

THE COALITION FOR 21ST CENTURY PATENT REFORM

Protecting Innovation to Enhance American Competitiveness

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Prepared Statement of Philip S. Johnson,
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On Behalf of the
Coalition for 21st Century Patent Reform

Before the

Subcommittee on Courts, Intellectual Property and
the Internet

Committee on the Judiciary
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On

“Abusive Patent Litigation: The Impact on American
Innovation & Jobs, and Potential Solutions”

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Executive Summary
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Executive Summary

The issue of litigation abuse in patent cases is not a new one. During the public debate that followed the 2004 recommendations of the National Academy of Sciences, both the Supreme Court and the Federal Circuit handed down important decisions that addressed the criticism that the system favored the assertion of vague or over broad patents by non-practicing patentees (or non-practicing entities, referred to as “NPEs”). These decisions restricted the availability of patent injunctions to NPEs¹, mandated transfer of patent cases to more convenient and less NPE- friendly jurisdictions², clarified that damages may be awarded based only on the value of an invention rather than on an entire system in which the invention is only a small component³, strengthened the written description and enablement requirements to ensure that overly vague and ambiguous patents will not be upheld⁴, and clarified that innocent infringers should not be subjected to treble damages⁵.

In January of 2011, Congress also addressed patent litigation concerns by passing the pilot patent courts bill to establish a ten year program to test the concept that patent cases can be better and more efficiently handled, and abuses deterred, if they are handled by district court judges who specialize in managing and deciding them. This initiative is now being implemented, and is already yielding fruit in the form of a number of proposals for courts to limit the amount and cost of discovery in patent cases and to actively manage them to deter and/or punish litigation abuse.⁶

Perhaps most significantly, Congress acted again in September of 2011 by passing the Leahy-Smith America Invents Act (the "AIA")⁷, which included further provisions, some now just going into effect, that are designed to lessen the opportunity for abusive patent litigation conduct. This act made the criteria for patentability more transparent in a first-inventor-to-file system, authorized the public to participate in the patent examination process and increased funding for the United States Patent and Trademark Office (USPTO), all to improve the quality of future issued patents. As importantly, this Act created several new procedures that allow members of the public, including those who are being sued for infringement, to quickly and inexpensively challenge a patent's validity before a panel of administrative law judges in the USPTO. This act also effectively eliminated NPE false marking suits, mandated that patent plaintiffs could no longer indiscriminately join unrelated parties in a single law suit, and provided for a further as-of-yet-not-completed study of issues relating to NPE patent assertions.

¹ *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006).

² *In re TS Tech Corp.*, 551 F.3d 1315 (Fed. Cir. 2008).

³ *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F. 3d 1301 (Fed. Cir. 2009).

⁴ *Ariad Pharmaceuticals, Inc. v. Eli Lilly and Co.*, 598 F.3d 1336 (Fed. Cir. 2010) (*en banc*).

⁵ *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007), *cert. denied*, 2008 U.S. LEXIS 2153 (2008).

⁶ See Patent Cases Pilot Program, Pub. L. No. 111-349, 124 Stat. 3674; District Courts Selected for Patent Pilot Program, Admin. Office of the U.S. Courts (June 7, 2011) (available at: http://www.uscourts.gov/News/NewsView/11-06-07/District_Courts_Selected_for_Patent_Pilot_Program.aspx).

⁷ Leahy-Smith America Invents Act, Pub. L. No. 112-29.

As Congress recognized in authorizing a study into the litigation conduct of NPEs, little empirical evidence exists confirming or refuting the complaints that NPEs bring a disproportionate percentage of specious patent suits. Unfortunately, the advancement of specious claims or defenses has always been a part of patent litigation, and can be perpetrated by any party, if so inclined. Fortunately, courts already have the power to award attorneys fees in exceptional patent cases⁸, and, in our experience, are willing to do so when a party engages in reprehensible litigation conduct⁹.

This does not mean that everything that can be done to deter patent litigation misconduct has been done. Other remedies that were considered but not adopted during the consideration of the AIA include lowering the standard for fee shifting so it is easier for judges to award fees to a prevailing party, and automatically staying suits against customers and users where the original provider of the product or service accused of infringement elects to bring suit to resolve the issue with the patentee. The Coalition for 21st Century Patent Reform (the “21st Century Coalition”) continues to view these approaches as having merit.

Otherwise, the 21st Century Coalition believes that Congress should closely monitor the effects of the numerous remedies that have already been enacted and are in the process of being implemented. We believe that Congress has already gone a long way toward fixing the problem of patent litigation abuse, and that to further modify the system at this time would run the risk of chilling innovation, and the jobs that flow from it, by making reliable patent enforcement substantially less certain.

Prepared Statement of Philip S. Johnson

Mr. Chairman and distinguished Members of the IP Sub-Committee: Thank you for the opportunity to testify on the subject of abusive patent litigation practices, and their impacts on American innovation and jobs. Although I am active in a number of professional organizations with interests in patent law reform, including the American Intellectual Property Law Association, PhRMA, BIO and the Intellectual Property Owners Association, I am appearing today as a representative of the 21st Century Coalition.

