shifting is still considered an exception to the general norm of the American Rule.⁵⁹ A court's departure from the American Rule is thus an event of particular note in a litigation. Because the Patent and Lanham Acts happen to have identical fee-shifting language, it is possible to review the resulting cases and draw direct comparisons as to how the doctrine regarding the application of this legislative language has developed in the two fields.

II. PERCOLATION AND STATUTORY FEE SHIFTING UNDER THE PATENT ACT

The history of recovery of attorney fees in patent litigation is one of frequently morphing parameters, as not only did the statutory provisions for fee shifting change over time, but patent appeals relocated from the percolation-rich environment of the regional circuits to the more isolated setting of the Federal Circuit in 1982. Moving from a nonshifting regime to a more flexible system as a result of statutory revision, and then to a rigid and narrow standard through the actions of a specialized court, the environment for litigants changed substantially over a period of nearly 100 years. As a result, there is a solid basis for experimental comparison. In fact, as this Part demonstrates, the patent arena even by itself provides a rich environment for examining the effects of percolation on doctrinal development.

A. Fee Shifting Under the 1946 Patent Act

For the first one and one-half centuries of U.S. patent law, the American Rule prevailed in patent litigation.⁶⁰ Attorney fees were not considered a proper element

58. Vargo, *supra* note 53, at 1588; *see also* DOUGLAS LAYCOCK & RICHARD L. HASEN, MODERN AMERICAN REMEDIES: CASES AND MATERIALS 716 (Concise 5th ed. 2019); Peter N. Cubita, Jeffrey S. Lichtman & Daniel D. Rubino, Note, *Award of Attorney's Fees in the Federal Courts*, 56 ST. JOHN'S L. REV. 277, 286–89 (1982).

59. Statutory provisions authorizing fee shifting can be found in all areas of federal intellectual property law today. *See* 15 U.S.C. § 1117(a) (2012) (addressing fee shifting in trademark actions); 17 U.S.C. § 505 (2012) (addressing fee shifting in copyright actions); 18 U.S.C. § 1836(b)(3)(D) (Supp. 2019) (addressing fee-shifting in civil trade secret misappropriation actions); 35 U.S.C. § 285 (addressing fee shifting in patent actions). The Copyright Act was the first federal intellectual property statute to provide for fee shifting, in 1909; its language is broad and, unlike the Patent and Lanham Acts, does not limit recovery to particularly egregious cases. *See* Act of Mar. 4, 1909, ch. 320, § 40, 35 Stat. 1075, 1084 (current version at 17 U.S.C. § 505 (2012)) (“That in all actions, suits, or proceedings under this Act, except when brought by or against the United States or any officer thereof, full costs shall be allowed, and the court may award to the prevailing party a reasonable attorney's fee as part of the costs.”).

60. There were rare exceptions where the courts used their common law powers to provide for attorney fees in patent cases in unusual circumstances. *See, e.g.,* Parker Rust Proof Co. v. Ford Motor Co., 23 F.2d 502, 506 (E.D. Mich. 1928) (awarding attorney fees to compensate patent owner for unnecessary expenses incurred as a result of defendant's behavior); Boston Mfg. Co. v. Fiske, 3 F. Cas. 957, 958 (C.C.D. Mass. 1820) (“[T]he jury are at liberty, if they see fit, to allow the plaintiff as part of his ‘actual damage,’ any expenditure for counsel fees . . . which were necessarily incurred to vindicate the rights derived under his

of damage or remedies, and each side bore its own costs of counsel in patent litigation.⁶¹ Then, in 1946, Congress amended the patent statutes, giving the district courts discretionary authority to award reasonable attorney fees to the prevailing party.⁶² Specifically, Section 70 provided: “The court may in its discretion award reasonable attorney’s fees to the prevailing party upon the entry of judgment on any patent case.”⁶³

In 1975, Ahart published a comprehensive overview of the history of attorney fee recovery in patent cases.⁶⁴ As he explained, the 1946 fee-shifting language was introduced initially in H.R. 5231, which provided that a prevailing patent owner, upon showing patent infringement, should be able to recover costs and “expenses.”⁶⁵ The Assistant Commissioner of Patents argued that the term “expenses” was overly broad and unusual in the statutory context and suggested that the term “reasonable attorneys fees to be fixed by the court” be adopted instead.⁶⁶ The Commissioner of Patents supported this proposed language change,⁶⁷ and H.R. 5231 was reported out of the House Committee with this amendment regarding attorney fees included.⁶⁸ Ahart identified this as the first apparent mention of fee shifting in the U.S. patent statutes.⁶⁹

H.R. 5311 then replaced H.R. 5231.⁷⁰ According to Ahart, the primary purpose of H.R. 5311 was to switch recovery in patent infringement suits from profits and damages (which required an often lengthy and expensive showing of actual profits) to the more easily shown general damages instead.⁷¹ The provision for recovery of attorney fees was simply a small part of this larger reform package. As introduced, H.R. 5311 adopted H.R. 5231’s language that a patent owner could recover

patent, and are not taxable in the bill of costs.”).

61. For example, in *Teese v. Huntingdon*, the Supreme Court stated that “[c]ounsel fees are not a proper element for the consideration of the jury in the estimation of damages in actions for the infringement of a patent right.” 64 U.S. (23 How.) 2, 8–9 (1859); see also *Philp v. Nock*, 84 U.S. (17 Wall.) 460, 462 (1873) (“Counsel fees cannot be included in the [patent infringement] verdict.”).

62. Act of Aug. 1, 1946, ch. 726, 60 Stat. 778 (codified at 35 U.S.C. § 70 (1946)) (amended 1952) (amending section 4921 of the Revised Statutes).

63. 35 U.S.C. § 70 (1946) (amended 1952).

64. Alan M. Ahart, *Attorneys’ Fees: The Patent Experience*, 57 J. PAT. OFF. SOC’Y 608 (1975). Ahart was an LLM student at the time; he went on to become a bankruptcy judge for the Central District of California in 1988.

65. *Id.* at 615 (citation omitted). The language of H.R. 5231 was quoted in the committee hearing on H.R. 5231 (reported as H.R. 5311). *Recovery in Patent Infringement Suits: Hearing on H.R. 5231 Before the H. Comm. on Patents*, 79th Cong. (1946) [hereinafter *Hearings*].

66. Ahart, *supra* note 64, at 615 (citation omitted). The comments of the Assistant Commissioner of Patents can be found at *Hearings*, *supra* note 65, at 10 (statement of Conder C. Henry, Assistant Commissioner of Patents).

67. *Hearings*, *supra* note 65, at 14 (statement of Casper W. Ooms, Commissioner of Patents).

68. Ahart, *supra* note 64, at 616 (citation omitted).

69. *Id.* at 615.

70. *Id.*

71. *Id.* (citing H.R. REP. NO. 79-1587, at 1).

“reasonable” attorney fees.⁷² The Senate Committee on Patents, however, broadened the fee-shifting language considerably by providing that *any* prevailing party, whether the patent owner or not, could recover reasonable attorney fees, but only at the discretion of the trial court (which had authority not only to set the amount but also to decline to award any recovery of fees).⁷³

The Senate’s version was enacted in Section 70 of the Patent Act in 1946.⁷⁴ The legislative history made clear congressional expectation that recovery of attorney fees was to be regarded as an uncommon remedy for extreme situations and was not to become the norm in patent cases.⁷⁵ Giving the trial court discretion to award attorney fees in addition to its existing discretion to award treble damages was believed to “discourage infringement of a patent by anyone thinking that all he would be required to pay if he loses the suit would be a royalty.”⁷⁶ In addition, the language was “made general” so that the trial court would be able “to prevent a gross injustice to an alleged infringer.”⁷⁷

In 1946, of course, the Federal Circuit was decades away from being formed. The regional circuit courts still had jurisdiction over patent appeals, and thus by definition, the new fee-shifting language percolated among the eleven circuit courts then in existence.⁷⁸ Section 70 had just a brief six-year life span, however, before being replaced by Section 285 in 1952.⁷⁹ There were few published appellate cases addressing the recovery of attorney fees under Section 70—fewer than thirty⁸⁰—reflecting both the provision’s short life and the relatively small number of patent cases filed during that time period.⁸¹

72. *Id.* at 616.

73. *Id.* (citing S. REP. NO. 79-1503 (1946); 92 CONG. REC. 9188 (1946) (statement of Sen. Pepper)).

74. Act of Aug. 1, 1946, ch. 726, 60 Stat. 778 (codified at 35 U.S.C. § 70 (1946)) (amended 1952).

75. S. REP. NO. 79-1503, at 2 (1946).

76. *Id.*

77. *Id.*

78. In 1946, the First through the Tenth Circuits and the D.C. Circuit were in place. Today, following the creation of the Eleventh Circuit in 1980 and the Federal Circuit in 1982, there are thirteen circuit courts. See *The U.S. Courts of Appeals and the Federal Judiciary*, *supra* note 11.

79. See Act of July 19, 1952, ch. 950, 66 Stat. 792 (codified as amended at 35 U.S.C. §§ 101–376).

80. A LexisAdvance search conducted on Jan. 16, 2019, revealed 30 appellate decisions between 1946 and 1952. The search terms were “35 usc 70 and attorney! fee!”, the search was limited to courts of appeals decisions, and the date parameters were January 1, 1946, to December 31, 1955. (The end date was extended past the repeal date of Section 70 to pick up cases in progress but not yet decided at the time of amendment.)

81. For fiscal year (FY) 1941 (ending June 30, 1941), 953 patent cases were filed in the district courts. ADMIN. OFFICE OF THE U.S. COURTS, ANNUAL REPORT OF THE DIRECTOR OF THE ADMINISTRATIVE OFFICE OF THE UNITED STATES COURTS 56 (1946). The number of patent cases filed in the trial courts declined significantly during the war years. See *id.* (noting that 543 patent cases were filed before the district courts in FY 1942; 318 in FY 1943; 225 in FY 1944; and 226 in FY 1945). Although the number of cases rose between 1946 and 1952, the numbers remained significantly below the FY 1941 patent-case filings. See ADMIN. OFFICE OF

Section 70 was apparently uncontroversial at the time of its adoption and during its fleeting enactment. The handful of appellate cases addressing Section 70 looked for evidence of “unfairness or bad faith,”⁸² “vexatious and unjustified litigation,”⁸³ or other “equitable considerations”⁸⁴ that would justify fee shifting. They cautioned that fee shifting was not to be applied as “a matter of course” but rather only where it was necessary “to prevent a gross injustice.”⁸⁵ The trial court was required to clearly state the grounds for making such an award,⁸⁶ but decisions rested solely within the discretion of the trial court.⁸⁷

“Bad faith” and “gross injustice” quickly emerged as key concepts in delineating judicial application of Section 70. For example, in a leading decision issued five years after Section 70’s enactment, *Park-In-Theatres, Inc. v. Perkins*, the Ninth Circuit reviewed the legislative history and decisions by trial and appellate courts and summarized the state of the law thus:

The exercise of discretion in favor of such an allowance should be bottomed upon a finding of unfairness or bad faith in the conduct of the losing party, or some other equitable consideration of similar force, which makes it grossly unjust that the winner of the particular law suit be left to bear the burden of his own counsel fees⁸⁸

THE U.S. COURTS, ANNUAL REPORT OF THE DIRECTOR OF THE ADMINISTRATIVE OFFICE OF THE UNITED STATES COURTS 85 (1950); ADMIN. OFFICE OF THE U.S. COURTS, ANNUAL REPORT OF THE DIRECTOR OF THE ADMINISTRATIVE OFFICE OF THE UNITED STATES COURTS 87 (1952) (noting that 299 patent cases were filed before the district courts in FY 1946; 370 in FY 1947; 476 in FY 1948; 560 in FY 1949; 689 in FY 1950; 589 in FY 1951; and 519 in FY 1952). The number of appeals taken from the cases filed would be significantly lower, of course, and the number of appeals raising fee-shifting issues lower yet.

82. *Day-Brite Lighting, Inc. v. Ruby Lighting Corp.*, 191 F.2d 521 (9th Cir. 1951); *see also Turchan v. Cincinnati Milling Mach. Co.*, 208 F.2d 228, 230 (6th Cir. 1953); *Faulkner v. Gibbs*, 199 F.2d 635, 642 (9th Cir. 1952).

83. *Phillips Petroleum Co. v. Esso Standard Oil Co.*, 91 F. Supp. 215, 217 (D. Md.), *aff’d*, 185 F.2d 672 (4th Cir. 1950) (adopting trial court’s opinion “as an expression of [its own] views”); *Am. Chain & Cable Co. v. Rochester Ropes*, 199 F.2d 325, 330 (4th Cir. 1952) (citing *Phillips Petroleum*, 91 F. Supp. 215, *aff’d*, 185 F.2d 672).

84. *Faulkner*, 199 F.2d at 642.

85. *Pennsylvania Crusher Co. v. Bethlehem Steel Co.*, 193 F.2d 445, 450–51 (3d Cir. 1951). *See also Blanc v. Spartan Tool Co.*, 178 F.2d 104, 105 (7th Cir. 1949) (attorney fees are “not to be allowed in the usual patent case”).

86. *E.g., Faulkner*, 199 F.2d at 642.

87. “Discretion” itself was a well-understood and noncontroversial concept. In the words of the Seventh Circuit:

Judicial discretion . . . is impartial reasoning, guided and controlled in its exercise by fixed legal principles, requiring the court, in consideration of the facts and circumstances, to decide as its reason and conscience dictate; it requires that the court be discreet, just, circumspect and impartial, and that it exercise cautious judgment. The term connotes the opposite of caprice and arbitrary action.

Dixie Cup Co. v. Paper Container Mfg. Co., 174 F.2d 834, 836 (7th Cir. 1949).

88. 190 F.2d 137, 142 (9th Cir. 1951) (citing cases). The *Park-In-Theatres* court set aside the trial court’s award of attorney fees, finding the suit had not been brought in “bad faith,”

The appellate courts did overturn some attorney-fee awards where they found the trial court had abused its discretion, such as by failing to state the grounds for the award or by granting an award where the case presented “difficulties and uncertainties” sufficient to justify the litigation,⁸⁹ but in general, application of Section 70 generated little apparent controversy.

The analysis in most of the appellate opinions addressing Section 70 was fairly perfunctory. Published awards of attorney fees were relatively infrequent and involved overtly egregious circumstances, such as where the defendant willfully infringed the plaintiff’s patent,⁹⁰ where the patent owner engaged in fraud on the USPTO in obtaining the patent at issue,⁹¹ or where the patent owner’s delay in suing detrimentally affected the defendant’s position such that it would have been inequitable for the court to enforce the patent.⁹²

A few trial courts attempted to flesh out the standard for awarding attorney fees. For example, one district court attempted to define the elusive concepts of “bad faith” and “good faith” by proving examples. A lawsuit “begun for some ulterior purpose with no intention of prosecuting it to the finish or with a certainty that it cannot succeed,” or “an infringement suit upon an expired patent or upon one invalidated by a judgment of the highest court or where the charge of infringement is plainly a sham” would be instances of bad faith.⁹³ Merely filing an unsuccessful lawsuit is not, however, as that would render the action of every unsuccessful plaintiff suspect.⁹⁴ Another district court expanded on the definition of “inequitable conduct,” noting that it included acts such as “undue harassment, unnecessary prolongation of proofs, or the wrongful commencement of a wholly unfounded action brought for malicious purposes and not merely to determine the issues of validity and infringement.”⁹⁵ Another judge seemed to view the fee-shifting statute as an issue of broader public policy, stating: “I think it would be detrimental to the patent system to allow attorney’s fees, except in cases where the Court feels one party or another has been

id., or on mere “surmise or suspicion,” *id.* at 143, and the litigants and lawyers had not engaged in “dilatatory tactics,” *id.* The award was thus not necessary “to prevent a gross injustice.” *Id.* *Park-In-Theatres* was frequently cited by later courts applying 35 U.S.C. § 285, the successor provision to Section 70. *See, e.g.,* *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp.*, 407 F.2d 288, 294 (9th Cir. 1969); *Siebring v. Hansen*, 346 F.2d 474, 480 (8th Cir. 1965); *Livesay Window Co. v. Livesay Indus.*, 251 F.2d 469, 475 n.11 (5th Cir. 1958); *R.M. Palmer Co. v. Luden’s, Inc.*, 236 F.2d 496, 501 (3d Cir. 1956).

