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Reading the Court's Palm: The Unclear Present and Future for Cost-Shifting Under Rule 54(d)(1)

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NOTE

Reading the Court's Palm: The Unclear Present and Future for Cost-Shifting Under Rule 54(d)(1)

Royal Palm Props., LLC v. Pink Palm Props., 38 F.4th 1372 (11th Cir. 2022).

Anthony M. Whalen [*]

I. INTRODUCTION

A tie is like kissing your sister.[1] This unique turn of phrase captures the American attitude towards ties—there are, or should be, winners and losers.[2] But this notion of dedicated victories and defeats is not as strong as it once was. Whether it is the increased frequency of ties in the National Football League ("NFL") over the past few years,[3] the growth of soccer in

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[1] *See, e.g.*, Giancarlo Ferrari-King, *Like Kissing Your Sister: The Worst Ties in Sports*, BLEACHER REP. (June 10, 2014), https://bleacherreport.com/articles/2090999-like-kissing-your-sister-the-worst-ties-in-sports [https://perma.cc/SW7P-WUHN] ("The old adage that a tie is like kissing your sister rings true.").

[2] *See, e.g.*, Frank Deford, *Americans Don't Like Ties in Sports*, SPORTS ILLUSTRATED (May 16, 2012), https://www.si.com/more-sports/2012/05/16/americans-do-not-ties [https://perma.cc/9JPK-4UUB].

[3] *See* Rodger Sherman, *The NFL is in the Midst of a Tie Epidemic*, THE RINGER (Sept. 19, 2018, 1:02 PM), https://www.theringer.com/nfl/2018/9/19/17879028/overtime-ties-outbreak-steelers-browns-packers-vikings [https://perma.cc/GHP8-RXSM].

the United States,[4] or the split nature of our bicameral legislature,[5] ties are a familiar part of the average American's experience. Even our judicial system cannot avoid questions of "ties."[6] The idea that every court case has an established winner and loser in the context of cost-shifting has been increasingly raised in federal appellate court cases within the past 50 years.[7] This trend suggests that, even when cases end in a judgment for or against a party, litigants can end up on the same equal footing as they started; or even worse, the parties may be denied otherwise customary cost-shifting on the basis that neither of them was able to win a decisive victory.[8]

The most recent appellate encounter with cost-shifting is *Royal Palm Properties, LLC v. Pink Palm Properties*.[9] The dispute began when two major real-estate companies on the Florida coast flung trademark actions against each other over name and likeness. The Eleventh Circuit's final decision left the parties with multiple dismissed claims, an existing trademark intact, and no infringement to be found.[10] This result left the court with no prevailing party to award attorney's fees and costs.[11] Looking at the facts of this case in isolation, not having a "winner" sounds reasonable; however, as a principle, this decision parted from the customary "loser pays" consequence, in violation of an express federal statute and civil procedure rule.[12] It signals to future defendants that a lawsuit with fee-shifting implications may not have the risks one might assume when beginning litigation. Additionally, it warns plaintiffs

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[4] *See* Harry Enten, *The US May Have Lost in the World Cup, but Soccer is More Popular Than Ever in America*, CNN (Dec. 12, 2022, 6:01 AM), https://www.cnn.com/2022/12/12/football/soccer-popularity-us-world-cup-spt-intl/index.html [https://perma.cc/66EF-3MJS].

[5] CONG. RSCH. SERV., R46705, MEMBERSHIP OF THE 117TH CONGRESS: A PROFILE (Dec. 14, 2022) ("Party Breakdown . . . Senate: 50 Republicans, 47 Democrats, and 3 Independents, who all caucus with the Democrats." (footnote omitted)).

[6] *See* Royal Palm Props., LLC v. Pink Palm Props., 38 F.4th 1372, 1373 (11th Cir. 2022); *see also E. Iowa Plastics, Inc. v. PI, Inc.*, 832 F.3d 899, 907 (8th Cir. 2016).

[7] *See Royal Palm Props.*, 38 F.4th at 1378–79; *see also E. Iowa Plastics*, 832 F.3d at 907; *Shum v. Intel Corp.*, 629 F.3d 1360, 1367 (Fed. Cir. 2010); Schlobohm v. Pepperidge Farm, Inc., 806 F.2d 578, 584 (5th Cir. 1986); Srybnik v. Epstein, 230 F.2d 683, 686 (2d Cir. 1956).

[8] *See Royal Palm Props.*, 38 F.4th at 1382; *see also E. Iowa Plastics*, 832 F.3d at 906–07; *but see Shum*, 629 F.3d at 1367.

[9] 38 F.4th 1372 (11th Cir. 2022).

[10] *Id.* at 1374.

[11] *Id.*; Mary Anne Pazanowski, *Real Estate Firm Denied Costs in 'Royal Palm' Trademark Dispute*, BLOOMBERG L. (July 8, 2022, 8:55 AM), https://news.bloomberglaw.com/ip-law/real-estate-firm-denied-costs-in-royal-palm-trademark-dispute [https://perma.cc/7382-JE98].

[12] *Royal Palm Props.*, 38 F.4th at 1374.

seeking to protect their civil rights that a hard-fought battle with only partial success may still leave them without financial recourse, chilling litigation efforts dedicated to advancing rights.

Part II of this Note summarizes *Royal Palm I* and *II*, describing the circumstances and context behind the patent dispute. Part III addresses the background of cost-shifting, and shifting provisions in general, dating back to the inception of the American Rule. This Part additionally discusses common exceptions and critiques to the American rule and lays out the field of precedent in both the Supreme Court and lower federal circuits regarding prevailing parties and Federal Rule of Civil Procedure 54(d) interpretations. Part IV looks at how the Eleventh Circuit answered the Rule 54(d) question, and how it perceived prior decisions. Finally, Part V contends that the Eleventh Circuit and other circuits are likely correct in their Rule 54(d) reading, but at a significant cost. By offering parties a way to avoid these intentional exceptions to the American Rule, the incomplete doctrine provides parties with a double-edged sword. The courts' reluctance to shift costs invites high-powered litigants to take wrongdoers to task without the need to be risk-averse, but it can also leave parties of inferior financial status without a proper means of acquiring justice.

II. FACTS AND HOLDING

On November 27, 2012, Royal Palm Properties ("Royal Palm"), a boutique real-estate agency located in Boca Raton, Florida,[13] registered a trademark for the name "Royal Palm Properties" (the Trademark) with the U.S. Patent and Trademark Office ("USPTO").[14] Several years later, in April 2017, Royal Palm filed a claim against Pink Palm Properties,[15] another boutique real-estate agency located in Boca Raton.[16] Pink Palm responded by filing five counterclaims: four counterclaims to cancel Royal Palm's trademark and an additional counterclaim seeking a declaratory judgment that it did not infringe on Royal Palm's trademark.[17] The district court dismissed three of Pink Palm's counterclaims with prejudice, leaving only the noninfringement counterclaim and a single declaratory-judgment

[13] *Id.* at 1374 n.1.

[14] ROYAL PALM PROPERTIES, Registration No. 4,248,770.