I. Personal/Corporate/Coalition Introduction

By way of introduction, I am a registered patent attorney with 39 years of experience in all aspects of patent law. In addition to drafting and prosecuting patent applications, I have tried patent cases to both judges and juries, and have advised a wide variety of clients, both plaintiffs and defendants, in many industries ranging from semi-conductor fabrication to biotechnology. Over the course of my career, I have represented individual inventors, universities, start-ups, and companies of all sizes. In January of 2000, I left private practice to join Johnson & Johnson as its Chief Patent Counsel, where I now serve as Senior Vice-President and Chief Intellectual Property Counsel in its law department.

Johnson & Johnson is a family of 275 companies, and is the largest broad-based manufacturer of health and personal care products in the world. Collectively, Johnson & Johnson companies represent this country’s largest medical device business, its sixth largest consumer, nutritional and personal care business, and one of its largest pharmaceutical and biotechnology businesses. Johnson & Johnson companies employ approximately 128,000 people. Johnson & Johnson’s companies are research-based businesses that rely heavily on the U.S. patent system and its counterpart systems around the world.

⁸ 35 U.S.C. 285.

⁹ See *Marctec LLP v. Johnson & Johnson and Cordis Corporation*, 664 F.3d 907, (Fed. Cir. 2012) (awarding \$4.7 million in attorneys and expert witness fees against an NPE). For 2011, see also the cases listed at items 38 & 39 at www.patstats.org/2011_Full_Year_Report.html.

The 21st Century Coalition is a broad and diverse group of nearly 50 corporations including 3M, Caterpillar, Eli Lilly, General Electric, Procter & Gamble and Johnson & Johnson. For more than 100 years, our Coalition's companies have played a critical role in fostering innovation. We invest billions of dollars annually on research and development to create American jobs and improve lives. Representing 18 different industry sectors including manufacturing, information technology, consumer products, energy, financial services, medical device, pharmaceutical, and biotechnology, our Coalition advocates for patent reforms that will foster investment in innovation and job creation and promote vigorous competition in bringing new products and services to American consumers.

As the manufacturers and marketers of thousands of products, the freedom to make and sell products in view of the patents of others is always a concern to our Coalition's members. And even though we routinely review thousands of patents during our product development processes, make appropriate design changes to avoid the patents of others and/or obtain appropriate licenses or legal opinions prior to launching our products, we nonetheless must defend our companies against charges of patent infringement. Most of these litigations involve competitors or would-be competitors, although some involve non-manufacturing patentees. Overall, Johnson & Johnson's companies find themselves to be defendants about as often as plaintiffs.

The 21st Century Coalition's interest in patent law reform is to ensure that the patent system fairly rewards those who contribute to our society through the invention and development of new and useful products and processes. A fair, efficient and reliable patent system will continue to stimulate the investment in innovation that is necessary in today's technologically complex world to create the new products and processes that will lead to better lives for Americans and the rest of the world. In addition, the best promise for preserving and enhancing our place in an increasingly competitive global marketplace will be to stimulate U.S. investment in research by universities and small and large companies.

II. The Relationship Between Patent Litigation, Innovation and Jobs

A. The Relationship Between Patent Protection, R&D Investment and Patent Enforcement

To enhance the objective of maximizing R&D investment and its attendant creation of jobs, it is incumbent on the courts to effectively enforce meritorious patents against those who are infringing them, while weeding out specious claims that act as drags on the system. For those wishing to deter the assertion of specious claims, the challenge is how to deter only those claims that are specious without deterring those worthy of serious consideration by the courts.

As reflected by the recent passage of the AIA, there is bipartisan agreement that a strong and efficient American patent system will stimulate investment in R&D, and lead to the preservation and/or creation of millions of jobs. As Senator Leahy has explained:

High quality patents are the key to our economic growth. They benefit both patent owners and users, who can be more confident in the validity of issued patents. Patents of low quality and dubious validity, by contrast, enable patent trolls and constitute a drag on innovation. Too many dubious patents also unjustly cast doubt on truly high quality patents.

Innovation and economic development are not uniquely Democrat or Republican objectives, so we worked together to find the proper balance for America--for our economy, for our inventors, for our consumers.

Thomas Freidman wrote not too long ago in The New York Times that the country which "endows its people with more tools and basic research to invent new goods and services [] is the one that will not just survive but thrive down the road. . . . We might be able to stimulate our way back to stability, but we can only invent our way back to prosperity."

10 Cong. Rec. S131 (January 25, 2011) ((statement of Sen. Leahy)

This focus on economic growth is the correct one. If done right, patent reforms will stimulate the private sector to invest in economic development and job growth. All other considerations should be secondary.