89. *See Am. Chain & Cable Co. v. Rochester Ropes*, 199 F.2d 325, 330 (4th Cir. 1952).

90. *Krieger v. Colby*, 106 F. Supp. 124, 132 (S.D. Cal. 1952).

91. *Dubil v. Rayford Camp & Co.*, 184 F.2d 899, 902 (9th Cir. 1950).

92. *Brennan v. Hawley Prods. Co.*, 98 F. Supp. 369, 370 (N.D. Ill. 1951) (noting that during plaintiff’s delay, defendant made extensive, expensive expansions to its manufacturing facilities, and two of its key witnesses died); *see also Orrison v. C. Hoffberger Co.*, 190 F.2d 787, 791 (4th Cir. 1951) (affirming trial court’s award of fees where trial court had determined that the patent owner’s motion for a new trial was “vexatious and unjustified” so as to unnecessarily extend litigation).

93. *Jacquard Knitting Mach. Co. v. Ordnance Gauge Co.*, 108 F. Supp. 59, 70 (E.D. Pa. 1952).

94. *Id.*

95. *Vischer Prods. Co. v. Nat’l Pressure Cooker Co.*, 92 F. Supp. 138, 139 (W.D. Wis. 1950).

guilty of unfair or oppressive methods in pursuing the legal remedies allowed.”⁹⁶ Yet another added an idiosyncratic gloss to fee shifting when it indicated that the relative wealth of the parties was a relevant consideration: “An award of attorney’s fees is appropriate where the infringement complained of has been willful and the parties are disparate in resource.”⁹⁷

Generally, however, judicial application of the 1946 fee-shifting language was noncontroversial and relied upon the exercise of discretion by the trial courts, bounded by the above-stated flexible but seemingly well-understood standard of addressing “bad faith” behavior and preventing “gross injustice.” In part, this doctrinal stability could be explained by the relatively short life of Section 70, which provided scant time for doctrine to evolve along divergent lines in the various circuits, and in part because the legislative intent that recovery of attorney fees was to be an extraordinary event reserved for the most egregious cases was well-recognized and well-accepted by trial and appellate courts alike. Courts set a high standard for fee awards, and recovery of attorney fees was indeed the extraordinary exception and not the norm during this time period.

B. Fee Shifting Under the Patent Act of 1952

In 1952, Congress enacted a wholesale revision of the patent law, the Patent Act of 1952.⁹⁸ That revision introduced Section 285, the current fee-shifting language, which made two significant changes to the language of Section 70: (1) the qualifier “exceptional” was inserted to describe the type of cases in which fee shifting was appropriate, and (2) the words “in its discretion” were deleted. These changes can be seen through a direct comparison of the two provisions:

Section 70: “The court may in its discretion award reasonable attorney’s fees to the prevailing party upon the entry of judgment on any patent case.”⁹⁹

Section 285: “The court in exceptional cases may award reasonable attorney fees to the prevailing party.”¹⁰⁰

Despite the alterations, Congress and the courts regarded these revisions to the fee-shifting language as nonsubstantive and as being made “for purposes of clarification” only.¹⁰¹ The Senate report, for example, indicated that the new

96. *Air Devices, Inc. v. Air Factors, Inc.*, 94 F. Supp. 819, 822 (S.D. Cal. 1951).

97. *Packwood v. Briggs & Stratton Co.*, 99 F. Supp. 803, 808 (D. Del. 1951). Although the court did not expand on the relevance of the parties’ wealth to the recovery of fees, one can surmise that this falls under the category of “other equitable considerations.” It does not appear that other courts adopted this same criterion.

98. Act of July 19, 1952, ch. 950, 66 Stat. 792 (codified as amended at 35 U.S.C. §§ 101–376).

99. 35 U.S.C. § 70 (1946) (amended 1952).

100. 35 U.S.C. § 285 (2012).

101. *E.g.*, *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 653 n.8 (1983) (noting addition of “exceptional cases” language to § 285 was “for purposes of clarification only”); *Hoge Warren Zimmermann Co. v. Nourse & Co.*, 293 F.2d 779, 783 (6th Cir. 1961) (“[T]he

language was “substantially the same” as the existing Section 70, but that the phrase ““in exceptional cases’ ha[d] been added as expressing the intention of the present statute as shown by its legislative history and as interpreted by the courts.”¹⁰² When questioned in a 1951 hearing about the significance of the addition of “exceptional” to the statutory language, P.J. Federico, Examiner-in-Chief of the USPTO and a key drafter of the 1952 Act, explained:

The present statute says that the court may award reasonable attorney fees to the prevailing party; which was introduced into the law by an act of 1946.

The hearings and the reports of the committees showed that they intended that to apply to exceptional cases without going into detail, and the court decisions have followed that principle of awarding attorney fees in exceptional cases.

What that constitutes is left, and stays left, to the discretion of the court that is conducting the case.¹⁰³

Thus, in many ways, Section 285 can be seen as a simple continuation of Section 70. And, as the next subpart demonstrates, doctrine under Section 285 did in fact follow the same path as Section 70 for several decades, deviating only after formation of the Federal Circuit in 1982.

1. Percolation from 1953 to 1982

The regional circuits heard many more cases under Section 285 than they had under Section 70.¹⁰⁴ In part, this reflected the much longer time span involved:

substitution of the phrase ‘in exceptional cases’ has not done away with the discretionary feature.”); *R.M. Palmer Co. v. Luden’s Inc.*, 236 F.2d 496, 501 (3d Cir. 1956) (“The phrase ‘exceptional circumstance’ is not contained in the prior law, but confirms to the interpretation of the prior law by the cases.” (citation omitted)).

102. S. REP. NO. 82-1979, at 30 (1952).

103. *Patent Law Codification and Revision: Hearing on H.R. 3760 Before the Subcomm. No. 3 of the Comm. on the Judiciary*, 82d Cong. 108–09 (1951) (statement of P.J. Federico, Examiner-in-Chief, U.S. Patent Office), http://www.ipmall.info/sites/default/files/hosted_resources/lipa/patents/patentact/14_jun_1.pdf [<https://perma.cc/7C52-G7X>]. Federico repeated this stance in his published commentary on the new Patent Act. See P.J. Federico, *Commentary on the new Patent Act*, 35 U.S.C.A. Vol. 1 (1954), reprinted in 75 J. PAT. & TRADEMARK OFF. SOC’Y (1993), http://www.ipmall.info/sites/default/files/hosted_resources/lipa/patents/federico-commentary.asp#Remedies [<https://perma.cc/8CKC-P8VT>]; see also 98 CONG. REC. 9097 (1952) (statement of Sen. Wiley) (1952 bill “simply constitutes a restatement of the patent law[.]”); 98 CONG. REC. 9323 (1952) (statement of Sen. McCarran) (bill codifies “the present patent laws”).

104. A LexisAdvance search on Jan. 16, 2019, turned up 396 cases. (The search was “35 USC 285 and attorney! fee!” from January 1, 1953 (the effective date of the 1952 Patent Act) to December 31, 1985 (to pick up cases in progress that were decided by the regional circuits after the date of creation of the Federal Circuit), and was limited to federal courts of appeals cases.) Not all were on point, of course.

Section 285 was enacted on July 19, 1952, and took effect on January 1, 1953. Patent appeals remained under the jurisdiction of the regional circuits until the Federal Circuit was formed on October 1, 1982, giving the regional circuits almost thirty years in which to develop fee-shifting doctrine under this provision. In addition, there was an upward trend in the number of issued patents during this time period;¹⁰⁵ between the increase in patent activity and the simple passage of time,¹⁰⁶ the courts had more opportunity to analyze attorney fees requests.

Despite this increased activity, there were few changes in patent fee-shifting doctrine following the switch from Section 70 to Section 285. The purpose of fee shifting remained essentially the same: to address “unnecessary and vexatious,”¹⁰⁷ “vexatious and unjustified,”¹⁰⁸ or “bad faith” litigation,¹⁰⁹ or to prevent gross injustice.¹¹⁰ The courts continued to emphasize that attorney fees were to be the exception, not the norm.¹¹¹

One indicator of how noncontroversial the fee-shifting doctrine of Section 285 was when applied by the regional circuits is the dearth of contemporaneous commentary on the language.¹¹² Other than Ahart’s 1975 examination of fee-shifting

105. See *U.S. Patent Activity Calendar Years 1790 to the Present*, U.S. PAT. & TRADEMARK OFF., https://www.uspto.gov/web/offices/ac/ido/oeip/taf/h_counts.htm [<https://perma.cc/VD49-VUK5>] (showing an increase from less than 25,000 patents issued in 1946 to over 63,000 issued in 1982).

106. An examination of the Annual Reports of the Director of the Administrative Office of the United States Courts in five-year increments from 1952 to 1982 showed increased activity in patent cases filed before the district courts. See ADMIN. OFFICE OF THE U.S. COURTS, ANNUAL REPORT OF THE DIRECTOR OF THE ADMINISTRATIVE OFFICE OF THE UNITED STATES COURTS 126, tbl. C2 (1952) (525 cases); ADMIN. OFFICE OF THE U.S. COURTS, ANNUAL REPORT OF THE DIRECTOR OF THE ADMINISTRATIVE OFFICE OF THE UNITED STATES COURTS 174, tbl. C2 (1957) (630 cases); ADMIN. OFFICE OF THE U.S. COURTS, ANNUAL REPORT OF THE DIRECTOR OF THE ADMINISTRATIVE OFFICE OF THE UNITED STATES COURTS 197, tbl. C2 (1962) (752 cases); ADMIN. OFFICE OF THE U.S. COURTS, ANNUAL REPORT OF THE DIRECTOR OF THE ADMINISTRATIVE OFFICE OF THE UNITED STATES COURTS 201, tbl. C2 (1967) (786 cases); ADMIN. OFFICE OF THE U.S. COURTS, ANNUAL REPORT OF THE DIRECTOR OF THE ADMINISTRATIVE OFFICE OF THE UNITED STATES COURTS 286, tbl. C2 (1972) (857 cases); ADMIN. OFFICE OF THE U.S. COURTS, ANNUAL REPORT OF THE DIRECTOR OF THE ADMINISTRATIVE OFFICE OF THE UNITED STATES COURTS 317, tbl. C2 (1977) (876 cases); ADMIN. OFFICE OF THE U.S. COURTS, ANNUAL REPORT OF THE DIRECTOR OF THE ADMINISTRATIVE OFFICE OF THE UNITED STATES COURTS 215 tbl. C2 (1982) (836 cases).

107. *E.g.*, *Colgate-Palmolive Co. v. Carter Prods., Inc.*, 230 F.2d 855, 866 (4th Cir. 1956).

108. *E.g.*, *Seismograph Serv. Corp. v. Offshore Raydist, Inc.*, 263 F.2d 5, 28 (5th Cir. 1958).

109. *E.g.*, *Jacquard Knitting Mach. Co. v. Ordnance Gauge Co.*, 213 F.2d 503, 509 (3d Cir. 1954).

110. *E.g.*, *R.M. Palmer Co. v. Luden’s Inc.*, 236 F.2d 496, 501 (3d Cir. 1956).

111. See, *e.g.*, *Q-Panel Co. v. Newfield*, 482 F.2d 210 (10th Cir. 1973); *Binks Mfg. Co. v. Ransburg Electro-Coating Corp.*, 281 F.2d 252, 260 (7th Cir. 1960); *Turchan v. Cincinnati Milling Mach. Co.*, 208 F.2d 228, 229 (6th Cir. 1953).

112. See Richard L. Stroup, *Patentee’s Monetary Recovery from an Infringer*, 59 J. PAT. OFF. SOC’Y 362, 401–04 (1977) (providing two and one-half page summary of § 285); Alfred E. Wilson & Dwight A. Lewis, *Elements of Recovery in a Patent Infringement Suit*, 42 J. PAT. OFF. SOC’Y 742, 756–71 (1960) (summarizing twelve cases that awarded fees and seventeen

doctrine,¹¹³ the only other detailed analysis on the topic was a 1980 article in which Rose and Rosenquist provided a comprehensive overview of the then-existing state of case law on recovery of attorney fees in patent cases.¹¹⁴ They lamented the “diversity of viewpoint” in the published cases, asserting (without citation) that “[n]ot infrequently the very same act will receive opprobrium in one circuit, approbation in another.”¹¹⁵ Although their extensive review of the extant case law revealed some inconsistencies across the circuits,¹¹⁶ Rose and Rosenquist acknowledged that the “diverse factual situations” underlying these cases mitigated against the creation of “any specific formula” for evaluating attorney fee requests.¹¹⁷ They identified strong doctrinal consistency across the circuits as well, finding that “more often than not an award of attorney fees is predicated on a multiplicity of acts by one of the parties, which may or may not be related, but which the court considers *in toto* to constitute bad faith.”¹¹⁸

In addition, the change in language from Section 70 to Section 285 had no effect upon the exercise of judicial discretion by the trial courts. Awards remained firmly within the realm of the trial courts.¹¹⁹ While the regional circuits continued to instruct the district courts to consider the totality of the circumstances in deciding whether to exercise their discretion to make attorney fee awards, they also continued to hold that the trial court’s decision was not to be overturned absent an abuse of that discretion.¹²⁰ Examples of “exceptional” cases warranting the award of attorney fees included those where the plaintiff’s device was clearly anticipated by a prior art patent,¹²¹ where the plaintiff asserted positions repeatedly rejected by prior federal

cases that denied); Note, *Recovery in Patent Infringement Suits*, 60 COLUM. L. REV. 840, 854 (1960) (one paragraph summary of § 285). These were cited in Gerald Rose & John E. Rosenquist, *Attorneys’ Fees*, 8 AIPLA Q. J. 66, 71 n.34 (1980); our search revealed no other significant sources.

113. Ahart, *supra* note 64.

114. Rose & Rosenquist, *supra* note 112.

115. *Id.* at 71. They attributed this at least in part to the “absence of any Supreme Court pronouncement” on the topic. *Id.*

116. For example, they summarized the outcomes in cases involving fraud on the Patent Office thus: (1) almost all courts will award attorney fees where the conduct was actual fraud; (2) many courts will award fees where there was deceptive intent but no actual fraud; and (3) the courts divide on awarding fees where there was no deceptive intent but there was a material nondisclosure or misrepresentation. *Id.* at 87–88.

117. *Id.* at 74.

118. *Id.* at 71 (emphasis in original); *see also id.* at 74, 82.

119. *See, e.g.*, *True Temper Corp. v. CF&I Steel Corp.*, 601 F.2d 495, 508–09 (10th Cir. 1979); *Kearney & Trecker Corp. v. Giddings & Lewis, Inc.*, 452 F.2d 579, 597 (7th Cir. 1971); *Siebring v. Hansen*, 346 F.2d 474, 480–81 (8th Cir. 1965). In the words of the Ninth Circuit, “This change in language certainly did not enlarge the judicial discretion of the trial judge; neither did it take any portion away.” *Florida Brace Corp. v. Bartels*, 332 F.2d 337, 339 (9th Cir. 1964).

120. *See, e.g.*, *Am. Safety Table Co. v. Schreiber*, 415 F.2d 373, 380 (2d Cir. 1969); *Sarkes Tarzian, Inc. v. Philco Corp.*, 351 F.2d 557, 561 (7th Cir. 1965); *Siebring v. Hansen*, 346 F.2d 474, 479 (8th Cir. 1965).

121. *See Lincoln v. Mademoiselle Fur Specialties Corp.*, 131 U.S.P.Q. 32 (S.D.N.Y. 1961).

courts,¹²² where the plaintiff's excessive delay in bringing suit led to extensive expenditures by the defendant in building its business and rendered it questionable whether plaintiff had a bona fide belief in the validity of its patent,¹²³ and where lack of candor in answering interrogatories and a request for admissions indicated bad faith conduct of litigation.¹²⁴

In sum, thirty-five years of percolation in the regional circuits under Sections 70 and 285 resulted in a patent fee-shifting doctrine that was notably noncontroversial and stable and that was grounded in the notion that bad-faith behavior or gross injustice could warrant fee shifting. However, the creation of the Federal Circuit in 1982, and the consequent loss of percolation, sent patent fee-shifting doctrine down a different path oriented less toward trial court discretion and more toward a formulaic application of rules.