[15] *Royal Palm Props.*, 38 F.4th at 1373. Pink Palm Properties was acquired by Douglas Elliman on July 30, 2018, and now goes by the name "Rochelle LeCavalier at Douglas Elliman Real Estate. Katherine Kallergis, *Douglass Elliman Acquires Pink Palm Properties in Boca*, THE REAL DEAL (July 30, 2018, 1:30 PM), https://preview.therealdeal.com/miami/2018/07/30/douglas-elliman-acquires-pink-palm-properties-in-boca/ [https://perma.cc/2Z7Y-FWK2]. For the purposes of clarity, the article will still refer to the organization as Pink Palm.

[16] *Royal Palm Props.*, 38 F.4th at 1374.

[17] *Id.*

counterclaim, which alleged that the Trademark was not "distinctive and is confusingly similar to previously registered trademarks."[18] The claims went to trial, where a jury found that Pink Palm did not infringe on Royal Palm's trademark and the Trademark was invalid.[19] The court granted Pink Palm judgment as a matter of law and also granted its subsequent motion for costs.[20]

Royal Palm promptly appealed the district court's grant of declaratory judgement to the Eleventh Circuit.[21] The Eleventh Circuit held that Pink Palm did not meet the standards required under the Lanham Act, the primary federal trademark statute, to invalidate Royal Palm's trademark.[22] With respect to "distinctiveness," the court found that Pink Palm did not rebut the assumption that Royal Palm Properties made the Trademark distinct as a "secondary meaning" of the phrase "Royal Palm," because other users of the phrase did not compete in the same highly specialized real-estate market.[23] As for "confusingly similar" analysis, the court concluded that, while Pink Palm had standing to pursue the claim, its evidence did not satisfy the various factors to prove that the Trademark would be confused with the Texas-based "Royale Palms."[24] The Eleventh Circuit reversed the judgment and validated the Trademark.[25]

On remand to the district court, Pink Palm filed a Rule 54(d) motion for court costs and "exceptional case" fees under the Lanham Act.[26] Both rules allow the court to grant costs to a prevailing party.[27] The district court denied costs.[28] Because it agreed with the Eleventh Circuit's decision, the district court determined Pink Palm was no longer the prevailing party.[29] Thus, Pink Palm was not entitled to attorney's fees under the Lanham Act.[30] Pink Palm then appealed once again to the Eleventh Circuit.[31]

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[18] *Id.*

[19] *Id.*

[20] Royal Palm Props., LLC v. Pink Palm Props., LLC, 950 F.3d 776, 780 (11th Cir. 2020), *aff'd* 38 F.4th 1372 (11th Cir. 2022).

[21] *Id.* at 781–82.

[22] *Id.* at 780.

[23] *Id.* at 782–86.

[24] *Id. at* 787–90.

[25] *Id. at* 790.

[26] Royal Palm Props., LLC v. Pink Palm Props., 38 F.4th 1372, 1374 (11th Cir. 2022).

[27] *Id.*

[28] *Id.* at 1375.

[29] *Id.*

[30] *Id.*

[31] *Id.*

III. LEGAL BACKGROUND

This Part first discusses the default "American Rule" for cost and fees, certain exceptions to the rule within the common law and statute, and criticisms of the standard. This Part next describes Rule 54(d) and the factors that led to its creation. Finally, this Part examines how courts have interpreted Rule 54(d), including the cases at issue in the circuit split and the Supreme Court's interactions with the rule.

A. The American Rule and FRCP 54(d): A History

Most attorneys are familiar with the American Rule, regardless of their area of practice. In the United States, the prevailing party in litigation is not usually entitled to collect its costs from the losing party.[32] Some attorneys may be less familiar with this "far-reaching" rule's origin and how the rule itself is the minority within the western legal world.[33]

Like many of our legal traditions, fees and costs jurisprudence in the United States is rooted in the English common law.[34] English fee-shifting precedent was based on the Statute of Gloucester, enacted by the English Parliament under Edward I in 1275.[35] The statute allowed plaintiffs to acquire costs associated with legal representation in cases relating to

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[32] *See* Alyeska Pipeline Serv. Co. v. Wilderness Soc'y, 421 U.S. 240, 247 (1975) (establishing the American Rule in relation to costs and attorney's fees); *see, e.g.*, Joseph M. Esposito, *No Fees Please: A Defense of the American Rule in Trademark and Patent Civil Actions*, 50 SETON HALL L. REV. 207, 213 (2019). While most fee-shifting discourse is in relation to attorney's fees, the reasoning and "prevailing party" discourse for costs that must be paid by the parties in relation to the suit (expert witnesses, costs to the court, etc.) and payments to the attorneys is the same. *See, e.g.*, Tempest Publ'g Inc. v. Hacienda Recs. and Recording Studio, Inc, 141 F. Supp. 3d 712, 716–17 (S.D. Tex. 2015) (the court using the same "prevailing party" analysis for both costs and fees).

[33] *Alyeska Pipeline*, 421 U.S. at 247; *see, e.g.*, Werner Pfennigstorf, *The European Experience With Attorney Fee Shifting*, 47 LAW & CONTEMP. PROBS. 37, 44 (1984) (noting that most European countries generally view shifting of fees contrary to the American Rule of cost and fee-shifting); *see also* Kenneth W. Starr, *The Shifting Panorama of Attorneys' Fees Awards: The Expansion of Fee Recoveries in Federal Court*, 28 S. TEX. L. REV. 189, 189 (1986) (describing the American rule as "a misfit in relation to the usual approach to attorneys' fees awards.").

[34] *See, e.g.*, Albert Roland Kiralfy et al., *Comparisons of Modern English, American, and Commonwealth Law*, BRITANNICA, https://www.britannica.com/topic/common-law/Criminal-law-and-procedure [https://perma.cc/XT67-3HSZ] (last visited Jan. 9, 2024) (noting the "family resemblances" between American and English common law up until the 18th century, and the continuing similarities within private law).

[35] 6 EDW. I. c. 1 (1275).

damages.[36] After briefly following the English practice of shifting fees under legislative acts,[37] American courts made a sharp departure from their previous practices in *Acrambel v. Wiseman*,[38] and the Supreme Court indicated the "general practice of the United States is in opposition to [awarding the plaintiff's fees as damages]."[39] This change was arguably a symptom of early America's negative perception of attorneys, who were considered "character[s] of disrepute and of suspicion."[40] Further, many colonies outright barred attorneys from acquiring fees.[41] By the turn of the nineteenth century, Congress had not passed or renewed any fee-shifting statutes. By 1853, comprehensive legislative reform created uniformity among federal jurisdictions that severely limited fees and costs recoverable by the prevailing party.[42]

From 1853 onward, the United States followed the general "no cost-shifting" principle, and today, many consider this rule to be the country's "bedrock principle" for attorney's fees.[43] However, the American Rule is not absolute, as it is subject to various exceptions.[44] The most common exceptions include statutory fee-shifting rules for antitrust,[45] patent,[46]

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[36] *See, e.g.*, Arthur L. Goodhart, *Costs*, 38 YALE L.J. 849, 852 (1929) (discussing origins of English cost shifting jurisprudence). Between 1275 and 1875 various alterations to the doctrine were made, including limiting the amount of costs awarded for certain causes of action and subsequent proceedings, and the eventual allowance of costs being awarded to a successful defendant. *Id.* at 852–53.