Johnson & Johnson's companies are good examples of the relationship of the patent system, and patents, to jobs and job growth. Johnson & Johnson conservatively estimates that at least 65,000 of its full time jobs depend on the patent portfolios of its companies' 9,000+ U.S. patents (and their foreign counterparts). Stated differently, we now estimate that, on average, each U.S. patent results in, preserves and protects the jobs of 7.2 employees per year, or, over its 20-year life, 144 job-years. This estimate does not take into account the jobs of countless others at suppliers, distributors and retailers involved in the research, manufacture, distribution and sale of our products that indirectly depend in whole or in part on our patent rights.

Over the past three years, Johnson & Johnson companies have been awarded approximately 800 U.S. patents per year by the USPTO. During these same years, Johnson & Johnson companies have invested about \$22 billion in R&D, averaging about \$7.4 billion per year, or about \$9.3 million for each patent granted. Needless to say, these research and development expenditures have resulted in the direct employment of thousands of people throughout the United States in very good jobs with excellent benefits.

As these numbers reflect, the R&D investments stimulated by the patent system dwarf the costs directly associated with the enforcement of patents. Accordingly, in considering changes to the patent system, the primary concern should be what effect they may have on R&D investment, and thus jobs and job growth. Proposed changes that increase the likelihood that meritorious inventions may be reliably enforced against infringers should be favored, as these changes will have the greatest impact on stimulating R&D investment and job growth. Those that might discourage inventors from bringing meritorious claims of patent infringement should be viewed with a critical eye.

Research based companies are rational decision makers when it comes to deciding whether and how much to invest in R&D. When deciding whether or not to make, or to continue making, an investment in any given project, many factors are taken into account, including the cost of the project, the technical risk and likelihood of success of the project, the expected cost saving or product enhancement to be achieved, and the expected return on investment. In determining the expected return on investment, a critical element is the likelihood that meaningful patent protection will be accorded to deserving inventions resulting from the project, the degree and duration of exclusivity that resulting products or processes will enjoy, and the likelihood that the involved patents will either be respected by competitors, or can be promptly and successfully enforced in the event of infringement. When such projections indicate that the return on investment exceeds a threshold commensurate with the risk involved, the investment is, or continues to be, made. When it does not, the project is not begun, or is cancelled.

It is a common misconception that a patent for an invention confers a right on the patent owner to make, use or sell products embodying the invention. This is not true. A patent confers only the right to exclude others from doing so for the limited term of the patent. If patents in a given field are seen to be too expensive to enforce in relation to the value of market exclusivity they protect, they lose their value, and investment in inventions in that field are chilled. Accordingly, there is a delicate balance between the cost of patent enforcement and the impact of the patent system on R&D investment.

Another important factor that impacts R&D investment is the perception of the business community of the reliability of patent enforcement. Patents will not stimulate R&D investment and job growth unless they are perceived to be readily enforceable. If the courts are perceived as hostile to the enforcement of patent rights, our patent system will suffer. A patent that cannot be enforced is a hollow right.

As important as patent enforceability is to inventors and developers, it is the ability to ultimately profit from their inventions that induces and rewards R&D investment. For manufacturers, the ability to commercialize their inventions free from specious legal claims and the legal expenses needed to successfully defend against them is a significant consideration. For non-manufacturing patentees, the consideration is similar, as the values of their patents depend upon their existing or future licensee's ability to market their inventions.

As previously noted, most manufacturers mitigate the risk of being sued for patent infringement by searching the patent literature during product development, and either designing around existing patents of others, or acquiring rights to them by purchase or license. Nonetheless, even the most diligent of these "freedom to operate" studies cannot identify every possible future patent claim. This is especially true for specious claims that are based upon patents with claims that should not have been granted and therefore should not be found to be valid and infringed, or patents that are asserted against products or processes that cannot reasonably be argued to be within the scope of the invention claimed in the patent.

B. Non-Practicing Entities and the Importance of Freely Transferrable Patent Rights

Some of our best and most productive inventors do not manufacture or market their own inventions. Among these are America's independent inventors, university and government based inventors, and many small businesses and start ups. NPEs, especially universities, start ups and other research organizations serve as important sources of technology that are, or become components of, innovations that are developed and brought to market by others, including many of the members of our Coalition. Johnson & Johnson's companies, for example, pay hundreds of millions of dollars a year to NPEs, including their R&D partners, universities, independent inventors and small businesses, for licenses under valuable technologies that are or that we hope will be incorporated in our products.

For some NPE's, the decision not to pursue manufacturing and marketing is a matter of choice. They may, for example, prefer to concentrate their energies on originating inventions rather than in developing them, leaving the commercialization to licensees who are better positioned to manufacture and market them. Or they may sell or license their patents to venture capitalists who will attend to raising the capital needed for commercialization.