2. The Creation of the Federal Circuit and the End of Percolation: 1982–2014

The Federal Circuit was formed on October 1, 1982, and issued its first opinion four weeks later, in which it adopted as binding precedent the holdings of its two predecessor courts: the United States Court of Claims and the United States Court of Customs and Patent Appeals.¹²⁵ However, the new court declared itself not bound by the decisions of the regional circuit courts of appeals,¹²⁶ as the patent doctrine of those courts was often in conflict, and “resolution of conflict” was “a major element” of the new court’s mission.¹²⁷ The Federal Circuit thus indicated it would draw only selectively upon the earlier body of precedent created by the regional circuits.¹²⁸

Patent fee-shifting cases quickly came before the newly formed Federal Circuit.¹²⁹ Initially, the outcomes reached were consistent with the earlier cases decided by the regional circuits. For example, the early Federal Circuit found “exceptional” circumstances warranting attorney-fee awards where there was fraud in obtaining the patent at issue, misconduct during litigation and assertion of infringement in bad

122. See *Plymouth Rubber Co. v. Minnesota Mining & Mfg. Co.*, 203 F. Supp. 595 (D. Mass. 1962), *appeal dismissed, modified on other grounds*, 321 F.2d 151 (1st Cir. 1963).

123. See *Merry Hull & Co. v. Hi-Line Co.*, 243 F. Supp. 45 (S.D.N.Y. 1965).

124. See *Kaehni v. Diffraction Co.*, 342 F. Supp. 523 (D. Md. 1972), *aff'd without op.*, 473 F.2d 908 (4th Cir. 1973).

125. *S. Corp. v. United States*, 690 F.2d 1368, 1369 (Fed. Cir. 1982) (en banc) (holding that the predecessor courts’ precedents were binding provided those holdings had been issued by those courts before the close of business on September 30, 1982).

126. *Id.* at 1371. Not all of the judges of the new court were comfortable with that stance. A concurrence in an early Federal Circuit opinion warned of the dangers of ignoring the two hundred years of regional circuit precedent. See *Weinar v. Rollform Inc.*, 744 F.2d 797, 811 (Fed. Cir. 1984) (Nichols, J., concurring).

127. *S. Corp.*, 690 F.2d at 1371.

128. See ROBERT L. HARMON, *HARMON ON PATENTS: BLACK-LETTER LAW AND COMMENTARY* § 2.27(F), at 54–64 (2007).

129. See *e.g.*, *Hughes v. Novi Am., Inc.*, 724 F.2d 122 (Fed. Cir. 1984); *Rosemount, Inc. v. Beckman Instruments, Inc.*, 727 F.2d 1540 (Fed. Cir. 1984); *CTS Corp. v. Piher Int’l Corp.*, 727 F.2d 1550 (Fed. Cir. 1984); *Stickle v. Heublein, Inc.*, 716 F.2d 1550 (Fed. Cir. 1983); *Lam, Inc. v. Johns-Manville Corp.*, 718 F.2d 1056 (Fed. Cir. 1983); *Stevenson v. Sears, Roebuck & Co.*, 713 F.2d 705 (Fed. Cir. 1983).

faith;¹³⁰ maintenance of a suit knowing the asserted patent was invalid;¹³¹ unfairness, bad faith, or inequitable conduct by a patent owner bringing an unsuccessful infringement action;¹³² and willful infringement on the part of the defendant.¹³³ The court also affirmed denials of attorney-fee awards in cases where a motion, though unsuccessful, was not frivolous or brought only for harassment or delay¹³⁴ or where the defenses raised were not used in a vexatious or dilatory manner.¹³⁵

In a decision rendered just a year and a half after the formation of the court—*Rohm & Haas Co. v. Crystal Chemical Co.*¹³⁶—the Federal Circuit reviewed in considerable detail the history of fee shifting generally under U.S. law. The court there explained that even in the absence of a statutory provision, the courts had long had the power to make an equitable award of attorney fees in “especially compelling” circumstances, such as a party acting in contempt of court, bad-faith behavior by a litigant, or the existence of a contractual agreement between the parties permitting fee shifting.¹³⁷ In addition, Congress has the legislative power to provide for fee shifting. Statutory deviations from the American Rule, the *Rohm & Haas* court noted, were often intended to “encourag[e] suits to vindicate congressional policy by ‘private attorneys general’” (e.g., as in the case of certain antitrust or environmental statutes).¹³⁸ However, the types of public policy-based concerns that underlie typical statutory provisions for fee shifting make only a limited appearance in patent law, arising largely in the context of fee shifting in favor of a party who successfully invalidates a “fraudulent” patent.¹³⁹ More commonly, fee shifting in the patent context is intended to address private concerns of a litigant by preventing “injustice.”¹⁴⁰ Thus, the *Rohm & Haas* court asserted, previous decisions by the regional circuits awarding attorney fees under Section 70 or Section 285 did so only

130. *Hughes*, 724 F.2d at 123–25.

131. *Id.* at 123–24.

132. *See Stevenson*, 713 F.2d 705.

133. *See, e.g., Rosemount, Inc. v. Beckman Instruments, Inc.*, 727 F.2d 1540 (Fed. Cir. 1984); *Lam, Inc. v. Johns-Manville Corp.*, 718 F.2d 1056 (Fed. Cir. 1983).

134. *E.g., CTS Corp.*, 727 F.2d 1550.

135. *E.g., Stickle*, 716 F.2d 1550.

136. 736 F.2d 688 (Fed. Cir. 1984). The opinion was written by Judge Giles Rich, a key drafter of the 1952 Patent Act. It addressed an issue of first impression: does Section 285 authorize attorney fees for an exceptional *appeal*? *Id.* at 689–90. The court concluded “yes.” *Id.* at 692.

137. *Id.* at 690 (citing MARY FRANCES DERFNER & ARTHUR D. WOLF, COURT AWARDED ATTORNEY FEES ¶ 1.02 (1983)).

138. *Id.* (citing Interstate Commerce Act of 1887, ch. 104, 24 Stat. 379; Clayton Act of 1914, ch. 323, 38 Stat. 730 (current version at 15 U.S.C. § 15 (2012)); Toxic Substances Control Act of 1976, Pub. L. No. 94-469, 90 Stat. 2034 (current version at 15 U.S.C. § 2618(d) (2012))).

139. *Id.* at 692 (acknowledging the “frequently-cited policy considerations” underlying such awards (citing *True Temper Corp. v. CF&I Steel Corp.*, 601 F.2d 495, 509 (10th Cir. 1979); *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp.*, 407 F.2d 288, 294 (9th Cir. 1969))).

140. *Id.*

in “extraordinary circumstances,”¹⁴¹ which included “willful and deliberate infringement by an infringer” and “prolongation of litigation in bad faith.”¹⁴²

One notable aspect of the *Rohm & Haas* analysis was the Federal Circuit’s easy acceptance of the fee-shifting precedents created by the regional circuits prior to the court’s formation in 1982. Although fee-shifting in patent cases was at that point (and had been for almost four decades) statutory in nature,¹⁴³ the doctrine still carried equitable overtones that fostered flexible, fact-specific application of the doctrine and that respected exercise of discretion by the trial court.

As the Federal Circuit matured over the next couple of decades, however, it forged new paths for patent doctrine that deviated significantly from the pre-1982 doctrine developed by the regional circuits. In particular, over time, the Federal Circuit became prone to drafting bright-line rules, such as its “machine or transformation” test for physical subject matter,¹⁴⁴ its “teaching, suggestion, or motivation” test for nonobviousness,¹⁴⁵ or its “general rule” that injunctive relief should be routinely granted for patent infringement.¹⁴⁶ The Supreme Court regularly rejected many of these formulaic rules on appeal, demanding more nuanced approaches instead.¹⁴⁷ In addition to this tendency toward bright-line rules, Federal Circuit decision-making began showing a marked blurring between the role of appellate and trial courts, with the Federal Circuit increasingly engaging in hyperactivity by stepping into territory

141. *Id.* at 691. The cases cited by the court all involved Section 70, however, suggesting the court saw no difference between the doctrine applicable under the now-repealed Section 70 and the current Section 285. *Id.* at 691 n.5 (citing *Am. Chain & Cable Co. v. Rochester Ropes*, 199 F.2d 325 (4th Cir. 1952); *Park-In-Theatres, Inc. v. Perkins*, 190 F.2d 137 (9th Cir. 1951); *Laufenberg, Inc. v. Goldblatt Bros.*, 187 F.2d 823 (7th Cir. 1951); *Lincoln Elec. Co. v. Linde Air Prods. Co.*, 74 F. Supp. 293, 294 (N.D. Ohio 1947)).

142. *Id.* at 692 & n.7 (citing *Milgo Elec. Co. v. United Bus. Commc’n, Inc.*, 623 F.2d 645 (10th Cir. 1980)). In 1990, the Federal Circuit further explained that “there is and should be no difference in the standards applicable to patentees and infringers who engage in bad faith litigation”; rather, the court noted, the “different interests” of those parties are accounted for “in the required evaluation of the totality of the circumstances.” *Eltech Sys. Corp. v. PPG Indus., Inc.*, 903 F.2d 805, 811 (Fed. Cir. 1990).

143. *See supra* notes 71–74 and accompanying text (discussing enactment of Section 70 of the Patent Act in 1946)

144. *In re Bilski*, 545 F.3d 943, 958–59 (Fed. Cir. 2008), *aff’d sub nom.*, *Bilski v. Kappos*, 561 U.S. 593 (2010).

145. *In re Lee*, 277 F.3d 1338, 1343–44 (Fed. Cir. 2002).

146. *MercExchange, LLC v. eBay, Inc.*, 401 F.3d 1323, 1329 (Fed. Cir. 2005), *vacated & remanded*, 547 U.S. 388 (2006).

147. *See, e.g., Bilski*, 561 U.S. at 604–05 (rejecting machine or transformation test); *KSR Int’l Co. v. Teleflex, Inc.*, 550 U.S. 398, 415 (2007) (rejecting teaching, suggestion, or motivation test); *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 393–94 (2006) (rejecting general rule of injunctive relief in favor of consideration of equitable factors). *See generally* Dreyfuss, *supra* note 14; Rebecca S. Eisenberg, *The Supreme Court and the Federal Circuit: Visitation and Custody of Patent Law*, 106 MICH. L. REV. FIRST IMPRESSIONS 28 (2007); Gugliuzza, *supra* note 1; Holbrook, *supra* note 9; Timothy R. Holbrook, *The Supreme Court’s Complicity in Federal Circuit Formalism*, 20 SANTA CLARA COMPUTER & HIGH TECH. L.J. 1 (2003); Peter Lee, *Patent Law and the Two Cultures*, 120 YALE L.J. 2 (2010); Thomas, *supra* note 8.

that had been reserved to the lower courts¹⁴⁸ or even patent examiners.¹⁴⁹ The Federal Circuit also began ratcheting up the burden of proof in several contexts in the mid-1980s.¹⁵⁰

In the fee-shifting setting, the Federal Circuit's formulaic tendencies came to a head in 2005, in *Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*,¹⁵¹ where the Federal Circuit adopted a new rule that radically restricted fee shifting under Section 285. Under the new, much more rigid rule of *Brooks Furniture*, fee shifting was permitted in only two instances: (1) where there was material inappropriate conduct related either to the litigation¹⁵² or to the securing of the patent,¹⁵³ or (2) when the litigation was both (a) "brought in subjective bad faith" and (b) "objectively baseless."¹⁵⁴

The *Brooks Furniture* court also ruled that "the underlying improper conduct and the characterization of the case as exceptional must be established by clear and convincing evidence"¹⁵⁵—a higher standard than the preponderance test that typically applies in civil cases.¹⁵⁶ *Brooks Furniture* did not create this heightened burden of proof for showing exceptionality, however. Rather, the clear and convincing evidence standard for Section 285 determinations can be traced back to a 1985 opinion in which the young Federal Circuit adopted the heightened burden for showing invalidity and inequitable conduct before the USPTO—a completely different context—into the civil-litigation setting of fee-shifting doctrine.¹⁵⁷ The net

148. Rooklidge & Weil, *supra* note 20, at 726, 735–39 (defining "hyperactivity" and arguing court improperly acted as an advocate when it considered on appeal arguments not raised below or when it decided on appeal issues not properly preserved below); *id.* at 739–48 (arguing court improperly acted as a fact-finder when it found facts rather than remanding after reversing the trial court or when it granted summary judgment to one party after reversing the grant to the other party in the absence of a cross-motion for summary judgment).

149. *Id.* at 730–35 (arguing court improperly acted as a patent examiner when, while engaging in claim construction, it relied upon patents not cited or considered by the patent examiner or applicant).

150. See B.D. Daniels, *Heightened Standards of Proof in Patent Litigation: A Critique*, 36 AIPLA Q.J. 369, 408–10 (2008). Daniels also pointed to heightened standards of proof in invalidity, inequitable conduct, and willful infringement cases.

151. 393 F.3d 1378 (Fed. Cir. 2005).

152. *Id.* at 1381. The court described such behavior as including "willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed.R.Civ.P. 11, or like infractions." *Id.*

153. *Id.* (citations omitted). The court described this as "fraud or inequitable conduct in procuring the patent." *Id.*

154. *Id.* at 1382. In 2011, the Federal Circuit further clarified in *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1377–78 (Fed. Cir. 2011), that objectively baseless litigation is "so unreasonable that no reasonable litigant could believe it would succeed" and that subjective bad faith litigation arises when the plaintiff "actually know[s]" that the litigation is objectively baseless.

155. 393 F.3d at 1382 (citing *Beckman Instruments, Inc. v. LKB Produkter AB*, 892 F.2d 1547, 1551 (Fed. Cir. 1989)).

156. See Daniels, *supra* note 150, at 373 (citing *Addington v. Texas*, 441 U.S. 418, 423 (Fed. Cir. 1979)).

157. See *Reactive Metals & Alloys Corp. v. ESM, Inc.*, 769 F.2d 1578, 1582 (Fed. Cir. 1985) (citing *Hycor Corp. v. Schlueter Co.*, 740 F.2d 1529, 1538 (Fed. Cir. 1984) (stating that

result of the Federal Circuit's narrow and inflexible formula and elevated burden of proof for fee-shifting evaluations was that trial-court discretion was severely curtailed and cases in which fee shifting under Section 285 occurred were few in number and difficult to prove.¹⁵⁸

The switch from the percolation-rich environment of the regional circuits to the specialized setting of the Federal Circuit had profound effects upon the development of patent fee-shifting doctrine. Doctrine became more uniform, of course (one of the goals of court specialization¹⁵⁹), but it also became undeniably more rigid and formalistic. In 2014, the Supreme Court made it clear that the fee-shifting doctrine created by the Federal Circuit in *Brooks Furniture* was impermissibly divorced from statutory mandates; it was, in short, wrong.

C. *Octane Fitness and Highmark: Correcting the Course of Patent Fee-Shifting Doctrine*

In 2014, the U.S. Supreme Court reviewed the Federal Circuit's interpretation of Section 285 in two paired cases: *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*,¹⁶⁰ and *Highmark, Inc. v. Allcare Health Management Systems, Inc.*¹⁶¹ Both cases addressed the issue of correct fee-shifting doctrine from the perspective of the proper role of courts in statutory interpretation. While the cases addressed different aspects of the Federal Circuit's fee-shifting doctrine under Section 285, together they made a damning indictment of the Federal Circuit's formalistic approach to fee shifting in patent cases.