[37] *See Alyeska Pipeline*, 421 U.S. at 248 n.19 (explaining the early legislative history of American attorney fee-shifting). For more analysis of the colonial and pre-*Wiseman* interpretation of statutory fee-shifting, *see* Jefferey C. Bright, *Unilateral Attorney's Fees Clauses: A Proposal to Shift to the Golden Rule*, 61 DRAKE L. REV. 85 (2012).

[38] 3 U.S. 306 (1796).

[39] *Id.*

[40] CHARLES WARREN, A HISTORY OF THE AMERICAN BAR 4 (1911).

[41] *Id.*

[42] *Alyeska Pipeline*, 421 U.S. at 249–53.

[43] Hardt v. Reliance Standard Life Ins. Co., 560 U.S. 242, 252–53 (2010).

[44] *See, e.g.*, 15 U.S.C. § 4304 (2004); 15 U.S.C. § 1117 (2008).

[45] 15 U.S.C. § 4304 (2004) (Antitrust law fee-shifting provision).

[46] 15 U.S.C. § 1117 (2008) (Lanham Act's statute of recovery). *Royal Palm II*'s focus is the circuit split in interpreting Rule 54(d)(1). Royal Palm Props., LLC v. Pink Palm Props., 38 F.4th 1372, 1378–81 (11th Cir. 2022). While the Lanham Act's "exceptional case" provision is mentioned by Pink Palm, it is only presented as an additional argument in favor of shifting attorney fees, rather than the shifting of other costs under Rule 54(d)(1). *Id.* at 1374. The Eleventh Circuit summarily denied the attorney's fees as well as ordinary costs in the conclusion of the opinion. *Id.* at 1382.

class-action,[47] and civil rights suits.[48] Fee-shifting provisions also often exist in contract drafting: parties oftentimes allow for fees to be awarded in the event of litigation.[49] Judicial discretion may be used to award costs and fees when considering bad-faith conduct by the opposing party,[50] as well as under Federal Rule of Civil Procedure 54(d).[51] For costs in particular, the rule states that "[u]nless a federal statute, these rules, or a court order provides otherwise, costs . . . should be allowed to the prevailing party."[52] States may also carve out exceptions to the American Rule by allowing attorney-fee clauses in contracts,[53] and by allowing a prevailing party to recover part of their fees and costs under various civil procedure rules.[54]

Judges and scholars alike have provided various theories as to why the American Rule has persisted. The Supreme Court argued that the requirement to pay fees after losing a claim creates a chilling effect on litigation, and calculating costs and fees is a burden for the judicial system.[55] The Court also argued that there is a public interest in limiting fee-shifting to nominal amounts absent a statutory exception, pointing to

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[47] *See, e.g.*, Enter. Energy Corp. v. Columbia Gas Transmission Corp., 137 F.R.D. 240, 248 (S.D. Ohio 1991) (discussing the well-settled practice of awarding attorney's fees and expenses within the recovering fund for benefit of class of persons through commercial litigation).

[48] 42 U.S.C. § 2000e-5(k) (2009) (fee-shifting provision in equal employment legislation); 52 U.S.C. § 10310(c) (2006) (fee-shifting provision in voting rights legislation).

[49] *See* Bright, *supra* note 37.

[50] *See, e.g.*, FED. R. CIV. P. 11(c), 26(g), 37.

[51] FED. R. CIV. P. 54(d).

[52] FED. R. CIV. P. 54(d)(1).

[53] *See, e.g.*, CAL. CIV. CODE § 1717(a); FLA. STAT. § 57.105(7) (2019); MONT. CODE ANN. §28-3-704 (Statutes requiring attorney fee provisions in contracts to apply to both parties).

[54] *See, e.g.*, Walter Olson & David Bernstein, *Loser-Pays: Where Next?*, 55 M.D. L. REV. 1161, 1175–80 (discussing the "Loser Pays" systems enacted in Oklahoma and Oregon); *see* Douglas C. Rennie, *Rule 82 & Tort Reform: An Empirical Study of the Impact of Alaska's English Rule on Federal Civil Case Filings*, 29 AK. L. REV. 1 (2012).

[55] Fleischmann Distilling Corp. v. Maier Brewing Co., 386 U.S. 714, 718 (1967) ("In support of the American rule, it has been argued that since litigation is at best uncertain one should not be penalized for merely defending or prosecuting a lawsuit, and that the poor might be unjustly discouraged from instituting actions to vindicate their rights if the penalty for losing included the fees of their opponents' counsel. Also, the time, expense, and difficulties of proof inherent in litigating the question of what constitutes reasonable attorney's fees would pose substantial burdens for judicial administration.").

Congress' general unwillingness to create broad statutory fee-shifting and only extending it in limited circumstances.[56]

However, the American Rule has been a frequent subject of attack by the legal academic community.[57] Critics of the American Rule note its limiting effect on litigation that focuses on legal rights or establishing wrongdoing, rather than economic recovery, as it forecloses parties from using fees awarded at the end of litigation to pay legal counsel.[58] As a result, less-affluent litigants are blocked from engaging in long-term litigation, or even accessing the justice system entirely.[59] These roadblocks can be particularly apparent in contract disputes, where the pervasive issue of unequal bargaining power can be exacerbated by expensive litigation with less-than-marginal returns.[60] Thus, while smaller claims with great personal stakes are gatekept from the public at large, corporate litigation is allowed to swallow much of the judicial system's time and resources.

Fee-shifting may be attractive for other reasons, as well. One rationale for the American Rule is that an injured party should be made whole after a legal injury.[61] Extending this reasoning, it would be natural to include payment for the fees needed to achieve that outcome.[62] Another rationale is that litigation against one who has done wrong holds at least some degree of punitiveness, not only to the injured but toward the public

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[56] Alyeska Pipeline Serv. Co. v. Wilderness Soc'y, 421 U.S. 240, 255–57 (1975); Peter Karsten & Oliver Bateman, *Detecting Good Public Policy Rationales for the American Rule: A Response to the Ill-Conceived Calls for "Loser Pays" Rules*, 66 DUKE L. J. 279 (2016); *but see* John Luebsdorf, *Does the American Rule Promote Access to Justice? Was That Why it was Adopted?*, 67 DUKE L.J. ONLINE 257 (2019) (arguing that the evidence provided by scholars to show the American Rule's public policy rooting is insufficient).

[57] *See, e.g.*, Luebsdorf, *supra* note 56, at 259–61; Bright, *supra* note 37; Albert A. Ehrenzweig, *Shall Counsel Fees Be Allowed?*, 26 CAL. S. B.J. 107 (1951); Albert A. Ehrenzweig, *Reimbursement of Counsel Fees and the Great Society*, 54 CAL. L. REV. 792 (1966).

[58] *See, e.g.*, Mary Frances Derfner, *One Giant Leap: The Civil Rights Attorney's Fees Awards Act of 1976*, 21 ST. LOUIS U. L. REV. 441 (1977) (noting the notorious difficulty in enforcing civil rights claims absent a fee-shifting provision).

[59] Luebsdorf, *supra* note 56, at 259–61 (arguing that the evidence provided by scholars to show the American Rule's public policy rooting is insufficient); Ehrenzweig, 54 CAL. L. REV., *supra* note 57, at 794 (noting how the distribution of losses in the American Rule is well suited for commercial litigation but not "the little man").

[60] Bright, *supra* note 37.