For others, superseding circumstances may effectively prevent or limit the inventors from commercializing their inventions. For example, if the invention is an improvement on existing patented technology, the owner of the original patent rights on that technology may be the only licensee for the improvement, at least until the original patents expire. Or should an existing unlicensed competitor copy and begin marketing the inventor's invention before the inventor is able to, the inventor's ability to later market that invention may be substantially impaired. In those circumstances, the only recourse available

to the inventor may be to bring suit against the infringing company to abate the infringement and/or to recover fair compensation for the unlicensed use of the invention. By the same token, when an inventor's invention relates to an improvement useful in an industry with high barriers to initial entry and/or one in which the market is shared by just a few well entrenched competitors, the only practical way for an inventor to commercialize his invention may be to license one or more of those competitors.

In all of these circumstances, freely transferrable patent rights are fundamental to the achievement of the Constitutional objective of "promoting the progress of science and the useful arts." Inventors who are not in a position to develop or market their own inventions would be deprived of the value of their patents were they not able to freely license or sell them. Similarly, those who wish to bring these inventions to the public either by developing and marketing them themselves or by licensing them to others should not be discouraged in doing so. Such free trade in patent rights is beneficial to our society as it allows technology developers to combine many different inventions to create products that would not otherwise have been possible.

III. Abusive Patent Litigation Behaviors

Abusive litigation practices are not unique to the patent law, nor are they of recent vintage. As long as there has been an adversary system for resolving judicial disputes, there have been litigants who have looked for unfair ways to game the system for their own benefit. Nonetheless, the nature of patent cases is such that they may be prone to more abuse than is seen in other types of commercial litigation.

A. Assertions of Specious Claims and Defenses To Force Settlement

One common complaint about patent litigation is that too many specious claims or defenses are filed solely for the purpose of forcing an unjust settlement, typically at a cost that is less than the cost of successfully completing the litigation. While this type of abuse no doubt exists in other types of litigation, it may be more effective in patent litigation, where the subject matter is complex, extensive document discovery is available, a large number of potential witnesses may be deposed, and expert testimony is a practical necessity. Coupled with the difficulty in patent cases of distinguishing specious from meritorious claims and defenses, many parties choose to settle rather than litigate to a final conclusion.

While most commonly thought of in the context of plaintiffs' assertions of patent infringement, the problem may also manifest itself through specious attacks on the validity of a patent, and/or in the assertion of other questionable defenses that drive up costs for the purpose of forcing settlement.

Without the benefit of a trial or other consideration of the merits of the particular claims and defenses, it is particularly difficult to distinguish whether patent claims brought, or validity or other defenses pressed, have substantial merit. While it is common to hear from both defendants and plaintiffs that the charges against them are without merit, the truth most often lies somewhere in the middle, making it difficult to craft an appropriate legislative response that targets only abusive litigation behavior.

While some critics point to estimates of how much manufacturers pay to NPEs, they seldom acknowledge that the majority of such payments are being made to gain commercial access to valuable technologies, not just to buy off frivolous suits. Indeed, in cases where a licensing fee is paid at settlement that substantially exceeds the cost of successfully defending the case, it is usually fair to conclude that the accused infringer has recognized some likelihood that the courts would indeed find the asserted patent to be both valid and infringed. Such recognition is quite often warranted as evidenced by

the 2012 Patent Litigation Study by Price Waterhouse Coopers (“PwC”).¹⁰ The empirical data indicates that, while litigation brought by NPEs is somewhat less successful overall than litigation brought by practicing entities, NPE’s success rates are still significant.¹¹

That is not to deny or minimize the problems in litigation caused by the over assertion of a patent claim, or the over assertion of a defense of invalidity, unenforceability or noninfringement. This practice is unfortunately quite common, but difficult to address, as there is a fine line between zealous representation of a client’s interests, and pressing a position that is not reasonably based on the evidence or without substantial merit under existing law or a reasonable extension thereof.

An analysis of case statistics concerning the award of attorney fees to prevailing parties in patent cases deemed to be “exceptional”¹² fails to reveal any identifiable trend that would suggest that any more specious claims or defenses are being pressed through trial now than they have been over the past 12 years.¹³ Nonetheless, since the overwhelming majority of all patent cases are settled without trial, statistics based on case dispositions are unlikely to reflect trends in specious claims that are extinguished by settlement. Moreover, collection of reliable data concerning those claims is nearly impossible, as almost all of settlements are confidential and entail sharply differing opinions of the merits of the matter settled.

B. Assertions Against Assemblers, Distributors or Retailers Rather Than Manufacturers

Another patent litigation practice that has been sharply criticized is the institution of suits against large numbers of assemblers, distributors or retailers rather than the original manufacturer or provider of the component or product alleged to infringe. This tactic takes advantage of the fact that such suits threaten defendants with the disruption of aspects of their businesses that are at best tangentially related to the invention which is the subject of the patent, and that each individual defendant has less motivation to litigate the issue to final conclusion than the manufacturer of the product at issue. The result can be to collect enormous sums as the result of a very large number of small settlements whose cumulative value far exceeds the amount that could have been recovered from the original manufacturer.

While existing jurisprudence would normally favor a stay of such customer suits pending resolution of an action brought by the manufacturer to finally resolve the issue, some district courts decline to so exercise their discretion, thus attracting a disproportionate percentage of such filings.