In a short opinion, *Octane Fitness* examined—and rejected—the Federal Circuit's narrow interpretation of “exceptional” in Section 285, finding that the Federal Circuit had abandoned the previous “holistic, equitable approach” in applying Section 285 in favor of an incorrect “rigid and mechanical formulation”¹⁶² that “impermissibly encumber[ed] the statutory grant of discretion” to the trial courts.¹⁶³ The only constraint that the statutory language places upon that discretion is that the case be “exceptional.”¹⁶⁴ Because the Patent Act itself does not define “exceptional,” the Court drew upon standard canons of statutory construction in ruling that

fraud on the USPTO must be shown by clear and convincing evidence)). Challenges to the validity of a patent remain subject to the clear and convincing evidence standard today. See *Microsoft Corp. v. i4i Ltd. P'ship*, 564 U.S. 91, 94 (2011).

158. Professor Chien, for example, found that between 2005 and 2011, fee-shifting awards were granted, on average, in 56 cases per year (out of 3000 patent cases filings, on average, per year); slightly less than one-half of the awards went to prevailing defendants. Colleen V. Chien, *Reforming Software Patents*, 50 HOUSTON L. REV. 325, 377 (2012).

159. See COMM'N ON REVISION OF THE FED. COURT APPELLATE SYS., *supra* note 5, at 28–30 (discussing advantages of court specialization).

160. 572 U.S. 545 (2014).

161. 572 U.S. 559 (2014). While separate actions, these two cases were argued before the Court on the same day (Feb. 26, 2014) and decided on the same day (April 29, 2014).

162. *Octane Fitness*, 572 U.S. at 550.

163. *Id.* at 553.

164. *Id.*

“exceptional” should be given its “ordinary meaning”¹⁶⁵: a case “that stands out from others with respect to” either (1) “the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case)” or (2) “the unreasonable manner in which the case was litigated.”¹⁶⁶ The Court noted, almost as an aside, that the fee-shifting language in the Lanham and Patent Acts is identical,¹⁶⁷ and it cited *Noxell Corp. v. Firehouse No. 1 Bar-B-Que Restaurant*,¹⁶⁸ a 1985 decision from the D.C. Circuit written by then-Judge Ruth Bader Ginsburg and joined by then-Judge Antonin Scalia.¹⁶⁹ The *Noxell* court had found that “exceptional,” for purposes of Lanham Act fee shifting, “is most reasonably read to mean what the word is generally understood to indicate—uncommon, not run-of-the-mine.”¹⁷⁰ The Supreme Court adopted the same commonsense definition of “exceptional” for purposes of the Patent Act.¹⁷¹

The *Octane Fitness* Court then ruled that determinations of whether cases are “exceptional” are to be made by the trial courts “in the case-by-case exercise of their discretion, considering the totality of the circumstances.”¹⁷² The *Brooks Furniture* test was, the Court found, “overly rigid,”¹⁷³ because it “superimpose[d] an inflexible framework onto statutory text that [was] inherently flexible.”¹⁷⁴ Although the Supreme Court rejected the Federal Circuit’s standard for being overly formulaic, the Court itself fell back a bit on formulaic standards by listing in a footnote the “‘nonexclusive’ list of ‘factors’” that it had noted in *Fogerty v. Fantasy, Inc.*¹⁷⁵ and that trial courts had considered in the past when applying a similar (but not identical) fee-shifting provision under the Copyright Act:¹⁷⁶ “frivolousness, motivation,

165. *Id.*

166. *Id.* at 554.

167. *Id.*

168. 771 F.2d 521 (D.C. Cir. 1985).

169. Both of them of course had been elevated to the Supreme Court by the time of the *Octane Fitness* decision. The court in *Noxell* had noted the “terse” and “thin” nature of the legislative history underlying Section 1117(a), yet also emphasized that nothing in that legislative history suggested an overly narrow reading of the grounds for fee recovery. *Id.* at 526; see also *infra* notes 230–37 and accompanying text (discussing legislative history of Section 1117(a) of Lanham Act).

170. 771 F.2d at 526.

171. *Octane Fitness*, 572 U.S. at 554. However, the Supreme Court transcribed “run-of-the-mine” to “run-of-the-mill” in quoting *Noxell*.

172. *Id.*

173. *Id.*

174. *Id.* at 555. The first category of cases listed in *Brooks Furniture*—those involving certain types of misconduct—were largely categories of conduct that would be independently sanctionable, which the Court found was too narrow a definition of exceptional. “[U]nreasonable conduct,” even if not “independently sanctionable,” may be so exceptional as to warrant fee shifting. *Id.* The second category was likewise too restrictive as the Court found that either subjective bad faith or meritless claims might render a case exceptional; both elements were not required. *Id.*

175. *Id.* at 554 n.6 (quoting *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534 n.19 (1994)).

176. The Copyright Act fee-shifting provision states: “Except as otherwise provided by this title, the court may also award a reasonable attorney’s fee to the prevailing party as part of the costs.” 17 U.S.C. § 505 (2012).

objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence.”¹⁷⁷ The *Octane Fitness* Court cautioned, however, that there was “no precise rule or formula” to be followed in Patent Act fee-shifting evaluations; rather, these factors should guide the trial court’s exercise of “equitable discretion.”¹⁷⁸

The Court noted that the “demanding” standard of *Brooks Furniture* made Section 285 “largely superfluous.”¹⁷⁹ The courts already have the inherent, common law power to award attorney fees for “willful disobedience of a court order” or “when the losing party has ‘acted in bad faith, vexatiously, wantonly, or for oppressive reasons.’”¹⁸⁰ In two earlier cases in other contexts, the Court had declined to construe fee-shifting statutes so narrowly as to make them superfluous, and it declined to do so in the context of Section 285 as well.¹⁸¹

Having overruled the Federal Circuit’s standard for exceptionality, the *Octane Fitness* Court turned to a second ground on which it reversed Federal Circuit doctrine: the burden of proof for Section 285 determinations. Since 1985, Federal Circuit precedent had required that a prevailing party show entitlement to attorney fees by “clear and convincing evidence.”¹⁸² This, the Supreme Court noted, was not supported by the language of Section 285 or by precedent addressing other fee-shifting statutes.¹⁸³ The “preponderance of the evidence standard” is the correct one for most civil actions, including patent infringement litigation,¹⁸⁴ as it enables both litigants to “share the risk of error in roughly equal fashion.”¹⁸⁵ In the absence of legislative direction, the Federal Circuit had no basis for imposing this heightened standard of proof for Section 285 claims.

177. *Octane Fitness*, 572 U.S. at 554 n.6 (quoting *Fogerty*, 510 U.S. at 534 n.19).

178. *Id.* at 554 (quoting *Fogerty*, 510 U.S. at 534). The *Fogerty* Court stated that prevailing plaintiffs and defendants should be treated alike under the copyright fee-shifting provision, and that awards were in the discretion of the trial court. *Fogerty*, 510 U.S. at 534. The Court noted: “There is no precise rule or formula for making these determinations, but instead equitable discretion should be exercised in light of the considerations we have identified.” *Id.* In a footnote, the *Fogerty* Court further explained that “[s]ome courts . . . have suggested several nonexclusive factors to guide courts’ discretion. . . . These factors include ‘frivolousness, motivation, objective unreasonableness (both in the factual and in the legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence.’” *Id.* at n.19 (quoting *Lieb v. Topstone Indus., Inc.*, 788 F.2d 151, 156 (3d Cir. 1986)).

179. *Octane Fitness* 572 U.S. at 557.

180. *Id.* (citing *Alyeska Pipeline Serv. Co. v. Wilderness Soc’y*, 421 U.S. 240, 258–59 (1975)).

181. *Id.* (citing *Christianburg Garment Co. v. EEOC*, 434 U.S. 412, 419 (1978) (fee shifting under Title VII); *Newman v. Piggie Park Enters., Inc.*, 390 U.S. 400, 402 n.4 (1968) (per curiam) (fee shifting under the Civil Rights Act of 1964)).

182. See *supra* note 157 and accompanying text.

183. *Octane Fitness*, 572 U.S. at 557 (citations omitted).

184. *Id.* at 557–58 (citation omitted).

185. *Id.* (citation omitted).

In a short, unanimous opinion, *Highmark Inc. v. Allcare Health Management System, Inc.*,¹⁸⁶ the Supreme Court followed up on the *Octane Fitness* holdings by overruling the Federal Circuit on yet a third ground: the standard for review for determinations of exceptionality under Section 285. Under Supreme Court precedent, questions of law are reviewed de novo, questions of fact are reviewed for “clear error,” and discretionary decisions are reviewed for “abuse of discretion.”¹⁸⁷

The panel majority in *Highmark* found that a complicated, tri-part review standard applied to Section 285 determinations. The objective baselessness standard of *Brooks Furniture* was “a question of law based on underlying mixed questions of law and fact” and thus was reviewed de novo.¹⁸⁸ The subjective bad faith prong of *Brooks Furniture* was to be reviewed for “clear error,”¹⁸⁹ and the trial court’s ultimate decision to award fees or not was to be reviewed for abuse of discretion.¹⁹⁰ The introduction of de novo review into the fee-shifting context was a sharp departure from previous Federal Circuit precedent, which had recognized the unique role that the trial court plays in such determinations because of its unparalleled familiarity with the case.¹⁹¹ It did, however, fit into a larger pattern of the Federal Circuit adopting de novo review for issues such as claim construction,¹⁹² willfulness,¹⁹³ obviousness,¹⁹⁴ and enablement,¹⁹⁵ in contravention of prior precedent.

This issue proved divisive amongst the Federal Circuit judges. At the panel level, Judge Mayer wrote a scathing dissent on the application of the de novo standard in this context, in which he stated: “Our increasing infatuation with de novo review of factual determinations began with claim construction, and has now infected review of both willful infringement, and section 285 exceptional case determinations.”¹⁹⁶ The Federal Circuit’s “overreaching,” he contended, had turned “litigation before the district court [into] a mere dress rehearsal for the command performance” before the

186. 572 U.S. 559 (2014).

187. *Id.* at 563 (citing *Pierce v. Underwood*, 487 U.S. 552, 558 (1988)).

188. *Highmark, Inc. v. Allcare Health Mgmt. Sys. Inc.*, 687 F.3d 1300, 1309 (Fed. Cir. 2012), *vacated*, 572 U.S. 559 (2014).

189. *Id.* at 1310.

190. *Id.* at 1322–23 (Mayer, J., dissenting).

191. *See, e.g.*, *Brooktree Corp. v. Advanced Micro Devices*, 977 F.2d 1555, 1582 (Fed. Cir. 1992) (“For fee-shifting issues particular deference is due to the trial judge, who had the opportunity to observe those intangibles missing from the appellate record. The trial court is in the best position to evaluate the conduct of the parties throughout the period of patent infringement, and to allocate the burdens of litigation commensurate with the interest of justice.”); *see also Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1324 (Fed. Cir. 2011) (noting that the appellate court lacks the familiarity of the trial court with the details of the litigation).

192. *See e.g.*, *Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1455–56 (Fed. Cir. 1998).

193. *See e.g.*, *Bard Peripheral Vascular, Inc. v. W.L.Gore & Assocs., Inc.*, 682 F.3d 1003 (Fed. Cir. 2012).

194. *See e.g.*, *Merck & Co., Inc. v. Teva Pharms. USA, Inc.*, 395 F.3d 1364, 1369 (Fed. Cir. 2005).

195. *See e.g.*, *Sitrick v. Dreamworks, LLC*, 516 F.3d 993, 999 (Fed. Cir. 2008).

196. *Highmark, Inc. v. Allcare Health Mgmt. Sys. Inc.*, 687 F.3d 1300, 1320 (Mayer, J., dissenting), *vacated*, 572 U.S. 559 (2014).

appellate court.¹⁹⁷ A request for rehearing en banc was denied in a six to five vote,¹⁹⁸ with Judge Moore, writing for the dissent, arguing that the panel majority's rule "deviates from precedent, invades the province of the fact finder, and establishes a review standard for exceptional case findings in patent cases that is squarely at odds with the highly deferential review adopted by every regional circuit and the Supreme Court in other areas of law."¹⁹⁹

On review, the Supreme Court noted that *Octane Fitness*, issued earlier the same day, had established that not only does the clear language of Section 285 commit determination of exceptionality to the discretion of the district court, but that the district court "lives with the case over a prolonged period of time,"²⁰⁰ rendering it better situated than the appellate court to make such a call.²⁰¹ The Federal Circuit had ignored the clear hierarchy of review standards set by Supreme Court precedents in favor of an idiosyncratic rule that discounted the trial court's role and heightened its own appellate role. The *Highmark* Court held that the "abuse of discretion" standard applied to review of "all aspects" of the trial court's determinations on Patent Act fee shifting.²⁰²

Octane Fitness and *Highmark* were a sharp rebuke to the Federal Circuit for: (1) its overly rigid interpretation of statutory language; (2) imposition of an inappropriately high standard of proof; and (3) overly intrusive review of discretionary matters committed to the trial court by Congress. Although the fee-shifting doctrine that emerged from the Federal Circuit was indeed uniform—one of the goals of court specialization—it was also inaccurate and displayed precisely the type of judicial hyperactivism scholars fear in this specialized court setting.²⁰³ One would hypothesize, then, that the robust percolation found in Lanham Act fee-shifting cases, while perhaps frustrating uniformity in the short term, would lead to better doctrine in the long term. This is explored in the next Part.

III. PERCOLATION AND STATUTORY FEE SHIFTING UNDER THE LANHAM ACT

Statutory fee-shifting made a later appearance in the Lanham Act than it did in the Patent Act. When it finally did arrive, in 1976, it used language identical to that that had been adopted in Section 285 of the Patent Act in 1952. Unlike patent fee-shifting doctrine, however, Lanham Act fee-shifting doctrine has percolated in the regional circuits throughout its entire lifetime. This doctrine, at least at first glance, evolved to be nonuniform in at least some respects. But did this nonuniformity indicate a failure of percolation? This Part argues "no" because, as described below, the core qualities necessary for appropriate fee-shifting decisions were maintained.

197. *Id.*

198. *Highmark Inc. v. Allcare Health Mgmt. Sys. Inc.*, 701 F.3d 1351, 1352 (Fed. Cir. 2012) (per curiam) (denial of petition for en banc review).

199. *Id.* at 1356 (Moore, J., dissenting from denial of petition for en banc review).

200. *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 572 U.S. 559, 563–64 (2014) (citing *Pierce v. Underwood*, 487 U.S. 552, 559–60 (1988)).

201. *Id.*

202. *Id.*

203. See *supra* notes 40–42 and accompanying text (discussing *Rooklidge & Weil*, *supra* note 20).

A. The Origins of Fee Shifting in Trademark Law

Fee shifting in the trademark setting predates the Lanham Act. Congress enacted the Lanham Act in 1946²⁰⁴—coincidentally, the same year in which Congress adopted Section 70, the first patent fee-shifting statute. However, the Lanham Act, like its predecessor trademark act,²⁰⁵ made no provision for fee shifting. After Section 285 was adopted in the Patent Act of 1952, there were attempts to add the same fee-shifting language to the Lanham Act, but those efforts failed.²⁰⁶

Despite the lack of statutory authority, a number of circuits had been allowing recovery of attorney fees in egregious trademark cases via their common-law powers for at least a few years prior to enactment of the Lanham Act. The seminal case is widely regarded as a 1941 decision by the Seventh Circuit: *Aladdin Manufacturing Co. v. Mantle Lamp Co. of America*.²⁰⁷ The court there held that attorney fees could be recovered as compensatory damages in trademark cases if there was “fraudulent and wilful infringement” by the defendant.²⁰⁸ The court noted that general tort damages are broadly defined so as to include “injury to business standing or good will, loss of business, additional expenses incurred because of the tort and all other elements of injury to the business.”²⁰⁹ Attorney fees, the court found, fell into this grouping, and so could be awarded by the court as part of an overall tort compensation package.²¹⁰ Over the next twenty-six years, other courts granted or upheld attorney fees in trademark cases, often with just summary analysis.²¹¹ In the

204. Trademark (Lanham) Act of 1946, ch. 540, 60 Stat. 427.

205. There had been attempts to enact federal trademark legislation in the late 1800s, which did not survive constitutional challenge; these were followed by the Trademark Act of 1905, ch. 592, 33 Stat. 724 (codified at 15 U.S.C. §§ 96, 99), amended by Act of Mar. 19, 1920, ch. 104, 41 Stat. 533, which was widely regarded as defective. For a general history of the development of federal trademark acts, see Sondra Levine, *The Origins of the Lanham Act*, 19 J. CONTEMP. LEGAL ISSUES 22 (2010); Symposium, *50th Anniversary of the Lanham Act*, 86 TRADEMARK REP. 353 (1996).