[61] *Id.*

[62] Thomas D. Rowe, Jr., *The Legal Theory of Attorney Fee Shifting: A Critical Overview*, 1982 DUKE L. J. 651, 657–58 (1982).

itself.[63] This is known as the "private attorney general theory."[64] As a practical matter, a party with a justiciable claim needs to have an incentive to challenge opponents with vastly superior resources, and sometimes this endeavor only be accomplished through fee-shifting.[65] Just as concerns arise from the American Rule, these arguments in favor of fee-shifting are no strangers to critique, resulting in much discourse within the legal community as to how to strike the correct balance between systems.[66]

A recent development in the sphere of fees is litigation financing, where organizations allocate resources toward a plaintiff with the hopes that a large victory or settlement will produce a return on investment.[67] For some, litigation financing provides an avenue for small parties to bring forth their claims or stay afloat after initial success in light of an appeal.[68] However, there have been criticisms of the industry for acting in a predatory fashion by attaching very high interest rates to their loans,[69] and the relative lack of regulation, absent a few state enacted statutes.[70] Other critics argue that litigation financing causes the justice system to become commodified and undermines its values.[71]

In the United States, allocating costs within federal courts has been codified in Rule 54(d).[72] In *Royal Palm*, the Eleventh Circuit focused on the application of Rule 54(d)(1), which reads: "Costs Other Than

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[63] *Id.* at 662.

[64] *Id.* at 660–63.

[65] *Id.* at 663–65; Ehrenzweig, 54 CAL. L. REV., *supra* note 57, at 794.

[66] Rowe, Jr., *supra* note 62, at 665–66. It is nothing new to notice that the arguments in favor and against the use of an American Rule and an alternative form of fee-shifting like those in Europe have parallels. Murray L. Schwartz, *Foreword*, 47 LAW & CONTEMP. PROBS. 1, 2 (1984) ("The functional arguments in favor of and against one rule are largely the course of the arguments in favor of and against the other . . . .").

[67] *See, e.g.*, Susan Lorde Martin, *The Litigation Financing Industry: The Wild West of Finance Should be Tamed not Outlawed*, 10 FORDHAM J. CORP. & FIN. L. 55 (2004); *but see* Michael K. Velchick & Jeffery Y. Zhang, *Islands of Litigation Finance*, 24 STAN J. L. BUS. & FIN. 1 (2019) (arguing that the concept of litigation finance has been longstanding in American jurisprudence in other forms, such as contingency fees).

[68] *See* Lesley Stahl, *Litigation Funding: A Multibillion-Dollar Industry for Investments in Lawsuits with Little Oversight*, CBS NEWS (Dec. 18, 2022), https://www.cbsnews.com/news/litigation-funding-60-minutes-2022-12-18/ [https://perma.cc/LPE4-C7DA].

[69] *Id.* (Showing how one litigation financing scheme had a 100% interest rate).

[70] *See* Emily Samra, *The Business of Defense: Defense-Side Litigation Financing*, 83 U. CHI. L. REV. 2299, 2301–02 (2016); ARK. CODE § 4-57-109 (regulating terms and interest rates for litigation financing).

[71] *See* Sara Randazzo, *Lawmakers Taking Closer Look at Litigation Funding*, WALL ST. J. (Aug. 27, 2015, 4:22 PM), https://www.wsj.com/articles/BL-LB-51976 [https://perma.cc/B65P-ZBDG].

[72] FED. R. CIV. P. 54(d).

Attorney's Fees. Unless a federal statute, these rules, or a court order provides otherwise, costs—other than attorney's fees—should be allowed to the prevailing party."[73] The original committee notes give little basis for the Rule, only citing one case and one academic article to bolster its rationale.[74]

B. "Prevailing Party"

i. SCOTUS caselaw for a prevailing party: Who gets fees, and why?

Federal precedent on the "prevailing party" has not focused on Rule 54(d) but, instead, on the more specific "American Rule" exceptions like those within federal statutes.[75] The use of "prevailing party" language in legislation increased during the civil rights era, with multiple pieces of legislation passed since the 1960s that focused on the public interest.[76] This proliferation of federal laws allowing costs and fees to be shifted to

[73] FED. R. CIV. P. 54(d)(1); An example of Rule 54(d)(1) in action is *Marx v. Gen. Revenue Corp.*, where the district court ordered and the Supreme Court affirmed a costs shifting order related to witnesses and transcripts. 568 U.S. 371, 374–75 (2013). The Court focused on the phrase "[u]nless a federal statute . . . provides otherwise." *Id.* at 377–78.

[74] FED. R. CIV. P. 54 notes on 54 (Advisory Committee on Rules, 1937). As support, the committee notes cite *Ex Parte Peterson*, a writ of mandamus to the Supreme Court relating to the district court's appointment of an auditor for a preliminary investigation into a contractual dispute of coal sales. 253 U.S. 300 (1920). The Court in *Peterson* notes that the general practice is to award the prevailing party costs in both law and equity unless there is a statutory provision or "established principle" otherwise, holding that expenses could not be held in whole or in part against the prevailing party. *Id.* at 317–18. The only scholarship cited from the committee concerning Rule 54(d) gives a brief history of cost provisions, where federal procedure conformed to the practice of the respective states and produced a patchwork of rules. Philip M. Payne, *Costs in Common Law Actions in the Federal Courts*, 21 VA. L. REV. 397 (1935). In cases and senate debate cited by the article, "prevailing party" language is present as early as 1853, but eludes significant explanation and does not consider the implications of a multifaceted suit. *Id.* at 403. The lack of substantial public policy rational behind the costs rule has not gone unnoticed. *See, e.g.*, John M. Blumers, *A Practice in Search of a Policy: Considerations of Relative Financial Standing in Cost Awards Under Federal Rule of Civil Procedure 54(d)(1)*, 75 B.U. L. REV. 1541 (1995) (noting the lack of guidance within the comments and the "unjustifiable" tension between awarding costs but not attorney's fees as support for the use of fee award statutes rather than Rule 54(d)(1)).

[75] *See, e.g.*, Alyeska Pipeline Serv. Co. v. Wilderness Soc'y, 421 U.S. 240 (1975); Hanrahan v. Hampton, 446 U.S. 754 (1980); Texas State Tchrs. Ass'n v. Garland Indep. Sch. Dist., 489 U.S. 782 (1989); Buckhannon Bd. and Care Home, Inc. v. West Virginia Dep't of Health and Human Res., 532 U.S. 598 (2001).