C. A Party’s Identity Does Not Determine The Propriety Of Its Litigation Behavior

While the financial, legal and business circumstances of a patentee will affect the objectives in asserting a patent, none of these criteria are predictive of whether litigation brought by any particular patent owner is abusive. Indeed, the litigation practices discussed above may be employed by all classes of patentees, should they be so inclined.

The PwC Patent Litigation Study data indicates that litigation rates vary considerably from year to year and industry to industry. NPEs enjoy their highest levels of success, exceeding even those of practicing entities in certain industries (biotechnology/pharma & medical devices), while having less

¹⁰ 2012 Patent Litigation Study http://www.pwc.com/en_US/us/forensic-services/publications/assets/2012-patent-litigation-study.pdf.

¹¹ *Id.* chart 5b.

¹² See 35 USC § 285, which states: “The court in exceptional cases may award reasonable attorney fees to the prevailing party.”

¹³ See www.patstats.org statistics for awards of attorneys fees to plaintiffs and defendants from 2000-2012.

success than practicing entities in other industries (business/consumer services, software, automotive/transportation, chemicals/synthetic materials and telecommunications).¹⁴ Nonetheless, during the overall 17 year period covered by the NPE study, NPE's experienced a success rate of 23.3%, versus a non-NPE rate of 33.8%.¹⁵ Of course, none of these statistics demonstrate that any of the unsuccessful enforcements were frivolous, rather than good faith assertions that were simply not proven.

These statistics do suggest that courts may be changing their approach to cases brought by certain NPEs. While non-practicing and practicing entity success rates were very close to each other in the 2001-2005 time period (29.8% vs. 31.3%), they diverged in the 2006-2011 time period (24.3% NPE's vs. 37.9% for non-NPE's) due to an increase in the number of NPE cases disposed of by summary judgment, and a lower success rate in bench trials. Collectively, this data suggests that in the last five years, judges have been closely scrutinizing NPE patent assertions, and have been terminating a higher percentage of them before trial.

These statistics also show that most NPE suits are brought in just a few districts, and that the NPE success rate in the most popular district, the Eastern District of Texas, at 46.5%, is substantially higher than in all other districts.¹⁶

IV. Steps Already Taken To Counteract Abusive Patent Litigation

Our Coalition believes that it is important to take into account the recent steps that have been taken, or are in the process of being taken, by the Courts, Congress and the USPTO to counteract abusive patent litigation. As early indications are that these steps will make a significant difference, our Coalition believes that a cautious approach should be taken towards additional reforms until better information becomes available concerning the reform measures that are now being implemented or that are already in place.

A. Judicial Decisions

The judiciary has issued opinions in a number of areas relating to patent law which have significantly curbed abusive patent litigation. These include decisions that address the appropriateness of injunctive relief, overly broad patents, unfounded damage claims, and problematic venue issues.

1. Courts No Longer Automatically Grant Injunctive Relief

Concern had been expressed in the patent community that non-practicing patent holders who were litigating solely for the purpose of seeking monetary relief were nevertheless using the threat of an injunction to "hold up" defendants for higher settlements. It had been the general rule that upon a finding of infringement and validity, a permanent injunction should issue. As noted above, however, the Supreme Court in *eBay*¹⁷ rejected the Federal Circuit's rule of a near automatic grant of injunctive relief in patent cases, instead calling for an assessment of the "principles of equity." After *eBay*, a patent holder must show, among other things, that ongoing infringement causes it to suffer an irreparable injury and that remedies available at law, such as monetary damages, are inadequate to compensate for that injury. Courts following *eBay* now deny requests for injunctive relief where patent holders, for example, can be

¹⁴ See chart 6f, n.10 supra.

¹⁵ See chart 9b, n.10 supra.

¹⁶ See chart 9a, n.10 supra.

¹⁷ 547 U.S. 388

fully compensated by monetary damages in the form of an ongoing license.¹⁸ This has significantly removed the “hold up” threat in patent cases. At the same time, these decisions reflect a balance in that they leave open the prospect of injunctive relief on a case-by-case basis.

2. The Law is Evolving to Address Overly Broad Patents

Concern has also been expressed that patents are being routinely asserted which contain overly broad, vague and ambiguous claims. The Supreme Court and the Federal Circuit have issued a number of recent decisions directly dealing with these concerns.

Method claims

The Supreme Court has recently taken up a series of cases that examine the validity of method claims in the context of patentable subject matter under 35 U.S.C. Section 101. In *Bilski v. Kappos*,¹⁹ the Supreme Court affirmed the rejection of claims directed to a method of hedging losses in one segment of the energy industry by making investments in other segments of that industry on the basis that the claimed investment strategy was simply too abstract to warrant patent protection. Similarly, in *Mayo Collaborative Services v. Prometheus Labs., Inc.*,²⁰ the Court held that the claimed method of personalized medicine dosing was not eligible for patent protection because the process is effectively an unpatentable law of nature. In response, courts are more closely scrutinizing claims in patent cases to ascertain whether they are sufficiently concrete and non-abstract to qualify for patent protection under Section 101.