206. Senate Bill 2540, as amended, provided for recovery of attorney fees; it passed the Senate but failed to pass the House of Representatives. See S. 2540, 83d Cong. § 25 (1954). The Senate report accompanying the bill stated that the provision was intended to parallel the recently enacted Section 285 of the Patent Act. See S. REP. NO. 83-2266, at 9 (1954). H.R. 7734, 84th Cong. § 25 (1955), had a similar provision, but failed in the Senate.

207. 116 F.2d 708 (7th Cir. 1941) (allowing attorney fees as compensatory damages where defendant’s conduct was willful and fraudulent); see also S. REP. NO. 93-1400, at 5 (1974) (“Prior to 1967, the courts in trademark infringement and unfair competition cases had developed an equitable doctrine holding the attorney fees are recoverable by a successful plaintiff, notwithstanding the absence of express statutory authority under the Lanham Act.”).

208. *Aladdin*, 116 F.2d at 716–17 (“Recoverable damages . . . include compensation for all injury to appellant’s business arising from wrongful acts committed by appellee, provided such injury was the natural and proximate result of the wrongful acts.”).

209. *Id.* at 716 (citing 15 AM. JUR. §§ 133–36, 138).

210. *Id.* at 717.

211. See, e.g., *Wolfe v. Nat’l Lead Co.*, 272 F.2d 867, 873 (9th Cir. 1959); *Maternally Yours, Inc. v. Your Maternity Shop, Inc.*, 234 F.2d 538, 545 (2d Cir. 1956); *Keller Prods. v. Rubber Lining Corp.*, 213 F.2d 382, 388 (7th Cir. 1954); *Admiral Corp. v. Penco, Inc.*, 203 F.2d 517, 521 (2d Cir. 1953); *Capitol Tie Rak, Inc. v. Tie Rack Stores, Inc.*, No. 63 C 1380

words of the trial court in *Singer Manufacturing Co. v. Redlich* in 1952: “There is nothing novel in the concept of awarding the successful party attorney’s fees paid and expenses incurred in litigation, stemming from the opponent’s fraudulent conduct and but for which the litigation would have been avoided.”²¹²

However, not all courts were comfortable with the notion of common-law fee shifting in trademark cases. A 1951 district court opinion, *Century Distilling Co. v. Continental Distilling Corp.*, cautioned that “even if [the *Aladdin*] ruling is sound, the discretion must be confined within the limits set by the almost uniform trend of judicial decision, and is not to be exercised except in the most exceptional circumstances.”²¹³ The court found no such exceptional circumstances before it.²¹⁴ On appeal, the Third Circuit upheld the denial of attorney fees, stating although it was “arguable” that the trial court had the discretion to award attorney fees as costs, there was no showing of abuse of discretion by the trial court that would warrant an overturning of the denial of such fees.²¹⁵ Similarly, in 1957, the district court in *Williamson-Dickie Manufacturing Co. v. Davis Manufacturing Co.* declined to award attorney fees.²¹⁶ Although it did not address *Aladdin* specifically, the court expressed skepticism with the idea of fee shifting generally in trademark cases. The court noted that fee shifting was not authorized by the Lanham Act and that even if a court of equity had the “inherent power” to award attorney fees in the absence of statutory authorization, there was no evidence of “bad faith or vexatious tactics” that would justify such an award in the case before it.²¹⁷

The availability of common-law fee shifting in trademark cases came to a head in 1966, in a Ninth Circuit case captioned *Maier Brewing Co. v. Fleischmann Distilling Corp.*²¹⁸ The court there held that attorney fees may not be awarded in Lanham Act cases,²¹⁹ finding that under a “long established principle,” the prevailing party cannot recover attorney fees “in an ordinary action at law or in equity” absent a statutory or contractual provision allowing the same.²²⁰ Not only did the Lanham Act not provide

1966 U.S. Dist. LEXIS 7228, at *7 (N.D. Ill. Dec. 2, 1966); *Youthform Co. v. R.H. Macy & Co.*, 153 F. Supp. 87, 95 (N.D. Ga. 1957); *Francis H. Leggett & Co. v. Premier Packing Co.*, 140 F. Supp. 328, 332 (D. Mass. 1956); *Singer Mfg. Co. v. Singer Upholstering & Sewing Co.*, 130 F. Supp. 205, 208 (W.D. Pa. 1955).

212. 109 F. Supp. 623, 627 (S.D. Cal. 1952) (emphasis omitted). The court characterized the defendant’s behavior as “fraudulent, deliberate, wilful and wanton in the extreme” and awarded attorney fees. *Id.*

213. 102 F. Supp. 39, 41 (E.D. Pa. 1951).

214. *Id.* (finding the plaintiff’s behavior was “not innocent or inadvertent [sic],” but neither was it “fraudulent”). As the court explained, “[t]here were no circumstances of palming off or express malice, and no deliberate attempt to destroy the defendant’s business. The worst that can be said about the plaintiff’s conduct is that it mistook its legal rights and stubbornly clung to its ill-advised course of conduct after it became apparent that it would be wiser to give it up.” *Id.*

215. *Century Distilling Co. v. Continental Distilling Corp.*, 205 F.2d 140, 149 (3d Cir. 1953).

216. 149 F. Supp. 852, 855 (E.D. Pa. 1957).

217. *Id.*

218. 359 F.2d 156 (9th Cir. 1966), *aff’d*, 386 U.S. 714 (1967).

219. *Id.* at 165.

220. *Id.* at 158.

for attorney fees, but the fact that Congress provided for fee shifting in the Patent Act the same year that it enacted the Lanham Act *without* fee shifting clearly indicated that Congress knew how to provide for such recovery if it so chose—and evidently it did not so choose in Lanham Act causes of action.²²¹

What is perhaps most interesting about the Ninth Circuit's discussion is its implicit damning of the darker side of percolation. The court rejected the twenty-four-year-old reasoning of *Aladdin*, finding that it was, in effect, built upon nothing more than smoke and mirrors and that it had “nothing to recommend it as authority . . . except its age, if that be a recommendation.”²²² The Ninth Circuit was disturbed by what it deemed “a certain circularity in the judicial process” under which common-law fee shifting in trademark law had evolved. Trademark fee-shifting doctrine began with what the court called “a rather casual holding, citing no prior authority” by the Seventh Circuit in *Aladdin*, which was then cited and followed without discussion by the Second, Fourth, and Ninth Circuits.²²³ The net result was the inappropriate judicial creation of a doctrine permitting fee shifting in trademark cases in the absence of congressional direction to allow such recovery.

The Supreme Court granted certiorari in *Fleischmann Distilling Corp. v. Maier Brewing Co.*²²⁴ to resolve the circuit split that ensued from the Ninth Circuit's holding. The Court affirmed, holding that fee shifting was not possible in the trademark context because while the Lanham Act laid out an extensive and detailed list of remedies, including injunctive relief, compensatory damages, and trebling of damages in appropriate instances, fee shifting was not among them.²²⁵ Exceptions to the American Rule, the Court stated, do not arise in “the context of statutory causes of action for which the legislature ha[s] prescribed intricate remedies.”²²⁶ Thus, the Court concluded, “[w]hen a cause of action has been created by a statute which expressly provides the remedies for vindication of the cause, other remedies should not be readily implied.”²²⁷ In addition, Congress had provided for attorney-fee recovery in a number of other statutes, including enacting Section 70 of the Patent Act the very same year the Lanham Act was enacted, and had considered but rejected legislation providing for trademark fee shifting on several occasions.²²⁸ Under such circumstances, the *Fleishmann* Court concluded, it would be “inappropriate” for the courts to extend a remedy not found in the statute.²²⁹

Congress disagreed with the Supreme Court's holding in *Fleischmann*. It responded by adding fee-shifting language, Section 1117(a), to the Lanham Act in

221. *Id.* at 159.

222. *Id.* at 161.

223. *Id.* at 163.

224. 386 U.S. 714 (1967).

225. *See id.* at 719–20.

226. *Id.* at 719.

227. *Id.* at 720. In his dissent, Justice Stewart concluded just the opposite, arguing that, when it enacted the Lanham Act, Congress was aware of fee shifting under *Aladdin*, and chose not to include fee shifting in the statute so as “to preserve the rule of that case.” *Id.* at 722 (Stewart, J., dissenting).

228. *Id.* at 720–21, 720 n.16.

229. *Id.* at 721.

1976.²³⁰ Section 1117(a) originated in House Bill 8981,²³¹ which was introduced at the behest of the Department of Commerce.²³² The accompanying Senate report stated that the purpose of the bill was to effect “three minor changes” to the federal trademark statute, one of which was to “authorize award of attorney fees to the prevailing party in trademark litigation where justified by equitable considerations.”²³³ The Senate report further identified an imbalance in the federal intellectual property laws: while the Patent and Copyright Acts permitted the recovery of attorney fees in limited circumstances, the Lanham Act had no such provision.²³⁴ The Senate Committee also agreed with the position of the Department of Commerce that fee shifting in trademark cases “should be available in exceptional cases, *i.e.*, in infringement cases where the acts of infringement can be characterized as ‘malicious,’ ‘fraudulent,’ ‘deliberate,’ or ‘willful.’”²³⁵ (These categories were to play a significant role in later circuit precedents.)²³⁶ Recovery was to be available to prevailing defendants in exceptional cases as well, to “provide protection against unfounded suits brought by trademark owners for harassment and the like.”²³⁷

At the time that Congress addressed fee shifting in the trademark context, patent law had had almost three decades of experience with statutory attorney fees awards. It is not surprising, perhaps, that Congress adopted the same language in Section 1117(a) of the Lanham Act as it had enacted over twenty years earlier in Section 285 of the Patent Act: “The court in exceptional cases may award reasonable attorney fees to the prevailing party.”²³⁸

Because cases under the Lanham Act go to the regional appellate courts,²³⁹ twelve regional circuits have had the opportunity to weigh in on what “exceptional” means in this context, as opposed to the single specialized circuit court that has heard all patent appeals post-1982. Percolation has thus been robust in the Lanham Act fee-shifting arena. The net result, as demonstrated below, is that fee-shifting doctrine in Lanham Act cases evolved in such a way as to be nonuniform, yet, as the next Section

230. Trademark Act, Pub. L. No. 93-600, § 3, 88 Stat. 1955, 1955 (1975). A previous bill, Senate Bill 3452, was passed by the Senate in the Ninety-Second Congress but not addressed by the House.

231. S. REP. NO. 93-1400, at 1 (1974).

232. *Id.* at 2.

233. *Id.* at 1. The other two changes were (1) creating an automatic thirty-day extension upon request for the filing of an opposition to a trademark registration application without having to show good cause; and (2) eliminating the existing requirement that “reasons of appeal” be filed with the USPTO when appealing from the USPTO to the U.S. Court of Customs and Patent Appeals. *Id.*

234. *Id.* at 2.

235. *Id.*

236. *See infra* note 243 and accompanying text.

237. S. REP. NO. 93-1400, at 6 (quoting Department of Commerce statement). The Lanham Act provision for fee shifting applies not only to violations of trademark rights, but to harmful, false, or misleading advertising by a competitor as well, although those cases are significantly fewer in number than the trademark cases. *See* Leighton, *supra* note 57, at 850. *Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC*, 626 F.3d 958 (7th Cir. 2010), discussed in the next Section, was, in fact, an advertising claim, not a trademark case.

238. 15 U.S.C. § 1117(a) (2012).

239. *See* 28 U.S.C. § 1291 (2012); *see also supra* note 19 (discussing 28 U.S.C. § 1291).

demonstrates, it remained more true to legislative mandate than did the non-percolated patent fee-shifting doctrine created by the Federal Circuit.

B. Lanham Act Fee-Shifting Doctrine in the Regional Circuits Pre-Octane Fitness

Statutory fee shifting under Section 1117(a) of the Lanham Act started out on a very different foot than did statutory fee shifting under the Patent Act. As noted above, the legislative history of the Lanham Act listed four categories of infringing acts by defendants that would justify fee awards to trademark owners—infringing acts that could be labeled as “‘malicious,’ ‘fraudulent,’ ‘deliberate,’ or ‘willful’”²⁴⁰—as well as providing for awards to prevailing defendants where the trademark owner’s wrongful behavior warranted it.²⁴¹ By contrast, the legislative history of Section 70 of the Patent Act set forth no such guiding principles, containing only a broad reference to the prevention of “gross injustice.”²⁴²

Several early decisions under Section 1117(a) seized upon these four categories—malicious, fraudulent, deliberate, or willful acts—as though they were the touchstones for determining whether a Lanham Act case was sufficiently exceptional to support a fee award.²⁴³ Unless the infringement fell into one of these classifications, the case was not exceptional and attorney fees were unavailable. Although these decisions carry faint whiffs of the Federal Circuit’s formulaic approach to fee shifting in patent cases, which was so sharply slapped down by the Supreme Court in *Octane Fitness* in 2014, the approach of the regional circuits is much more understandable in the Lanham Act context. Not only did the legislative history specifically call out these behaviors as the types that would render a case “exceptional,” the Senate report did so in a clause that was preceded by “*i.e.*” and not “*e.g.*,”²⁴⁴ which might indeed lead a reader to infer that the labeled behaviors were a closed set and not merely exemplars of the type of behavior that could justify fee shifting.

The first three and half decades of Section 1117(a)’s existence saw a steady stream of appellate decisions on fee shifting under the Lanham Act.²⁴⁵ As could be expected,

240. S. REP. NO. 93-1400, at 2.

241. *Id.* at 6.

242. *See supra* notes 71–74 and accompanying text (discussing legislative history of Section 70).

243. *See, e.g.,* *Otis Clapp & Son, Inc. v. Filmore Vitamin Co.*, 754 F.2d 738, 746 (7th Cir. 1985); *Incense v. Meadows*, 692 F.2d 1048, 1052 (6th Cir. 1982); *VIP Food, Inc. v. Vulcan Pet, Inc.*, 675 F.2d 1106, 1107 (10th Cir. 1982); *Tex. Pig Stands, Inc., v. Hard Rock Cafe Int’l, Inc.*, 951 F.2d 684, 696–97 (5th Cir. 1992). The Seventh Circuit stated that these four factors formed a “canonical formula” for the circuits to follow. *See Door Sys., Inc. v. Pro-Line Door Sys.*, 126 F.3d 1028, 1031 (7th Cir. 1997) (collecting cases). Although most circuits listed these factors in the disjunctive—“or”—as it appears in the initial part of the Senate report, S. REP. NO. 93-1400, at 2, the Eleventh Circuit actually listed the factors in the conjunctive—“and”—as the language appeared in the latter part of the report, *id.* at 5. *See, e.g.,* *St. Charles Mfg. Co. v. Mercer*, 737 F.2d 891, 894 (11th Cir. 1983); *Jellibears, Inc. v. Skating Clubs of Ga., Inc.*, 716 F.2d 833, 846 (11th Cir. 1983).