[76] *See, e.g.*, 42 U.S.C. § 2000e-5(k) (2009) (fee-shifting provision in equal employment legislation); 52 U.S.C § 10310(e) (2006) (fee-shifting provision in voting rights legislation).

the "prevailing party" has created case law analysis on what the term entails.[77]

The Supreme Court's earliest interaction with prevailing party doctrine arose in *Alyeska Pipeline Service Co. v. Wilderness Society*, where environmental groups attempted to enjoin the department of the interior and State of Alaska from licensing an oil pipeline.[78] After the district court's dismissal and changes to federal law mooting the issue, the district court nonetheless awarded respondents fees and costs under the private attorney general theory.[79] The court of appeals held that respondents acted in the public interest and should receive fees so that future litigants are not deterred from filing suit.[80] The Supreme Court granted certiorari and took the private attorney general theory to task.[81] The Court reasoned that the decision to allow fee-shifting in certain cases is a legislative decision and not one left to a court's unfettered discretion.[82] The Court took particular issue with allowing courts to act without congressional guidance on the term "prevailing party," asking rhetorical questions on whether prevailing party awards should be reserved for the plaintiff and *whether the awards should be mandatory*.[83]

The Court again weighed in on the "prevailing party" doctrine in *Hanrahan v. Hampton*.[84] There, the Court analyzed 42 U.S.C § 1988, a catch-all statute for awarding fees to prevailing parties "in vindication of civil rights."[85] The case focused on a search warrant for the home of members of the Black Panther Party.[86] After the district court granted a directed verdict in favor of the defendants, the court of appeals reversed and remanded for a new trial, awarding plaintiffs the costs of the appeal.[87] In a per curium opinion, the Supreme Court admonished the lower court's decision to deem plaintiffs the prevailing party.[88] The Court conceded that in certain instances a prevailing party determination does not need a full

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[77] *See, e.g.*, *Alyeska Pipeline*, 421 U.S. at 245; *Hanrahan*, 446 U.S. at 755–56; *Texas State Tchrs. Ass'n*, 489 U.S. at 784–85; *Buckhannon Bd. and Care Home*, 532 U.S. at 600.

[78] *Alyeska Pipeline*, 421 U.S. at 242–44.

[79] *Id.* at 243–46.

[80] *Id.* at 245–46. The United States and State of Alaska were held to be unreasonable parties regarding paying respondent's fees, due to either statute or public interest. *Id.* However, the court of appeals found Alyeska to be a sufficient payee. *Id.*

[81] *Id.* at 247–66.

[82] *Id.* at 260–62.

[83] *Id.* at 264.

[84] Hanrahan v. Hampton, 446 U.S. 754 (1980).

[85] *Id.* at 756–57; 42 U.S.C § 1988 (2000).

[86] *Hanrahan*, 446 U.S. at 755 n.1.

[87] *Id.* at 755.

[88] *Id.* at 756–59.

disposition of issues on the merits or an absolute requirement of formal relief.[89] However, the Court found clear congressional intent to allow fees only when some relief has been given on the merits, such as when a court has established liability or determined *substantial rights* of the parties.[90] Moreover, the Court noted that awarding fees before the conclusion of trial is appropriate only when a party "has prevailed on an important matter in the course of litigation."[91] Finding that plaintiffs had not yet prevailed on any of their claims, the Court reversed the award.[92]

The Court faced more "prevailing party" implications in *Texas State Teachers Association v. Garland Independent School District.*[93] Multiple teachers' unions sued the school district under 42 U.S.C. § 1983, alleging that the district policies for unionization efforts on school grounds violated the First and Fourteenth Amendments.[94] The district court granted the school district summary judgment on all but one "minor" claim,[95] and the Fifth Circuit reversed in part, granting summary judgment for the teachers' unions on two claims but affirming the judgment for the school district on another.[96] Later, the Supreme Court ultimately affirmed the summary judgment decision.[97] The district court later denied the union's request for fees, holding that partial success was insufficient under a "central issue" test, which required a plaintiff to "acquir[e] the primary relief sought."[98] The Fifth Circuit affirmed, but noted inconsistencies with how circuits determine a "prevailing party."[99]

The Supreme Court unanimously reversed, holding that fee awards are permissible when "the plaintiff has crossed the statutory threshold of prevailing party status," by succeeding on *any* significant issue.[100] The Court held that the "central issue" test went against the Court's "significant issue" precedent,[101] and the legislative intent was to compensate parties

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[89] *Id.* at 757–58.

[90] *Id.* at 757.

[91] *Id.*

[92] *Id.* at 759; *see also* Hewitt v. Helms, 482 U.S. 755 (1987) (determining that a prisoner who had not pursued otherwise meritorious claims after the prior decisions were vacated did not receive relief, and was not a prevailing party); Rhodes v. Stewart, 488 U.S. 1 (1988) (determining that a case which becomes mooted precludes plaintiffs from becoming prevailing parties, and thus unable to receive costs).

[93] 489 U.S. 782 (1989).

[94] *Id.* at 785.

[95] *Id.* at 786.

[96] *Id.* at 786–87.

[97] *Id.* at 787.

[98] *Id.*

[99] *Id.* at 787–88.

[100] *Id.* at 789 (internal quotations omitted).

[101] *Hensley v. Eckerhart*, 461 U.S. 424 (1983). In determining whether the degree of a party's success influences the amount of fees awarded as prevailing party

who prevail on important matters rather than requiring success on all issues.[102] According to the Court, the prevailing party must at least be able to prove a change in the legal relationship between themself and the defendant.[103] The Court then held that the parties' legal relationship did change regarding a significant issue, meriting reversal of the Fifth Circuit's decision.[104]

The Court's most recent discussion of the term "prevailing party" came in *Buckhannon Board and Care Home, Inc. v. West Virginia Department of Health and Human Resources*.[105] There, the plaintiff, a retirement home operator, alleged that a West Virginia law violated the Fair Housing Amendments Act ("FHAA") and Americans with Disabilities Act ("ADA") after his board-and-care home was ordered to close.[106] During court proceedings, the West Virginia Legislature removed the provisions at issue, and the case was deemed moot by the district court.[107] The plaintiff requested attorney's fees under the FHAA and ADA, arguing that under the "catalyst theory," its lawsuit changed defendant's conduct and deemed the plaintiff the prevailing party.[108] Both the district court and the Fourth Circuit rejected the catalyst theory, and the plaintiff appealed.[109] Despite multiple federal circuits ascribing to the catalyst theory at the time, the Supreme Court held that the common denominator for fee-shifting was a *judicially sanctioned* change in the party's relationship, rather than voluntary conduct or success at the motion to dismiss stage.[110] The Court determined that the legislative intent behind fee-shifting provisions—to provide relief for parties who prevailed on the merits of some of their claims—did not support the catalyst theory, and the doctrine's effect on defendants' conduct can stifle settlement and protract litigation.[111] Drawing back to *Alyeska Pipeline*, the Court

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in *Hensley*, the Court adopted the "significant issue test from *Nadeau v. Helgemoe*, 581 F.2d 275, 278–79 (1st Cir. 1978), which it uses as the basis for its decision here. *Texas State Tchrs. Ass'n*, 489 U.S. at 791–92.

[102] *Texas State Tchrs. Ass'n*, 489 U.S. at 790. The Court held that determining a "central issue" was irrelevant for fee-shifting, and would only be a strain on judicial resources. *Id.* at 791.

[103] *Id.* at 792–93 (citing Hewitt v. Helms, 482 U.S. 755 (1987); Rhodes v. Stewart, 488 U.S. 1 (1988)).

[104] *Id.*

[105] 532 U.S. 598 (2001).

[106] *Id.* The State law at issue required residents of a board and care home to be capable of "self–preservation," or capable of removing themselves from danger. *Id.* at 600.

[107] *Id.* at 600–01.

[108] *Id.* at 601–02.

[109] *Id.* at 602.

[110] *Id.* at 605.

[111] *Id.* at 607–10 (citing Hanrahan v. Hampton, 446 U.S. 754, 757–58 (1980)).

reemphasized its desire to keep "prevailing party" guidance in the hands of the legislature rather than the courts, and affirmed.[112]

ii. Circuit Split: Do we *need* a prevailing party?