Software claims

The Federal Circuit is poised to directly address *en banc* what is required in software claims to properly qualify as patentable subject matter under section 101. In *CLS Bank v. Alice Corp.*, No. 2011-1301 (Fed. Cir. 2013), the Federal Circuit has asked the following questions:

- a. What test should the court adopt to determine whether a computer-implemented invention is a patent ineligible “abstract idea”; and when, if ever, does the presence of a computer in a claim lend patent eligibility to an otherwise patent-ineligible idea?
- b. In assessing patent eligibility under 35 U.S.C. § 101 of a computer-implemented invention, should it matter whether the invention is claimed as a method, system, or storage medium; and should such claims at times be considered equivalent for § 101 purposes?

Oral argument in *CLS* is scheduled for April 15, 2013 and an opinion will issue in due course.

Written description requirement

The Federal Circuit has also addressed over-breadth of claims by reaffirming that the patent laws in fact require a written description of the invention.²¹ According to the Federal Circuit, this requirement ensures that inventors have actually invented the subject matter claimed in their patents. In other words,

¹⁸ E.g., *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assocs., Inc.*, 670 F.3d.1171, 1192 (Fed. Cir. 2012); *VernetX, Inc. v. Apple Inc.*, No. 6:10-cv-417, 2013 WL 692652 (E.D. Tex. Feb. 26, 2013).

¹⁹ 130 S.Ct. 3218 (2010)

²⁰ 132 S.Ct. 1289 (2012)

²¹ *Ariad Pharmaceuticals, Inc. v. Eli Lilly and Company*, 598 F.3d. 1336 (Fed. Cir. 2010) (en banc).

each claim must have support in the written description for each element to show that the inventor actually invented that which he or she claims.

Specification disclosure requirement

Finally, the Federal Circuit has also addressed concerns about the over-breadth of claims, particularly in the software field, by ensuring that functional language in such patent claims finds adequate structure in the specification for performing the claimed function. In *Function Media, LLC v. Google, Inc.*,²² for example, the asserted patents involved a computer system for facilitating advertising on multiple computer outlets. The Federal Circuit affirmed the district court's invalidation of the patents because they were indefinite, stating "[w]hen dealing with a 'special purpose computer-implemented means-plus-function limitation,' we require the specification to disclose the algorithm for performing the function."²³

3. Courts Have Reined In Speculative Damages Awards

The Federal Circuit has also been quite active in the damages area, issuing a number of recent important decisions directly addressing the proper measure of damages in cases of patent infringement. In *Lucent*,²⁴ the Federal Circuit addressed concern about large patent damages awards where the patented invention was merely a component of a much larger commercial product. The Court made clear that damages awarded for infringement in this situation cannot be based automatically on the market value of the entire product, but must be shown to be reasonably tied to the value of the patented feature as shown through consumer demand for that feature. In other words, in order for a damages award to be based on the value of the larger commercial product, the patent holder must prove that the patented feature drives the sales of the larger commercial product. In the wake of the *Lucent* case, district courts, through their important gate keeper function, are now rejecting damages expert testimony which attempts to base the value of patent damages on the larger commercial product where it cannot be shown that the smaller patented feature is the basis for the demand for the larger product.²⁵

The Federal Circuit has further reined in speculative damages expert testimony by abolishing the so-called "25% of profits rule" which had been used by damages experts over the years as a rough baseline for negotiating a reasonable royalty for patent damages. In *Uniloc v. Microsoft*,²⁶ the Federal Circuit made clear that any damages testimony must be carefully tied to the facts and circumstances of a particular case and not to abstract general rules.

The Federal Circuit also has cabined the types of licenses that are permissible to use in assessing a reasonable royalty. In *ResQNet.com v. Lansa*,²⁷ the Court made clear that if a plaintiff is relying on licenses as a measure of litigation damages, there must be an evidentiary basis linking the licenses to the claimed invention. This case thus limits the ability of a plaintiff to inflate its claimed measure of damages by picking and choosing economic terms of licenses that are not for the patents in suit or that are not "clearly linked to the economic demand of the claimed technology."²⁸

²² No. 2012-1020, slip op. at 9 (Fed. Cir. Feb. 13, 2013).

²³ *Id.*

²⁴ 580 F.3d 1301 (Fed. Cir. 2009).

²⁵ See, e.g., *MultiMedia Patent Trust v. Apple Inc.*, No. 10-CV-2618-H (KSC), 2012 WL 5873711 (S.D. Cal. Nov. 20, 2012); *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540, 2012 WL 1959560 (N.D. Ill. May 22, 2012); *Inventio AG v. Otis Elevator Co.*, No. 06 Civ. 5377(CM), 2011 WL 3359705 (S.D.N.Y. June 23, 2011); *IP Innovation LLC v. Red Hat, Inc.*, 705 F. Supp. 2d 687 (E.D. Tex. 2010).