244. S. REP. NO. 93-1400, at 2.

245. *See, e.g.,* *TE-TA-MA Truth Found.-Family of URI, Inc. v. World Church of the Creator*, 392 F.3d 248 (7th Cir. 2004); *Eagles, Ltd. v. Am. Eagle Found.*, 356 F.3d 724 (6th

the robust percolation environment of the regional circuits, coupled with the uncabined language of Section 1117(a) and sparse legislative history, led to divergent language regarding the standard for exceptionality. In particular, the circuit courts often explicitly discussed “bad faith” behavior in discussing what made a Lanham Act case exceptional,²⁴⁶ harkening back to the common-law grounds for fee shifting in trademark cases²⁴⁷ (and indeed, to the early days of Patent Act fee shifting as well).²⁴⁸ The courts did not use consistent vocabulary in addressing the role of bad faith. One court suggested that bad faith was a “shorthand” for the high degree of culpability required under the four-factor inquiry suggested by the legislative history.²⁴⁹ Some used “bad faith” as one of several factors to consider (*i.e.*, was the losing party’s claim “groundless, unreasonable, vexatious, or pursued in bad faith[?]”).²⁵⁰ A finding of bad faith acts was not considered a prerequisite to recovery;²⁵¹ rather, “something less” in terms of improper behavior would suffice.²⁵² As the Ninth Circuit phrased it, bad faith might “be part of those exceptional circumstances” that justify fee shifting, but “the mere absence of bad faith” would not necessarily negate such an award.²⁵³

While one might anticipate that the regional circuit courts would reach out to the substantial body of case law that had developed under Section 285 of the Patent Act in determining what rendered a case “exceptional” given the legislative choice to employ identical language in these two statutory provisions, patent case law played a surprisingly small role in the development of Lanham Act doctrine. The Seventh Circuit did recognize the parallel provisions in a 2004 case, and noted that under

Cir. 2004); *Tamko Roofing Prods. v. Ideal Roofing Co.*, 282 F.3d 23 (1st Cir. 2002); *People for the Ethical Treatment of Animals v. Doughney*, 263 F.3d 359 (4th Cir. 2001); *SecuraComm Consulting Inc. v. Securacom Inc.*, 166 F.3d 182 (3d Cir. 1999); *Pebble Beach Co. v. Tour 18 I Ltd.*, 155 F.3d 526 (5th Cir. 1998); *Post Office v. Portec, Inc.*, 913 F.2d 802 (10th Cir. 1990).

246. *See, e.g.*, *Procter & Gamble Co. v. Amway Corp.*, 280 F.3d 519, 527 (5th Cir. 2002); *Transgo, Inc. v. Ajac Transmission Parts Corp.*, 768 F.2d 1001, 1014 (9th Cir. 1985); *Burndy Corp. v. Teledyne Indus.*, 748 F.2d 767, 774 (2d Cir. 1984); *Safeway Stores, Inc. v. Safeway Disc. Drugs, Inc.*, 675 F.2d 1160, 1168 (11th Cir. 1982).

247. *See supra* notes 207–12 and accompanying text.

248. *See supra* Sections II.A, B.

249. *Proctor*, 280 F.3d at 527 (citing *Pebble Beach Co. v. Tour 18 I Ltd.*, 155 F.3d 526, 556 (5th Cir. 1998)).

250. *Stephen W. Boney, Inc. v. Boney Servs., Inc.*, 127 F.3d 821, 827 (9th Cir. 1997) (quoting *Scott Fetzer Co. v. Williamson*, 101 F.3d 549 (8th Cir. 1996)); *see also* *Hartman v. Hallmark Cards, Inc.*, 833 F.2d 117, 123 (8th Cir. 1987).

251. An exception appears to have been the Eleventh Circuit, which required a prevailing defendant to show “bad faith” acts by the plaintiff, while requiring a prevailing plaintiff to use the four factors listed in the legislative history. *Lipscher v. LRP Publ’ns., Inc.*, 266 F.3d 1305, 1319 n.10, 1320 (11th Cir. 2001).

252. *Ji v. Bose Corp.*, 626 F.3d 116, 129 (1st Cir. 2010); *see also* *Nat’l Ass’n of Prof’l Baseball Leagues, Inc. v. Very Minor Leagues, Inc.*, 223 F.3d 1143, 1147 (10th Cir. 2000); *SecuraComm Consulting, Inc. v. Securacom Inc.*, 224 F.3d 273, 280 (3d Cir. 2000); *Door Sys., Inc. v. Pro-Line Door Sys., Inc.*, 126 F.3d 1028, 1031 (7th Cir. 1997); *Noxell Corp. v. Firehouse No. 1 Bar-B-Que Rest.*, 771 F.2d 521, 525–26 (D.C. Cir. 1985).

253. *Stephen W. Boney, Inc.*, 127 F.3d at 827 (citations omitted).

Supreme Court precedent, “similar language” in fee-shifting statutes “is ‘a strong indication’ that they are to be interpreted alike.”²⁵⁴ The court concluded that as cases under the Patent Act had been deemed exceptional where the losing party had “engaged in vexatious litigation conduct,”²⁵⁵ a prevailing plaintiff could be awarded fees under the Lanham Act “where the defendant’s litigation conduct was oppressive.”²⁵⁶ The Third Circuit noted that Section 285 case law did not require willful behavior to support fee shifting under the Patent Act and determined that Section 1117(a) of the Lanham Act should follow suit.²⁵⁷ Generally, though, the regional circuits paid little attention to the similarity of the two provisions.

The variations in language employed by the circuit courts in interpreting Section 1117(a) attracted the attention of a few courts and commentators.²⁵⁸ In particular, in 2010, Judge Posner of the Seventh Circuit addressed the various approaches of the circuits in an opinion captioned *Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC*.²⁵⁹ He there attempted to categorize and summarize the then-existing interpretations of “exceptional” in the context of Lanham Act fee shifting across the various circuits before setting forth yet an even different standard for the Seventh Circuit. In so doing, he painted an unfavorable, yet not entirely accurate, picture of the effects of percolation on the uniformity (or lack thereof) in Lanham Act fee-shifting doctrine.

According to Judge Posner’s analysis, four circuits—the Fourth, Sixth, Tenth, and D.C. Circuits—adopted different tests based upon whether the plaintiff or the defendant prevailed.²⁶⁰ In the Fourth and D.C. Circuits, a prevailing plaintiff was required to show the infringement was willful or in bad faith, while a prevailing defendant could show “‘something less than bad faith’ by the plaintiff.”²⁶¹ The Tenth Circuit required a prevailing plaintiff to show bad faith (but apparently did not consider willfulness), but, like the Fourth and D.C. Circuits, imposed a lower standard for a prevailing defendant (albeit phrased differently than the test imposed

254. *TE-TA-MA Truth Found.-Family of URI, Inc. v. World Church of the Creator*, 392 F.3d 248, 392 F.3d 248, 261 (7th Cir. 2004) (quoting *Indep. Fed’n of Flight Attendants v. Zipes*, 491 U.S. 754, 759 n.2 (1989)); *accord CJC Holdings, Inc. v. Wright & Lato, Inc.*, 979 F.2d 60, 65 (5th Cir. 1992).

255. *TE-TA-MA Truth Found.-Family of URI*, 392 F.3d at 262 (citing *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 831 (Fed. Cir. 1992)).

256. *Id.* at 263; *see also Int’l Olympic Comm. v. S.F. Arts & Athletics*, 781 F.2d 733, 739 (9th Cir. 1986) (citing S. REP. NO. 93-1400, at 2 (1974)) (ruling on role of willfulness in fee awards).

257. *Securacomm*, 224 F.3d 273, 280–81 (3d Cir. 2000).

258. *See, e.g., Nat’l Ass’n of Prof’l Baseball Leagues, Inc. v. Very Minor Leagues, Inc.*, 223 F.3d 1143, 1147 (10th Cir. 2000); *Scotch Whisky Ass’n v. Majestic Distilling Co.*, 958 F.2d 594 (4th Cir. 1992); Anne M. Mellen, Case Note, *Awarding Attorneys’ Fees Under the Lanham Act: Egregious Litigation Conduct in the “Exceptional” Case*, 74 U. CIN. L. REV. 1111 (2006).

259. 626 F.3d 958 (7th Cir. 2010).

260. *Id.* at 960.

261. *Id.* (such as “economic coercion, groundless arguments, and failure to cite controlling law” (citing *Retail Servs. Inc. v. Freebies Publ’g*, 364 F.3d 535, 550 (4th Cir. 2004); *Reader’s Digest Ass’n v. Conservative Digest, Inc.*, 821 F.2d 800, 808–09 (D.C. Cir. 1987))).

by those other circuits).²⁶² The Sixth Circuit referred back to the “canonical formula” found in the legislative history²⁶³ and relied upon by early courts²⁶⁴ in maintaining that the prevailing plaintiff had to show the infringement was “malicious, fraudulent, willful, or deliberate,” while a prevailing defendant had to show the suit was “oppressive.”²⁶⁵

The *Nightingale* analysis stated that three circuits—the Second, Fifth, and Eleventh—required that the prevailing party, whether defendant or plaintiff, show that the opponent litigated in bad faith or, if the defendant prevailed, that the suit was fraudulent.²⁶⁶ The First, Third, Eighth, and Ninth Circuits did not require a showing of bad faith²⁶⁷ but articulated a variety of other standards. The First Circuit, for example, stated that a showing of “‘willfulness short of bad faith or fraud [would] suffice when equitable considerations justify an award’” and the lower court adequately supported its finding of exceptionality.²⁶⁸ The Third Circuit required a showing of “culpable conduct on the part of the losing party,” but noted that that conduct could take “‘a variety of forms’” and could vary depending upon the specific circumstances of a case.²⁶⁹ The Ninth Circuit stated that while bad faith may suffice, “‘other exceptional circumstances’” could also justify an award,²⁷⁰ although a later case added the gloss that “exceptional” meant that “the defendant acted maliciously, fraudulently, deliberately, or willfully” (the four factors from the legislative history) or that the plaintiff’s case was “groundless, unreasonable, vexatious, or pursued in bad faith.”²⁷¹

262. *Id.* (requiring one of four showings: (1) bad faith in bringing the suit; (2) “lack of any foundation” for the suit; (3) “unusually vexatious and oppressive” prosecution of the suit; or (4) “perhaps for other reasons as well” (citing *Nat’l Ass’n of Prof’l Baseball Leagues*, 223 F.3d at 1147)). According to Judge Posner, the breadth of the fourth factor meant the Tenth Circuit could “hardly be said to have a test.” *Id.*

263. *See supra* note 240 and accompanying text.

264. *See supra* note 243 and accompanying text.

265. *Nightingale*, 626 F.2d at 960 (citing *Eagles, Ltd. v. Am. Eagle Found.*, 356 F.3d 724, 728 (6th Cir. 2004)).

266. *Id.* at 960–61 (citing *Patsy’s Brand, Inc. v. I.O.B. Realty, Inc.*, 317 F.3d 209, 221–22 (2d Cir. 2003); *Procter & Gamble Co. v. Amway Corp.*, 280 F.3d 519, 527–28 (5th Cir. 2002); *Lipscher v. LRP Publ’ns, Inc.*, 266 F.3d 1305, 1320 (11th Cir. 2001); *Tire Kingdom, Inc. v. Morgan Tire & Auto, Inc.*, 253 F.3d 1332, 1335–36 (11th Cir. 2001) (per curiam)). The Fifth Circuit added the gloss that in evaluating a prevailing defendant’s request for attorney fees, the court should “consider the merits and substance of the civil action when examining the plaintiffs’ good or bad faith.” *Procter & Gamble*, 280 F.3d at 528.

267. *Nightingale*, 626 F.3d at 961.

268. *Id.* (quoting *Tamko Roofing Products, Inc. v. Ideal Roofing Co.*, 282 F.3d 23, 32 (1st Cir. 2002)).

269. *Id.* (quoting *Securacomm Consulting, Inc. v. Securacom Inc.*, 224 F.3d 273, 280 (3d Cir. 2000)).

270. *Id.* (quoting *Stephen W. Boney, Inc. v. Boney Services, Inc.*, 127 F.3d 821, 827 (9th Cir. 1997)).

271. *Id.* (quoting *Love v. Associated Newspapers, Ltd.*, 611 F.3d 601, 615 (9th Cir. 2010)).

The *Nightingale* court ultimately adopted yet a different test for Lanham Act fee shifting: the “abuse of process” standard. This standard defined an “exceptional” case under the Lanham Act as one in which:

the losing party was the plaintiff and was guilty of abuse of process in suing, or . . . the losing party was the defendant and had no defense yet persisted in the trademark infringement . . . for which he was being sued, in order to impose costs upon his opponent.²⁷²

If the *Nightingale* court’s goal was to bring uniformity to the Lanham Act fee-shifting doctrine, it failed. No other circuit has considered, much less adopted, the Seventh Circuit’s “abuse of process” standard. Only one, the Eighth Circuit, has even cited *Nightingale*’s summary of the circuit courts’ approaches.²⁷³

If the *Nightingale* court’s goal was simply to illustrate unacceptable schisms in doctrine as a result of percolation through the regional circuits, it likewise failed. Judge Posner engaged in meticulous parsing of the regional circuits’ precedents to argue that percolation led to a fragmented, incorrect doctrine. In trying to explain the resultant disarray in Lanham Act fee shifting across the various circuits, he turned to the concept of “circuit drift”: “the heavy caseloads and large accumulations of precedent in each circuit induce courts of appeal to rely on their own ‘circuit law,’ as if each circuit were a separate jurisdiction rather than all being part of a single national judiciary enforcing a uniform body of federal law.”²⁷⁴

Did percolation hinder the formation of consistent Lanham Act fee-shifting doctrine? This is unclear. Circuit differences in doctrine are an expected consequence (and some would argue major benefit) of percolation and ought not to be regarded as suspect in and of themselves.²⁷⁵ As Judge Posner himself pointed out, we can point to the many different articulations of fee-shifting doctrine used by the circuits in Lanham Act cases and identify linguistic variations and disparities, but it is very difficult to sort out whether these differences in *language* lead to a difference in *outcomes*.²⁷⁶ Attorney fee awards are based on factual circumstances best known by (and perhaps at times even known only to) the trial court judge who lives with the case, often for years. It is virtually impossible to evaluate how much, if any, difference the various regional circuit iterations of the Lanham Act fee-shifting doctrine made in actual outcomes because of the difficulty in finding identical fact patterns in different circuits that would allow accurate comparisons of outcomes.

Although accuracy of outcomes is hard to evaluate, accuracy of doctrine is easier to assess. As the next Section demonstrates, Lanham Act fee-shifting doctrine,

272. *Id.* at 963–64.

273. Ultimately, the Eighth Circuit continued to apply its own previous standard of exceptionality that required actions that were “groundless, unreasonable, vexatious, or pursued in bad faith.” *Fair Isaac Corp. v. Experian Info. Solutions, Inc.*, 650 F.3d 1139, 1152 (8th Cir. 2011); *see also* *Cnty. Christ Copyright Corp. v. Devon Park Restoration Branch of Jesus Christ’s Church*, 634 F.3d 1005, 1013 (8th Cir. 2011) (same).

274. *Nightingale*, 626 F.3d at 962.

275. *See supra* notes 31–33 and accompanying text.

276. *Nightingale*, 626 F.3d at 962 (“To decide whether the standards differ more than semantically would require a close study of the facts of each case.”).

despite its percolation-engendered nonuniformities, was demonstrably more consistent with the Court's three edicts in *Octane Fitness* and *Highmark* than was the patent fee-shifting doctrine developed by the specialized Federal Circuit. As discussed below, less correction was necessary and the overall direction of the trademark case law did not shift significantly following the two Supreme Court cases.

C. Lanham Act Fee-Shifting Doctrine in the Regional Circuits Post-*Octane Fitness*

As discussed above, the Supreme Court made three key rulings in *Octane Fitness* and *Highmark*: (1) determinations of exceptionality, which is defined by its “ordinary meaning,” are to be made by the trial court in a case-specific exercise of discretion based on the totality of the circumstances;²⁷⁷ (2) evidence of exceptionality need only be shown by a preponderance of the evidence;²⁷⁸ and (3) the trial court's decisions regarding exceptionality are subject to review for abuse of discretion and not *de novo*.²⁷⁹ These errors in Patent Act fee-shifting doctrine had evolved under the Federal Circuit's specialized jurisdiction and were not products of the percolating patent doctrine that applied prior to formation of the court in 1982.

Despite recognizing the identical language of the two statutory provisions and citing a Lanham Act case, *Noxell Corp. v. Firehouse No. 1 Bar-B-Que Restaurant*,²⁸⁰ the Supreme Court did not address whether its analyses of fee shifting under Section 285 of the Patent Act also applied to fee shifting under Section 1117(a) of the Lanham Act. However, since the Supreme Court's ruling in *Octane Fitness* and *Highmark*, every circuit except the Tenth and the D.C. Circuits has had the opportunity to address fee shifting under the Lanham Act. Every one of those circuits except the Seventh Circuit has determined that the *Octane Fitness* standard for exceptionality should apply to Lanham Act fee shifting as well,²⁸¹ given the “clear guidance” of the Court in the context of Section 285 as well as “the parallel purpose,

277. See *supra* notes 162–78 and accompanying text.

278. See *supra* notes 182–85 and accompanying text.

279. See *supra* notes 186–202 and accompanying text.

280. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 555 (2014) (citing *Noxell Corp. v. Firehouse No. 1 Bar-B-Que Rest.*, 771 F.2d 521, 525–26 (D.C. Cir. 1985)).