The Supreme Court has yet to decide if there must be a prevailing party in cases under Rule 54(d)(1). Thus, the task falls upon federal courts of appeals to interpret the Rule and judge whether prevailing parties exist in various settings. The circuits have come to a mostly uniform conclusion, but the Federal Circuit has left the issue up for debate through its distinct approach.

The earliest analysis on this prevailing party question came from the Second Circuit in *Srybnik v. Epstein*.[113] *Srybnik* centered on a breach-of-contract claim and counterclaim, with the plaintiff seeking recovery of a deposit and insurance for an agreement to ship steel from Europe to New York.[114] At trial, both parties' claims were rejected by the jury, leading to a cross-appeal.[115] Using past precedent from a prior district court case (and little else),[116] the Second Circuit held that since neither party prevailed, it was appropriate to deny costs to both parties.[117]

In *Schlobohm v. Pepperidge Farm, Inc*., the Fifth Circuit also held that there can be situations in which no prevailing party is established.[118] After an arbitration award between the parties' preferred amounts to settle a contract dispute, the plaintiff applied for fees and costs from the court.[119] The district court granted the award, but the Fifth Circuit reversed on appeal, holding that fees were not contemplated under the agreement, there was no breach of contract, and neither party prevailed in the arbitration under Rule 54(d).[120]

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[112] *Id.* at 610.

[113] 230 F.2d 683 (2d Cir. 1956).

[114] *Id.* at 684. The contract in question stated that the deposit was pursuant to a satisfactory inspection of the steel being shipped and that the steel would not cost more than $75 per ton. *Id.* Upon arrival, the steel was deemed unsatisfactory, and the shipment was rejected. *Id.* at 684–85.

[115] *Id.* at 684.

[116] *Id.* at 686. The court's precedent for its finding arose from *Magee v. McNany*, 11 F.R.D. 592 (W.D. Pa. 1951).

[117] Srybnik, 230 F.2d at 686.

[118] 806 F.2d 578 (5th Cir. 1986).

[119] *Id.* at 580.

[120] *Id.* at 584. The court affirmed the decision to grant Schlobohm prejudgment interest under Texas law. *Id.* at 583–84. Despite Schlobohm's argument that he was awarded more than Pepperidge Farm offered in arbitration, the Fifth Circuit determined that neither party prevailed, going so far as to say Pepperidge Farm's initial offer was closer to the actual award than Schlobohm's. *Id.* at 584.

The most recent case on the issue before *Royal Palm* was *E. Iowa Plastics, Inc. v. PI, Inc.* E. Iowa Plastics ("EIP") sued under the Lanham Act, bringing multiple causes of action relating to trademark abuse, and PI filed counterclaims.[121] After various voluntary dismissals of claims, judgments as a matter of law, and findings of fact and conclusions of law, the district court canceled PI's two trademarks and granted EIP attorney's fees as the prevailing party.[122] On appeal, the Eighth Circuit held that, due to EIP's unsuccessful counterclaims and PI's failure to win a judgment, the legal relationship between the parties was unaltered and both parties were in a "dead heat."[123] EIP held the trademark registrations, and PI had not caused any damages to EIP through its use of the trademark to warrant legal action.[124] Accordingly, the court found there to be no prevailing party and reversed the fee award.[125]

The Federal Circuit is alone on the other side of the circuit split.[126] In *Shum v. Intel Corp.*, Intel successfully defended many of Shum's claims through motions to dismiss, summary judgment, and judgments as a matter of law, although Shum received recognition as a co-inventor for some of the patents.[127] The district court found that both parties had prevailed under its interpretation of Rule 54(d) but offset the costs in that defendants had a higher net costs award, effectively giving them prevailing party status.[128] Shum appealed the award of costs on the basis that only one prevailing party can exist in a case, and that he was the prevailing party.[129]

The Federal Circuit held that, while both parties prevailed on certain claims, this fact alone did not make them both prevailing parties under Rule 54(d)(1)'s plain language, which allowed only one prevailing party.[130] The court went further, proclaiming that there can only be one winner, which must be chosen by the court in considering whether to award costs.[131] The Federal Circuit held that the legal relationship between Shum and Intel Corp. was altered via Intel's various victories on state-level claims and their partial victory in the patent-inventorship claims.[132] The court contrasted these victories with Shum's inventorship-

[121] E. Iowa Plastics, Inc. v. PI, Inc., 832 F.3d 899, 902 (8th Cir. 2016).

[122] *Id.* at 902.

[123] *Id.* at 907.

[124] *Id.*

[125] *Id.* at 907–08.

[126] *See* Shum v. Intel Corp., 629 F.3d 1360 (Fed. Cir. 2010).

[127] *Id.* at 1363.

[128] *Id.*

[129] *Id.*

[130] *Id.* at 1367.

[131] *Id.* The court makes clear that they do not see it as a requirement to award costs to a prevailing party if the court deems it unnecessary, but does not make any assertions that a case can conclude with neither parties prevailing. *Id.* at 1367 n.8.

[132] *Id.* at 1368–69.

correction claims, which did not alter Intel's legal relationship with Shum in spite of Shum's newfound property interest in the patents.[133] In the court's eyes, Shum retained use of the patents as a result of the initial agreement between him and the other co-founder, and despite the litigation, he had not gained any additional legal rights.[134] After determining the district court did not abuse its discretion in awarding the defendants a pro-rated set of costs under Rule 54(d)(1), the Federal Circuit affirmed the district court's ruling.[135] In her dissent, Judge Newman contended that Shum was the prevailing party by obtaining joint ownership of patented technology, an alteration to the legal relationship, and in contrast, Intel's loss of exclusivity rendered them unable to have prevailed.[136] As such, Judge Newman derided the apportionment of costs as unfair and argued that at worst no costs should be awarded, much less taxing Shum the costs of Intel's defense.[137] While the Eighth Circuit only cited *Shum* in passing,[138] the decision was confronted directly by the Eleventh Circuit in *Royal Palm*.[139]

IV. INSTANT DECISION

In *Royal Palm*, Royal Palm sued Pink Palm for trademark infringement, Pink Palm countersued, and both parties lost their claims.[140] Consequently, the Eleventh Circuit held that neither Pink Palm nor Royal Palm was a prevailing party and neither party was entitled to attorney's fees.[141] The court reasoned that Rule 54 provided fees to prevailing parties when necessary, but Rule 54(d)(1)'s language, and the precedent of cost shifting in litigation in general, did not mean that a prevailing party existed in every case.[142] In other words, the Eleventh Circuit took the stance that litigation resembles "regular [rather] than post-season NFL games," and that ties are permissible when the circumstances of the case allow for it.[143]

In its de novo review, the Eleventh Circuit addressed the issue of determining "prevailing party" status, looking to Supreme Court caselaw, federal statutes with fee-shifting provisions, and Rule 54(d)(1).[144] The

[133] *Id.*

[134] *Id.* at 1369–70.

[135] *Id.* at 1371.

[136] *Id.* at 1371–73 (Newman, J., dissenting).

[137] *Id.* at 1373–74.

[138] E. Iowa Plastics, Inc. v. PI, Inc., 832 F.3d 899, 907 (8th Cir. 2016).

[139] Royal Palm Props., LLC v. Pink Palm Props., 38 F.4th 1372, 1379 (11th Cir. 2022).

[140] *Id.* at 1374.