²⁶ 632 F.3d 1292 (Fed. Cir. 2011).

²⁷ 594 F.3d. 810 (Fed. Cir. 2010).

²⁸ *Id.* at 872-873.

These decisions are now routinely being applied by the district courts to reign in speculative damages claims and awards in patent cases.

4. Courts Have Addressed Venue Abuse

Another area of significant focus by the courts has been venue abuse. Specifically, it was argued that patent cases were being filed in districts, particularly the Eastern District of Texas, with no meaningful connection to the defendant other than the fact that the defendant may sell accused infringing products in that district. Defendants who moved to have the cases transferred to a more convenient forum had those motions denied by some district courts which placed virtually dispositive weight on the plaintiff's choice of forum.

In a series of precedential rulings, the Federal Circuit employed the extraordinary remedy of issuing writs of mandamus to prevent litigants from abusing the permissive venue provisions for patent litigation by filing patent litigation in venues that have no reasonable connection to the parties and evidence. *See, e.g., In re Nintendo Corp.*²⁹ In addition, the Federal Circuit has also indicated that a district court must rule on a writ of mandamus when it is filed and not delay ruling on it until much later in the case, as delaying a ruling on such motions until substantial pre-trial proceedings have occurred has the effect of depriving litigants of their right to be transferred to a more convenient forum.³⁰

B. Litigation Process Initiatives

In addition to judicial rulings addressing abusive patent litigation, with the assistance of Congress, a number of jurisdictions have implemented litigation process reforms that have had the effect of counteracting abusive litigation practices through more streamlined and consistent litigation practices.

1. Patent Court Pilot Program

One of the recent legislative initiatives to improve the process for patent litigation is the Patent Court Pilot Program. In January of 2011, Congress created the program whose stated purpose is “to establish a pilot program in certain United States district courts to encourage enhancement of expertise in patent cases among district judges.”³¹ The Administrative Office of the United States Courts selected 14 federal districts courts to participate in the 10-year pilot program, which was implemented in July of 2011. In each district, at least three judges have been designated to hear patent cases. The participating districts have adopted case assignment procedures allowing judges in those districts who do not want to hear patent cases to have their cases assigned to one of the designated judges. The effect of this program for the participating districts has been that patent cases are being heard by judges who have developed an interest and expertise in the area. The expectation is that this will lead to more expedient resolution of patent cases. Another goal of the program is that the patent lawsuit caseload will become more dispersed throughout the country and less concentrated in Delaware, Northern California, and Eastern Texas.

²⁹*See, e.g., In re Microsoft Corp.*, 630 F.3d 1361 (Fed. Cir. 2011); *In re Acer America Corp.*, 626 F.3d 1252 (Fed. Cir. 2010); *In re Zimmer Holdings, Inc.*, 609 F.3d 1378 (Fed. Cir. 2010); *In re Nintendo Corp.*, 589 F.3d 1194 (Fed. Cir. 2009); *In re Genentech*, 566 F.3d 1338 (Fed. Cir. 2009); *In re Hoffman-LaRoche Inc.*, 587 F.3d 1333 (Fed. Cir. 2009); *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008).

³⁰*In re EMC Corp.*, No. 10-cv-0435, 2013 U.S. App. LEXIS 1985 at *5, 6 (Fed. Cir. Jan. 30, 2013).

³¹ *See* n.6 *supra*.

2. Managed Discovery

Patent cases tend to suffer from disproportionately high discovery expenses.³² As a result, the Advisory Council of the Federal Circuit drafted a Model E-Discovery Order for the district courts to use to manage the electronic discovery process, and in particular, the production of email. The Model Order begins with a discovery process whereby the parties exchange core documentation concerning the patent, the accused product, the prior art, and financial information before seeking email production. At the Judicial Conference for the Eastern District of Texas in September 2011, Chief Judge Rader promoted adoption of the Model Order for patent cases in the district courts, and the Eastern District of Texas, for example, has adopted a form of this order for all cases.³³

Other courts have gone a step further in promoting streamlined discovery in patent cases by requiring both parties to turnover certain categories of key documents within weeks of the initial status conference. In the Northern District of Illinois, for example, the patentee must disclose (i) documents related to the sale of the claimed invention prior to the date of the patent application; (ii) documents related to the conception and development of the claimed invention; (iii) communications with the United States Patent and Trademark Office regarding the invention; and (iv) documentation related to the ownership of the patent. The defendant must disclose documents sufficient to show all aspects of the accused “instrumentality” that was identified by the patentee and a copy of each item of prior art of which the party is aware that allegedly invalidates any claim of an asserted patent.³⁴ Using early disclosure procedures that focus on the core issues and quickly provide the appropriate information can avoid wasted discovery efforts and mitigate discovery disputes later on.