281. See *Sleepy's, LLC v. Select Comfort Wholesale Corp.*, 909 F.3d 519 (2d Cir. 2018); *Sturgis Motorcycle Rally, Inc. v. Rushmore Photos & Gifts, Inc.*, 908 F.3d 313 (8th Cir. 2018); *Scholz v. Goudrea*, 901 F.3d 37 (1st Cir. 2018); *Tobinik v. Novella*, 884 F.3d 1110 (11th Cir. 2018); *Romag Fasteners, Inc. v. Fossil, Inc.*, 866 F.3d 1330 (Fed. Cir. 2017) (applying Second Circuit precedent); *Sunearth, Inc. v. Sun Earth Solar Power Co.*, 839 F.3d 1179 (9th Cir. 2016) (en banc) (per curiam); *Baker v. DeShong*, 821 F.3d 620 (5th Cir. 2016); *Georgia-Pac. Consumer Prods., L.P. v. Von Drehle Corp.*, 781 F.3d 710 (4th Cir. 2015); *Slep-Tone Entm't Corp. v. Karaoke Kandy Store, Inc.*, 782 F.3d 313 (6th Cir. 2015); *Fair Wind Sailing, Inc. v. Dempster*, 764 F.3d 303 (3d Cir. 2014). In its single post-*Octane Fitness* examination of Lanham Act fee-shifting, the Seventh Circuit applied its 2010 abuse of process standard without reference to the Supreme Court's ruling. *Burford v. Accounting Practice Sales, Inc.*, 786 F.3d 582 (7th Cir. 2015). Although the issue has not yet arisen in the D.C. Circuit post-*Octane Fitness*, we can assume little or no change in precedent is required in that circuit as its *Noxell* opinion formed part of the basis for the Supreme Court's reasoning. See *supra* notes 168–71 and accompanying text.

structure, and language” of the two sections.²⁸² By comparing Lanham Act fee-shifting doctrines to these three rulings, we can get a sense of whether percolation results in more accurate legal doctrine than does uniform doctrine developed by a specialized court. Our analysis indicates that while the regional circuits were required to make adjustments to their exceptionality doctrines post-*Octane Fitness*, those revisions were relatively minor. Moreover, their doctrines already conformed to the Supreme Court’s rulings on the burden of proof and standard of review applicable under the statutory language.

First, in the ten regional circuits that have reviewed and adopted for purposes of Section 1117(a) the Supreme Court’s definition of “exceptional” under Section 285, we do see some shifts in the standards, largely based on rolling back the role of “bad faith” in determining exceptionality. “Bad faith” played a prominent, if not necessarily determinative, role in most circuits’ Lanham Act fee-shifting doctrine pre-*Octane Fitness*.²⁸³ In *Octane Fitness*, however, the Supreme Court made it clear that a case could be exceptional even if misbehavior of “less than bad faith” was involved.²⁸⁴ As a result, the circuit courts had to reassess and recalibrate their Lanham Act fee-shifting doctrines.

This did not require radical doctrinal change. In one of the earliest appellate cases to address this topic post-*Octane Fitness*, *Fair Wind Sailing, Inc. v. Dempster*,²⁸⁵ the Third Circuit found that its previous fee-shifting standard had to be “slightly altered” to satisfy the Supreme Court’s holding.²⁸⁶ Under prior Third Circuit precedent, the trial court first determined whether the defendant had engaged in “any culpable conduct,” which included, in a nonexclusive list, “bad faith, fraud, malice, and knowing infringement.”²⁸⁷ If the trial court found culpable conduct on the part of the losing party, the court would then consider whether the circumstances were sufficiently “exceptional” to support a fee award.²⁸⁸ The Third Circuit found that after *Octane Fitness*, it was inappropriate to “cabin” the trial court’s discretion by imposing a “threshold requirement that the losing party acted culpably;”²⁸⁹ rather, Supreme Court analysis made clear that “exceptionally meritless claims” may also warrant fee shifting.²⁹⁰ The Third Circuit’s precedent was thus too restrictive and could not stand.

282. *Baker*, 821 F.3d at 624 (citing *Fair Wind Sailing*, 764 F.3d 303); see also *Ballero v. 727 Inc.*, 774 F. App’x 871 (5th Cir. 2018) (per curiam); *Sunearth, Inc.*, 839 F.3d at 1180 (citing *Georgia-Pac. Consumer Prods.*, 781 F.3d at 720).

283. See *supra* notes 246–53 and accompanying text.

284. *Octane-Fitness*, 572 U.S. at 555 (“[W]e think it fair to assume that Congress did not intend rigidly to limit recovery of fees by a [Lanham Act] defendant to the rare case in which a court finds that the plaintiff ‘acted in bad faith, vexatiously, wantonly, or for oppressive reasons’ Something less than ‘bad faith,’ we believe, suffices to mark a case as ‘exceptional.’” (quoting *Noxell*, 771 F.2d at 526) (alterations in original)).

285. 764 F.3d 303 (3d Cir. 2014).

286. *Id.* at 315.

287. *Id.* at 314.

288. *Id.* (citing *Green v. Fornario*, 486 F.3d 100, 103 (3d Cir. 2007)).

289. *Id.* at 315.

290. *Octane Fitness*, 572 U.S. at 555. Culpability might influence the trial court’s analysis of exceptionality, but it was no longer a mandatory first step in evaluating a fee-award request. *Fair Wind Sailing*, 764 F.3d at 315.

Several other circuits likewise found that their standards needed revising to diminish the role of bad faith in Lanham Act fee shifting post-*Octane Fitness*. The Second Circuit abandoned its precedents requiring actions such as “evidence of fraud or bad faith” or whether the lawsuit “was ‘initiated as a competitive ploy’” or begun “in bad faith merely to join in the profits from [the defendant].”²⁹¹ The Fourth Circuit found that, post-*Octane Fitness*, the losing party’s actions “need not have been independently sanctionable or taken in bad faith” to support a finding of exceptionality.²⁹² The Fifth Circuit held that there could no longer be “a rigid standard of culpable conduct” or a requirement of bad faith.²⁹³ The Eighth Circuit had previously defined exceptional cases as those involving acts that were “groundless, unreasonable, vexatious, or pursued in bad faith.”²⁹⁴ When the issue arose before it in 2018, the Eighth Circuit abrogated that stance and simply adopted the *Octane Fitness* standard instead.²⁹⁵

In addition to abandoning any requirement that the trial court find certain types of impermissible behavior, the regional circuit courts embraced the *Octane Fitness* Court’s emphasis on allowing the trial court to fully exercise the discretion granted to it by Congress when making exceptionality determinations. The Ninth Circuit’s approach in its 2016 en banc, per curiam opinion in *Sunearth, Inc. v. Sun Earth Solar Power Co.*²⁹⁶ is typical. The court noted that it historically had ruled that “exceptional,” within the meaning of fee shifting under the Lanham Act, required “malicious, fraudulent, deliberate or willful’ infringement” by defendant.²⁹⁷ Those qualifiers were now discarded and district courts in the Ninth Circuit were directed to examine the “totality of the circumstances” in gauging exceptionality—exercising their “equitable discretion”—in accordance with the *Octane Fitness* holding.²⁹⁸ In doing so, the district courts should apply the *Octane Fitness* standard that an “exceptional case” under the Lanham Act is one that “stands out from others,” either

291. *Sleepy’s LLC v. Select Comfort Wholesale Corp.*, 909 F.3d 519, 530 (2d Cir. 2018) (quoting *Twin Peaks Prods., Inc. v. Publ’ns Int’l, Ltd.*, 996 F.2d 1366, 1383 (2d Cir. 1993); *Universal City Studios v. Nintendo Co.*, 797 F.2d 70, 77 (2d Cir. 1986); *Mennen Co. v. Gillette Co.*, 565 F. Supp. 648, 657 (S.D.N.Y. 1983), *aff’d*, 742 F.2d 1437 (2d Cir. 1984)) (alterations in original).

292. *Verisign, Inc. v. XYZ.com LLC*, 891 F.3d 481, 487-88 (4th Cir. 2018).

293. *Baker v. DeShong*, 821 F.3d 620, 624 (5th Cir. 2016).

294. *Fair Isaac Corp. v. Experian Info. Solutions, Inc.*, 650 F.3d 1139, 1152 (8th Cir. 2011).

295. *Sturgis Motorcycle Rally, Inc. v. Rushmore Photo & Gifts, Inc.*, 908 F.3d 313, 346 (8th Cir. 2018) (quoting *Octane Fitness*, 572 U.S. at 554). A few weeks later, in a short decision, the Eighth Circuit cited to the adoption of the *Octane Fitness* standard in *Sturgis Motorcycle Rally, Inc.* in its decision in *B&B Hardware, Inc. v. Hargis Indus. Inc.*, 912 F.3d 445, 454 (8th Cir. 2018), but the court also quoted a 1987 precedent that defined an exceptional case as one “in which a plaintiff brought an action that ‘was groundless, unreasonable, vexatious, or was pursued in bad faith.’” *Id.* (quoting *Hartman v. Hallmark Cards, Inc.*, 833 F.2d 117, 123 (8th Cir. 1987)).

296. 839 F.3d 1179 (9th Cir. 2016) (en banc) (per curiam).

297. *Id.* at 1180 (quoting *Lindy Pen Co. v. Bic Pen Corp.*, 982 F.2d 1400, 1409 (9th Cir. 1993), *superseded by statute on other grounds*, Trademark Amendments Act of 1999, Pub. L. No. 106-43, 113 Stat. 218). The court also noted that the district court’s decision had been reviewed de novo under prior precedent. *Id.*

298. *Id.* at 1180–81 (citing *Octane Fitness*, 572 U.S. at 554).

based on the strength of the litigating positions or the manner in which the case was litigated.²⁹⁹

One unintended consequence has arisen from the Supreme Court's citation in *Octane Fitness* of the *Fogerty* factors considered by the courts in evaluating fee shifting under the Copyright Act: "frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence."³⁰⁰ The Court's listing of those factors in *Octane Fitness* is curious, as the fee-shifting language of the Copyright Act³⁰¹ does not parallel that of the Patent and Lanham Acts; in particular, it is not limited to "exceptional" cases. Even the Supreme Court, it would seem, is not immune to the ease and allure of multifactor guidelines. The concern, of course, is that such guidelines may morph into mandatory tests. By listing these factors in *Octane Fitness*, the Court opened the door to the same type of formulaic approach that it had rejected in the Federal Circuit's jurisprudence under the Patent Act.

And indeed, several circuits seized upon the *Fogerty* factors as a useful, and perhaps even required, roadmap in evaluating Lanham Act fee shifting in post-*Octane Fitness* cases. The Ninth Circuit directed the trial court to exercise its "equitable discretion in light of the nonexclusive factors identified in *Octane Fitness* and *Fogerty*."³⁰² The Second Circuit recited these factors and indicated that it had some doubt as to whether the case at hand was "frivolous[]" or improperly "motivat[ed]," and so sent it back down to the trial court for evaluation on these grounds.³⁰³ The First Circuit found that the trial court had not abused its discretion in denying an award of attorney fees, noting that the trial court had not only cited the *Fogerty* factors but had "also thoughtfully analyzed each of those factors."³⁰⁴ The First Circuit did not go so far as to state that a trial court *must* employ those factors in making a determination of exceptionality under the trademark statute, but it is clear that its use of the factors persuaded the appellate court there had been no abuse of discretion.³⁰⁵ The Fourth Circuit, by contrast, created a "three-part test"³⁰⁶ for

299. *Id.* at 1080; *see also* *Scholz v. Goudrea*, 901 F.3d 37, 49–50 (1st Cir. 2018); *Tobinick v. Novella*, 884 F.3d 1110, 1118 (11th Cir. 2018); *Slep-Tone Entmt't v Karaoke Kandy Store, Inc.*, 782 F.3d 313, 317 (6th Cir. 2015); *Fair Wind Sailing, Inc. v. Dempster*, 764 F.3d 303, 315 (3d Cir. 2014).

300. *Octane Fitness*, 572 U.S. at 554 n.6 (quoting *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534 n.19 (1994)).

301. *See supra* note 176 (quoting Copyright Act fee-shifting language).

302. *Sunearth*, 839 F.3d at 1181 (emphasis in original).

303. *Sleepy's LLC v. Select Comfort Wholesale Corp.*, 909 F.3d 519, 531 n.7 (2d. Cir. 2016) (alterations in original).

304. *Scholz*, 901 F.3d at 50.

305. *Id.*

306. *Exclaim Mktg., LLC v. DirecTV, LLC*, 674 F.App'x 250, 260 (4th Cir. 2016).

evaluating Lanham Act fee shifting that was an amalgamation of *Octane Fitness* and the *Fogerty* factors,³⁰⁷ thus cementing *Fogerty* into its Lanham Act jurisprudence.

In short, the regional circuits did have to adjust their Lanham Act fee-shifting doctrines after the Supreme Court's ruling in *Octane Fitness* to comply with its mandates. Even after those adjustments, their doctrines do not fully align but rather display some variation. These adjustments and variations are relatively minor, however, and do not display the gross departure from statutory language and legislative intent that the Supreme Court chastised the Federal Circuit for in the Patent Act context. In this sense, we can indeed say that percolating Lanham Act doctrine was "more correct" than the isolated doctrine developed by the specialized Federal Circuit.

Second, the regional circuits' handling of the burden of proof issue was also demonstrably more correct in the Lanham Act setting than was the Federal Circuit's approach in the Patent Act setting. In civil cases, the preponderance of the evidence standard generally applies in the absence of legislative direction to the contrary.³⁰⁸ The Federal Circuit nonetheless imposed a heightened clear-and-convincing-evidence standard, which the *Octane Fitness* Court overturned as being contrary to Section 285's language and legislative history.³⁰⁹ In stark contrast, we can find no evidence that the regional circuits deviated from the norm of the preponderance standard when evaluating fee-shifting requests under Section 1117(a) of the Lanham Act.³¹⁰ On this matter, we can confidently state that the regional circuits got the doctrine right while the Federal Circuit got it wrong.

Third, the *Highmark* Court had overturned the Federal Circuit's attempt to import a de novo review standard into Section 285 fee shifting for purposes of its "objective baselessness" prong of *Brooks Furniture*. The Court ruled that whether a case is exceptional is a matter of discretion and thus "all aspects" of the trial court's determination are reviewable only for abuse of discretion.³¹¹ During the thirty-six years that Patent Act fee shifting percolated among the regional courts, the controlling review standard was indeed a deferential abuse-of-discretion standard;³¹²

307. *Georgia-Pac. Consumer Prods., L.P. v. Von Drehle Corp.*, 781 F.3d 710 (4th Cir. 2015). The Fourth Circuit stated that the trial court could deem a case so "exceptional" as to warrant an attorney fee award if "in light of the totality of the circumstances" it finds:

(1) "there is an unusual discrepancy in the merits of the positions taken by the parties," based on the non-prevailing party's position as either frivolous or objectively unreasonable; (2) the non-prevailing party "has litigated the case in an 'unreasonable manner;'" or (3) there is otherwise "the need in particular circumstances to advance considerations of compensation and deterrence."

Id. at 721 (quoting *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 554 n.6 (2014); *Fair Wind Sailing, Inc. v. Dempster*, 764 F.3d 303, 315 (3d Cir. 2014)). The first two parts draw on the *Octane Fitness* standard; the third is selected from the *Fogerty* factors.

308. See *Grogan v. Garner*, 498 U.S. 279, 286 (1991).

309. *Octane-Fitness*, 572 U.S. at 557 (discussed *supra* notes 182–85 and accompanying text).

310. Most simply did not discuss it, but none overtly used the clear-and-convincing-evidence standard.

311. *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 572 U.S. 559, 563 (2014).