[141] *Id.* at 1381.

[142] *Id.* at 1378–80.

[143] *Id.* at 1382.

[144] *Id.* at 1375–81.

court also took notice of the Supreme Court tests from *Buckhannon* and *Garland*, which required a prevailing party to acquire relief that, at a minimum, changes the legal relationship between the adversarial parties.[145] Noting that the Court's precedent arises from civil rights actions, the Eleventh Circuit stated that the prevailing party analysis transfers to the different types of claims and that "prevailing party" doctrine applies to both attorney's fees and court costs.[146] When discussing Pink Palm's claim of prevailing party status, the court conceded that the district court's use of the "central issue" test was incompatible with Supreme Court precedent from *Garland*, and as such, the court was constrained to either agree with Pink Palm on its prevailing party claim, or agree with Royal Palm that no party had achieved prevailing party status.[147]

The Eleventh Circuit then asked the key question: "[I]s there a prevailing party in every case?"[148] In response, the court posited three possible answers: (1) there can be more than one prevailing party; (2) there must be one prevailing party; or (3) there can be no prevailing party or a "tie."[149] Using statutory interpretation and following other decisions, the court ruled out the first option.[150] It then described the three-to-one circuit split involving answers two and three, before counting itself as vote number four in favor of a "no prevailing party" interpretation.[151] The court noted that most of the analysis from the Federal Circuit's decision in *Shum* was valid, including that there cannot be multiple prevailing parties and that Rule 54(d) has no exceptions for mixed judgment.[152] However, the Eleventh Circuit was not satisfied with the "logical leap" that the Federal Circuit made to find that there must be a prevailing party, especially when cases can end with relief that does not materially alter the parties' relationship.[153]

The court used *East Iowa Plastics* to illustrate circumstances when a material alteration in the parties' relationship can be absent and was persuaded by the Eighth Circuit's reasoning that courts need not "arbitrarily name a winner."[154] Furthering this principle, the court compared *Shum*'s prevailing party requirement to the "catalyst theory,"

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[145] *Id.* at 1376–77.

[146] *Id.*

[147] *See id.* at 1377.

[148] *Id.* at 1378.

[149] *Id.*

[150] *Id.* The court uses this fact to introduce *Shum* as the outlier compared to other circuits. *Id.*

[151] *Id.* at 1378–79.

[152] *Id.* at 1379.

[153] *Id.*

[154] *Id.* at 1379–80.

which was rejected in *Buckhannon*.[155] The Eleventh Circuit found that, in practice, Pink Palm's argument was hindered in two ways.[156] First, all but two of Pink Palm's counterclaims were dismissed by the district court, and their surviving noninfringement and cancellation counterclaims, alongside Royal Palm's infringement suit, resulted in a stalemate.[157] Second, the court noted that Pink Palm successfully defended the infringement claim, and Royal Palm successfully defended the cancellation claim.[158] As the court found in its prior hearing of the case, "the jury split the baby," so Pink Palm's claim that it was the prevailing party was far from the truth.[159] After briefly raising and dismissing the possibility that Royal Palm, as the defending party, had prevailed,[160] the Eleventh Circuit held that the district court properly denied Pink Palm prevailing party status.[161]

V. COMMENT

A. Circuit split? No Ties Here, But Problems Loom.

The first question to ask in addressing a circuit split is the relative merits of each side.[162] Here, however, it is difficult to find a basis for the Federal Circuit's decision to require there be a prevailing party in each case. As pointed out in *Royal Palm*, the logic of the Federal Circuit is somewhat tortuous in placing the label of "prevailing party" on the defendant, Intel.[163] While Intel did defend against Shum's state law claims—a clear sign of prevailing party status—Intel was also required to respect Shum's newly articulated status as co-inventor, which is arguably

[155] *Id.*

[156] *See id.* at 1380.

[157] *Id.* at 1380–81.

[158] *Id.*

[159] *Id.* at 1381 (quoting Royal Palm Props., LLC v. Pink Palm Props., LLC, 950 F.3d 776, 781 (11th Cir. 2020), *aff'd* 38 F.4th 1372 (11th Cir. 2022)).

[160] *Id.* Although the Supreme Court has held that defendants can be prevailing parties if they prevent the sought legal relationship alteration and rebuff the plaintiff's challenge, the court found that both parties were "rebuffed" for their claims and thus having no prevailing party was appropriate. *Id.* (quoting CRST Van Expedited, Inc. v. EEOC, 578 U.S. 419, 431 (2016)).

[161] *Id.* at 1382. In its conclusion, the court noted that usually there will be a clear prevailing party in the party who gets a favorable judgment. *Id.*

[162] While it is also essential to determine if the circuits are actually split in the first place, the binary nature of the two circuit split sides (requirement of a prevailing party v. no requirement of a prevailing party) make the answer to that question clear. *See id.* at 1378; Shum v. Intel Corp., 629 F.3d 1360, 1367 (Fed. Cir., 2010); E. Iowa Plastics, Inc. v. PI, Inc., 832 F.3d 899, 906–07 (8th Cir. 2016).

[163] *Royal Palm Props.*, 38 F.4th at 1379.

an alteration of legal effect.[164] Considering the facts of the case, it would have been simplest for the Federal Circuit to follow the "at worst" scenario provided for in the dissent and determine that, because neither party prevailed, no fees should have been shifted.[165] In the alternative, the court could have kept most of its opinion intact, but removed the three unsupported sentences espousing a prevailing party requirement and awarding Intel prevailing party status.[166] The Federal Circuit even posited that in some cases, the award of prevailing party status still may not warrant cost-shifting under judicial discretion.[167] While it is reasonable to establish the default rule before making a deviation, the Federal Circuit's acknowledgment that avoiding the cost shifting analysis was an available—and popular—path raises the question as to why the court required a determination of the prevailing party in each case.

In contrast, there is merit to *Royal Palm* and other circuit decisions that allow for "ties," as illustrated by the Eleventh Circuit's analysis of the language in Rule 54(d)(1).[168] Further, previous Supreme Court decisions seem to indicate that the High Court would adopt the majority view of prevailing party analysis in relation to Rule 54(d)(1).[169] However, this is by no means the end of the analysis. Allowing for the resolution of cases without establishing a prevailing party leaves open the question of how the court can or *should* interpret "prevailing party" in fee-shifting provisions or how a party can qualify in different factual settings. Terms like "material"[170] and "significant"[171] leave an elastic standard of judicial discretion to award fees—or *not*—arguably frustrating congressional intent to legislatively create American Rule exceptions.[172] At the moment, the lopsided circuit split gives some guidance for determining prevailing party status, but it generally leaves courts to their own devices when it comes to analyzing whether such status is present in complex litigation

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[164] *Shum*, 629 F.3d at 1368–69. The prevailing party test that was used requires a material alteration and one that modifies defendants behavior in a way that directly benefits the plaintiff. Texas State Tchrs. Ass'n v. Garland Indep. Sch. Dist., 489 U.S. 782, 793 (1989). As the dissent argues, it can be found that now Shum's business partner can no longer assert exclusivity in court, and must recognize Shum's status as a co-inventor, which they coincidentally argue was the status quo on motion for costs. *Shum*, 629 F.3d at 1371–72 (Newman, J., dissenting).

[165] *Shum*, 629 F.3d at 1373 (Newman, J., dissenting).

[166] *See generally id.* (majority opinion).

[167] *Id.* at 1367 n.8.

[168] *Royal Palm Props.*, 38 F.4th at 1379–80.

[169] *See* Alyeska Pipeline Serv. Co. v. Wilderness Soc'y, 421 U.S. 240, 264 (1975); Hanrahan v. Hampton, 446 U.S. 754, 757 (1980).

[170] *See* Texas State Tchrs. Ass'n v, Garland Indep. Sch. Dist., 489 U.S. 782, 793 (1989).

[171] *See* Nadeau v. Helgemoe, 581 F.2d 275, 278–79 (1st Cir. 1978).

[172] *See Alyeska Pipeline*, 421 U.S. at 260–62.

areas like patent law or civil rights matters.[173] While courts may agree with *Royal Palm*'s conclusion that these situations are rare,[174] the complex nature of these scenarios undoubtedly would consume significant judicial resources. This is illustrated by the fact that appellate courts that weighed in on the prevailing party issue were often familiar with the case due to a prior appeal but were subsequently called on to conduct a mini trial on whether to shift costs based on small, complex legal issues.[175] This back-and-forth appeals process wastes valuable judicial resources.

B. "Prevailing party" and Uncertainty in Practice: Two Sides of an Uneven Coin

Various questions loom in the background regarding the definition of "prevailing party" and how costs may be awarded at the end of a case. With most federal circuits deciding the prevailing party label is optional, there is an inescapable feeling that courts are more willing to revert to the American Rule of no fee shifting, despite the intent by legislators to create several express statutory exceptions.[176] While courts seem to be within their right to make these decisions under case precedent, the near uniform decision by federal circuits to fall back on the "bedrock principle" reopens the question of the American Rule's merit.

For major players in the legal system, a reversion to the American Rule is a boon, promoting greater adversarial conduct to advance their legal interests. Whether it be the pipeline operators in *Alyeska*,[177] the high-end real estate companies in *Royal Palm*,[178] or tech conglomerates like that in *Shum*,[179] companies that have the resources to expend on litigation need not worry about financing their adversaries on the back end. They can pursue more claims than they otherwise might have without the risk of

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[173] *Compare Royal Palm Props.*, 38 F.4th 1372, *with* Shum v. Intel Corp., 629 F.3d 1360 (Fed. Cir. 2010).

[174] *Royal Palm Props.*, 38 F.4th at 1382.

[175] *See id.* (district court's original ruling was reversed on appeal); *Texas State Tchrs. Ass'n*, 489 U.S. at 785. Significant questions include what value a counterclaim has compared to a claim, the competing values of a rebuffed claim versus a prevailing claim or counterclaim, what types of claims are deemed significant (and thus insignificant), and how a claim adjudicated on the merits compares to an adverse claim disposed of for non-merit grounds. The Court only provides that a defendant can acquire prevailing party status by disposing of a claim on non-merit grounds, such as frivolousness. *See* CRST Van Expedited, Inc v. EEOC, 578 U.S. 419 (2016).

[176] *See, e.g.*, *Alyeska Pipeline*, 421 U.S. 240; Hanrahan v. Hampton, 446 U.S. 754, 757 (1980).

[177] *Alyeska Pipeline*, 421 U.S. 240.

[178] Royal Palm Props., LLC v. Pink Palm Props., LLC, 950 F.3d 776, 780 (11th Cir. 2020) *aff'd* 38 F.4th 1372 (11th Cir. 2022).

[179] Shum v. Intel Corp. 629 F.3d 1360 (Fed. Cir. 2010).

their deep pockets being pick pocketed by plucky individuals.[180] On its face, being able to pursue meritorious claims is a positive outcome. As shown by the multi-claim actions in *Shum* and *E. Iowa Plastics*, though, big-party litigation can teeter on frivolousness or be rife with coercive contractual agreements for alternative dispute resolution, like in *Schlobolm*.[181]

On the other hand, the current disposition of prevailing party doctrine creates dire consequences for those who cannot "play the game" of high-stakes litigation. Considering the original emphasis on fee-shifting in America, a large amount of statutory fee-shifting derives from civil-rights-era litigation to incentivize claims by those who otherwise might face barriers to litigation.[182] This tension between available judicial discretion and legislative intent not only creates a headache for courts, but also for plaintiffs who are not suing to assert their rights. The courts are effectively tasking these parties with a second lawsuit to obtain fees as the prevailing party, even where it is unclear how a court will interpret the outcome despite a statutory basis for their claims.

The consequences spread further than just civil rights litigation. The harsh effect of a power imbalance between contracting parties is abundantly clear when it comes to fee-shifting. A plaintiff will not only need to bring a sufficient claim for breach of contract, but he must also overcome any fee-shifting contractual provisions or bear both parties' fees. Considering the current lack of clarity in prevailing party jurisprudence, otherwise valid claims are likely to be chilled. A similar scenario is likely to result in intellectual property disputes.[183] In an alternate scenario of *Royal Palm*, where the defendant's real-estate business is insurmountably bigger than the plaintiff's business, it is easy to see how uncertainty around fee-shifting gives an edge to the defense and implicitly renders them freer rein to violate a plaintiff's legal rights. Without any Supreme Court guidance on how to interpret the prevailing party analysis further, or any amendment and committee notes on Rule 54(d)(1), litigants and courts alike are left with more questions than answers on how to understand the term "prevailing party."

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[180] *Alyeska Pipeline*, 421 U.S. at 263; *see Royal Palm Props.*, 38 F.4th 1372; *Shum*, 629 F.3d 1360.

[181] *See Shum*, 629 F.3d at 1363; E. Iowa Plastics, Inc. v. PI, Inc., 832 F.3d 899, 902 (8th Cir. 2016). While this practice seems more tenable in the world of contracts, it is implied by court language that the prevailing party analysis carries over into the field of contract law as well as others. *See* Schlobohm v. Pepperidge Farm, Inc., 806 F.2d 578 (5th Cir. 1986).

[182] *See, e.g.*, Derfner, *supra* note 58.

[183] *See, e.g.*, *Royal Palm Props.*, 38 F.4th at 1382; *E. Iowa Plastics*, 832 F.3d at 906; *Shum*, 629 F.3d at 1363.

VI. CONCLUSION

It does not take a medium or fortune teller to predict that federal appellate courts will continue to interpret Rule 54(d) as allowing ties, and that *Shum* will continue to be a minority position. The Supreme Court may even act as tiebreaker in the near future, overruling *Shum* outright. If so, the legislative purpose of fee-shifting provisions, exceptions to the American Rule, will continue to be subverted by the "bedrock principle" that parties must pay their costs, even when statutes say otherwise. A court-endorsed reading of "ties" into fee-shifting provisions sends mixed messages to litigants. For wealthy litigants looking to strike at peers or overwhelm less affluent opponents, the trend is a good sign. Just like Royal Palm and Pink Palm, some parties will be allowed to avoid the extra risk or bring an otherwise risky claim by virtue of their finances. However, for litigants fighting an oppressive battle, decisions like *Royal Palm* can create inequitable results by forcing them to consider financial risk in bringing civil rights claims or suits to protect property rights. Nobody can predict the future, but courts may need to consult some better palms to decide who pays for whose attorneys, lest we have stagnant ties, a lack of tiebreakers, and many litigants out of luck.