312. See, e.g., *Loctite Corp. v. Fel-Pro, Inc.*, 667 F.2d 577, 584 (7th Cir. 1981); *Hughes Aircraft Co. v. Messerschmitt-Boelkow-Blohm, GmbH*, 625 F.2d 580, 584-85 (5th Cir. 1980);

it was only under the specialized jurisdiction of the Federal Circuit that the standard was ratcheted up and divided into a complex, three-part standard of review.³¹³

We do not see the same distortion of review standards in the Lanham Act fee-shifting arena. Prior to *Highmark*, all circuits but the Ninth agreed that the determinations of whether a particular case was exceptional and if so, whether fee shifting was appropriate under the circumstances, were discretionary determinations entitled to deference.³¹⁴ The Fifth Circuit—but it would appear only the Fifth—applied the intermediate “clear error” standard to the determination of whether a case was exceptional.³¹⁵ All agreed that whether fees were warranted under the particular circumstances of a case found to be exceptional was reviewable only for abuse of discretion.³¹⁶ The Ninth Circuit stood alone in applying de novo review to the exceptionality determination, though it too applied the abuse of discretion standard to the determination to award or deny attorney fees in an exceptional case.³¹⁷ Thus, *Highmark* changed legal doctrine only in the Ninth Circuit.³¹⁸ The rest of the circuits ignored the decision as, in effect, they were already in compliance with it.³¹⁹ In this area too, we can confidently state that the regional circuits got doctrine right while the Federal Circuit got it wrong.

So where does all this parsing of case law leave us in our quest to understand the role that percolation versus specialization plays in doctrinal development of fee

Kearney & Trecker Corp. v. Cincinnati Milacron Inc., 562 F.2d 365, 374 (6th Cir. 1977); Norton Co. v. Carborundrum Co., 530 F.2d 435, 445 (1st Cir. 1976); Orrison v. C. Hoffberger Co., 190 F.2d 787, 791 (4th Cir. 1951); Dubil v. Rayford Camp & Co., 184 F.2d 899, 903 (9th Cir. 1950); Blanc v. Spartan Tool Co., 168 F.2d 296, 300 (7th Cir. 1948).

313. See *supra* notes 188–91 and accompanying text (discussing the Federal Circuit’s tripart standard).

314. Several circuit courts noted that the meaning of “exceptional” under the Lanham Act was a legal one subject to de novo review, see, e.g., *Visible Sys. Corp. v. Unisys Corp.*, 551 F.3d 65, 81 (1st Cir. 2008); *TE-TA-MA Truth. Found.-Family of URI, Inc. v. World Church of the Creator*, 392 F.3d 248, 257 (7th Cir. 2004); *Nat’l Ass’n of Prof’l Baseball Leagues, Inc. v. Very Minor Leagues, Inc.*, 223 F.3d 1143, 1146 (10th Cir. 2000); *Ferrero U.S.A., Inc. v. Ozak Trading, Inc.*, 952 F.2d 44, 48 (3d Cir. 1991), which is consistent with general norms of statutory interpretation and *Highmark*. See *Highmark*, 572 U.S. at 563.

315. See, e.g., *Nat’l Bus. Forms & Printing, Inc. v. Ford Motor Co.*, 671 F.3d 526, 537 (5th Cir. 2012). This is the standard that had been adopted by the Federal Circuit for determinations of exceptionality under Section 285 by the mid-2000s. See, e.g., *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1326 (Fed. Cir. 2011); *Nilssen v. Osram Sylvania, Inc.*, 528 F.3d 1352, 1357 (Fed. Cir. 2008).

316. See, e.g., *First Nat’l Bank in Sioux Falls v First Nat’l Bank S.D.*, 679 F.3d 763, 771 (8th Cir. 2012); *Ji v. Bose Corp.*, 626 F.3 116, 129 (1st Cir. 2010); *TE-TA-MA Truth. Found.*, 392 F.3d at 257; *Lipscher v. LRP Pub’ns, Inc.*, 266 F.3d 1305, 1320-21 (11th Cir. 2001); *Securacomm Consulting, Inc v. Securacom Inc.*, 224 F.3d 273, 279 (3d Cir. 2000); *Nat’l Ass’n of Prof’l Baseball Leagues, Inc.*, 223 F.3d at 1146; *Johnson v. Jones*, 149 F.3d 494, 503 (6th Cir. 1998); *Goodheart Clothing Co. v. Laura Goodman Enters., Inc.*, 962 F.2d 268, 272 (2d Cir. 1992); *Garrett Corp. v. Am. Safety Flight Sys., Inc.*, 502 F.2d 9, 22 (5th Cir. 1974).

317. See *Secalt S.A. v. Wuxi Shenxi Constr. Mach. Co.*, 668 F.3d 677, 687 (9th Cir. 2012).

318. See *Sunearth, Inc. v. Sun Earth Solar Power Co.*, 839 F.3d 1179 (9th Cir. 2016) (en banc) (per curiam).

319. See, e.g., *Premium Balloon Access, Inc. v. Creative Balloons Mfg.*, 573 F. App’x. 547, 558 (6th Cir. 2014).

shifting? It is true that we saw some variation in regional circuit doctrine pre-*Octane Fitness*—and we still see strands of nonuniformity post-*Octane Fitness*. However, some variation in doctrine under percolation is to be expected; in fact, one of the perceived advantages of percolation is just that sort of testing of doctrine and rules.³²⁰ The next Part explores these issues.

IV. LEARNINGS FROM THE PERCOLATION “EXPERIMENT”

The doctrinal history of fee shifting provides a rich setting for understanding the role of percolation, a concept that was previously assessed only in theory. We believe the presence of identical statutory language in two highly related areas of law serves as a uniquely reliable grounding for a number of insights. These are particularly relevant for understanding the way in which percolation shapes statutory interpretation and fosters the primacy of legislative intent. In addition, we observe that this natural experiment remains ripe for further empirical analysis, potentially yielding more granular observations.³²¹

At core, the comparison of Lanham Act and Patent Act fee-shifting cases provides real evidence that percolation does in fact have an impact on doctrine. Fee-shifting doctrine in the patent context from 1946 (when the first fee-shifting statute was enacted) to 1982 passed through multiple circuits and yet resulted in unexpectedly

320. See *supra* notes 23–25 and accompanying text (summarizing Estreicher & Sexton’s analysis of the benefits of percolation).

321. *Octane Fitness* and *Highmark* led to an immediate increase in the number of attorney fee requests being made and the percentage of such requests being granted under the Patent Act. See PRICEWATERHOUSECOOPERS, PATENT LITIGATION STUDY: ARE WE AT AN INFLECTION POINT 7 (2016), <https://www.pwc.com/us/en/forensic-services/publications/assets/2016-pwc-patent-litigation-study.pdf> [<https://perma.cc/HNB6-KCNN>] (finding that in the 16 months preceding *Octane Fitness*, there were 69 fee-shifting requests, 26% of which were granted; in the 20 months following, there were 144 requests, 41% of which were granted); see also Scott M. Flanz, *Octane Fitness: The Shifting of Patent Attorneys’ Fees Moves into High Gear*, 19 STAN. TECH. L. REV. 329 (2016); W. Keith Robinson, *Essay, Awarding Attorney Fees and Deterring Patent Trolls*, 20 LEWIS & CLARK L. REV. 281 (2016).

Practitioners have argued that *Octane Fitness* has not had an appreciable impact on the grant or denial of attorney-fee awards under the Lanham Act. One pair of commentators argued that district courts are largely awarding fees under *Octane Fitness*’ second factor (the unreasonable manner in which the case was litigated) in circumstances that would have warranted attorney fees under the previous standard (e.g., “sanctionable conduct, unjustified litigating tactics, and fraud”), leading to no real change. Kevin R. Miller & Brian M. Block, *Collecting Attorneys’ Fees Under the Lanham Act: The Shifting Definition of an “Exceptional Case,”* 12 SETON HALL CIRCUIT REV. 30, 36 (2015). Another trio of practitioners noted that in some circuits, there was no real appreciable change in the underlying standard post-*Octane Fitness*, and so no change in outcomes would be expected there. Bryan Wheelock, Kara Fussner & Daisy Manning, *The Award of Attorneys’ Fees in Exceptional Cases Under 15 U.S.C. § 1117(a) of the Lanham Act*, 106 TRADEMARK REP. 1011, 1035 (2016). They predicted, however, that in those circuits that had previously applied a bad-faith standard, the number of fee awards will increase over time as the standard for receiving same is now lower. *Id.* There is now sufficient passage of time to allow empirical analysis of this important topic (although we leave that to a future project).

consistent, albeit not identical, standards across the circuits.³²² Pre-1982 patent fee shifting, while not monolithic in its articulation, was sufficiently uniform, given the explicit grant of discretion to the trial court, and simply reflected the normal variation of percolating language. The regional circuits settled upon a broad, flexible doctrine that promoted trial court discretion and so supported legislative intent as reflected in statutory language.

It was only with the introduction of the Federal Circuit in 1982 as the sole voice in intermediate patent appeals that we witness a significant and consequential change in patent fee-shifting doctrine. The upside of this court specialization was more uniform doctrine, including in the fee-shifting arena; the downside was that the lack of percolation led to rigid fee-shifting rules that impermissibly curtailed trial court discretion in defiance of legislative mandate. Ultimately, the Supreme Court determined that this path was so divorced from the statute that the Federal Circuit doctrine was struck down in 2014 in *Octane Fitness* and *Highmark*.

In contrast, Lanham Act fee-shifting law percolated through multiple coequal circuits and it continues to do so to this day. It did not consolidate around a single, early articulation of a standard, but rather split into a “rainbow of standards,”³²³ as described by Judge Posner in *Nightingale*.³²⁴ However, Judge Posner overstated the impact of this diversity of language as it is not at all clear that these divergent standards led to significantly disparate outcomes. In the end, percolation provided just the sort of variety one would expect, yielding a landscape from which the Supreme Court could choose the best to consolidate if desired. We see that percolation clearly has a substantial impact on doctrinal development.

As to the nature of doctrine subject to percolation versus specialization, we observe important differences. In this case, percolated fee-shifting doctrine adhered more closely to the statutory mandate for breadth, flexibility, and due deference to the trial court. When the Supreme Court held that an “exceptional” case was to be assessed with reference to the ordinary meaning of the statutory terms, the trademark standards did not require substantial revision. The broad definition of exceptional already fit within the various frameworks. On the other hand, the Federal Circuit standard had substantially narrowed the definition of exceptional, at least in the case of plaintiff misconduct. That appellate court crafted a rule so idiosyncratic that the Supreme Court was required to essentially erase it and mandate the return to the basic dictionary definition as a starting point.³²⁵ In essence, percolated decisions were like blades of grass, requiring only a little trimming, while the Federal Circuit’s isolation grew a tall weed that required eradication.

These results are in line with the more general benefits of percolation that we hypothesized would be present in the case law. Among the most important is the potential for percolation to limit judicial hyperactivity. Our analysis suggests that the Federal Circuit engaged in hyperactive decision-making in the context of fee shifting by establishing a narrow test that reduced the need for fact finding or the

322. Rose & Rosenquist, *supra* note 112, at 71.

323. *Yankee Candle Co. v. Bridgewater Candle Co.*, 140 F. Supp. 2d 111, 120 (D. Mass. 2001).

324. *Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC*, 626 F.3d 958 (7th Cir. 2010).

325. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 553–54 (2014).

consideration of equity. In contrast, the percolating courts were less inclined toward hyperactive appropriation of the trial court's role in determining exceptionality. Even more clearly, hyperactive decision-making led to an erroneous heightened burden of proof and inadequately deferential review in the Patent Act context. The percolating doctrine of the Lanham Act avoided both of these missteps.

In addition, our prediction that percolation would limit judicial activism bore fruit in the analysis as well. One can argue that the Federal Circuit's narrow path for compensation against plaintiffs reflected an activist policy view that patent owners should have their day in court.³²⁶ That policy view led the court to create a rule that cemented the rights of patent owners and ensured that district courts would find only the most egregious conduct to be "exceptional." Conversely, modern Lanham Act doctrine on fee shifting does not appear to be directed to a policy with any particular bent for or against plaintiffs. This is not surprising. It is doubtful that regional circuits view themselves as trademark experts at a level higher than any other area of law, reducing the motivation to craft policy.³²⁷ In addition, if one circuit did step in a significantly different direction than the others to engage in policymaking, it would immediately stand out as a circuit split that would attract the attention of the Supreme Court for possible correction. The threat of reversal is perhaps more powerful than the gratification a court receives from making a substantive statement on the law.

In the end, in view of the advantages in limiting hyperactivity and activism as well as the potential (moderate) increase in accuracy, it seems clear that percolation is the better approach in the context of fee shifting. But is this always the case? Does this experiment suggest the exclusive jurisdiction of the Federal Circuit should be eliminated? In short, no. When the overall role of percolation in the administration of a property system is considered, one must conclude that it has both positive and negative impacts. And in the context of patents, the positives of uniformity outweigh advantages from a large number of percolating courts in many cases.

Patent law plays an incentive role in innovation, and that incentive depends on some degree of certainty in the law.³²⁸ Variation in essential legal tests such as patentability could be highly detrimental to nationwide commercialization. Moreover, the Supreme Court has neither the resources nor the inclination to address the circuit splits in complex patent doctrine that would inevitably arise in the absence of a specialized appellate court. This, of course, is the very reason the Federal Circuit was created in the first place.³²⁹ Although it would be useful to have percolation in contexts like fee shifting—when trial court discretion is most important and certainty in the law is minimized in favor of the need for flexible, *ex post* remedies—the cost is too high.

326. See, e.g., *Medtronic Navigation, Inc. v. Brainlab Medizinische Computersysteme GmbH*, 603 F.3d 943, 953–54 (Fed. Cir. 2010) (“We have held that there is a presumption that an assertion of infringement of a duly granted patent is made in good faith.”).

327. As compared to specialist courts, generalist courts enjoy greater benefits of cross-pollination, which reduces their activist tendencies. See Oswald, *supra* note 5, at 260–62.

328. See Daniel R. Cahoy, *Patently Uncertain*, 17 NW. J. TECH. & INTELL. PROP. (forthcoming 2019) (describing the nature of uncertainty in patent law and pointing out that it can be either harmful, a source of strategic advantage, or even beneficial to all participants).

329. See *supra* Part I.A.

Despite the judgment that the current Federal Circuit court structure is likely better overall than a nonspecialized alternative, the results of the percolation experiment are very relevant. They demonstrate in very clear terms the Federal Circuit's tendency to drift away from the statute. The court should appreciate this fact, and work to keep itself in check when crafting doctrine. The Federal Circuit can play an important role in reducing the negative effects of its own isolation, and we hope that this empirical analysis will motivate additional attention to this issue.

CONCLUSION

There are advantages and disadvantages to specialized courts. This is not a surprise, as one would assume that any system as complex as the judiciary cannot *ex ante* be molded to perfection. The existence of such trade-offs has long been acknowledged in the most prominent American example of a specialized court—the U.S. Court of Appeals for the Federal Circuit. However, much of this discussion has been conducted at a theoretical level.

One such discussion is about the trade-off of having a single answer—uniformity—versus improving the chances of developing the right answer through percolation of an issue in several independent appellate courts. This Article analyzed a serendipitous natural experiment to consider how percolating and isolated courts develop doctrine. The fact that identical statutory language has moved through two different appellate settings provides a powerful lens that is ripe for exploration.

The results of our natural experiment are in line with theory, but striking nonetheless. Our analysis provides strong evidence that percolating courts are more likely to adhere to the core statutory mandates and refrain from attempting to engage in pseudo-legislation. In other words, as we predicted, percolation reduces the drift toward hyperactivity and activism that many have identified in the Federal Circuit.

This does not prove that generalist circuit courts are superior or that specialized courts should not be used; that is neither an argument we would make nor one that we think is supported by the larger policy goals of U.S. patent law. But this evidence does highlight the trade-offs inherent in court structure choices and is an important first step to empirically uncovering similar specialization-related deficiencies that could be corrected, thereby enhancing the operation of the intellectual property system.