Discovery reform has not been limited to patent litigation in the federal courts. In October 2012, the International Trade Commission proposed amending its rules for discovery of electronically stored information in Section 337 proceedings, which usually involve claims that imported goods infringe a U.S. patent. The proposed rules adopt many of the initiatives adopted in the Federal Circuit’s Model Order and by some district courts to reduce the burden on patent litigants.

3. Other Initiatives

The Advisory Council of the Federal Circuit is expected to issue additional model orders this year designed to curb abusive patent litigation. One model order will require particularization of infringement and invalidity issues within a certain limited time after filing. This will limit infringement issues and prior art to be asserted, which will crystallize the key issues in lawsuits early on.

And in a February 27, 2013 speech at the Association of University Technology, Chief Judge Rader advocated an additional step to deter abusive patent litigation: an award of fees when it is clear there has been litigation abuse, which would include those situations that Chief Judge Rader referred to as “litigation blackmail,” *i.e.*, those in which there are only the most vague assertions of patent infringement coupled with a miniscule offer to settle the litigation.

³² See Emery G. Lee III & Thomas E. Willging, *Litigation Costs in Civil Cases: Multivariate Analysis* 8 (Fed. Judicial Ctr. 2010) (“Intellectual Property cases had costs almost 62% higher, all else equal, than the baseline ‘Other’ category.”).

³³ See E.D. Tex. Local Rules, Appendix P.

³⁴ See N.D. Ill. Local Patent Rule 2.1. See also D. N.J. Local Patent Rules 3.2 & 3.4 (setting forth similar early disclosure and production requirements).

C. Provisions of the America Invents Act

Congress also acted in 2011 by passing the AIA which included many provisions designed to lessen the opportunity for abusive patent litigation conduct.³⁵ This Act made the criteria for patentability more objective and transparent, increased Patent Office funding and authorized the public's participation in the patent examination process, all to raise the quality of patents to be issued in the future. The AIA created several new procedures that allow members of the public, including those who are being sued for infringement, to quickly and inexpensively challenge a patent's validity before a panel of administrative law judges in the Patent Office. The AIA also mandated that patent plaintiffs could no longer indiscriminately join unrelated parties in a single law suit, and provided for a further study of issues relating to non-practicing entity patent assertions, which is not yet completed.

1. Objective and Transparent Patentability Criteria

A major focus of the AIA patent reform effort was to improve the quality of patents. Much of the criticism of the patent system over recent years has been directed toward the quality of patents issued from the USPTO. The AIA includes a number of provisions to address this perennial complaint from users and the public. The new law begins by eliminating subjective and non-transparent tests for patentability in favor of a patent law in which the validity of a patent is assessed through information available to the public. The result, at the front end of the process, is greater transparency, objectivity, and simplicity in the criteria for determining when an invention is novel and non-obvious. The validity of patents granted using these criteria is more predictable and their enforceability more certain.

The initial examination process has been made more open and transparent, allowing the public to work with the USPTO to provide the most relevant information for patent examiners to use. By allowing the public to share their knowledge and information with examiners before patents are granted, the likelihood that an examiner will have all the relevant information to determine the patentability in any given case is enhanced.

2. Adequate and Secure Funding for the USPTO

The AIA provided the basis for the USPTO to receive a major increase in its operating funds. With the authority to establish and retain the fees it charges for its services, the Office has been able to significantly increase the patent examining staff, embark on upgrading its antiquated IT systems, and prepare for the implementation of the many new programs and procedures created by the AIA. Coupled with the new rules for determining patentability, the added resources made available to examine applications and reduce the backlog of applications will speed the processing of patent grants and enable investments to be made in new industries with accompanying job creation.

3. Post-grant Proceedings

The AIA also established new proceedings before the USPTO allowing for the public to initiate a review of issued patents. The AIA creates three new tracks within the USPTO to challenge the validity of questionable patents. These proceedings are *inter partes* review, post-grant review and the transitional program for covered business method patents. While the details of these various review proceedings are important to practitioners, their policy significance is that they provide a mechanism that is an alternative to litigation to challenge the validity of a patent in a special forum, with special procedures and proceedings designed to address the type of review being invoked. The procedures are generally designed to lead to a less expensive and speedier decision than is available in most federal courts, and to allow the

³⁵ See n.7 *supra*.

challenger to make its arguments to a panel of administrative law judges experienced with the complicated subject matter of patentability.

New procedural rules allow for administrative trials to be completed within one year from initiation of the review. The rules provide for expedited discovery, and other pre-trial disclosures designed to reduce the costs of these validity proceedings as compared to tradition federal court litigation. The transitional review program for covered business method patents is a special program designed to allow for post-grant review of patents directed to methods used in the administration or management of a financial product or service. Only a party that has been sued or otherwise charged with infringing the patent can seek review under this program. The program allows a party who is defending against such a patent in litigation to take an immediate appeal if the district court denies a stay of the lawsuit while the patent is being reviewed in under this transitional program.

4. Joinder Requirements

The AIA addressed the abusive practice of a plaintiff joining dozens of companies together in a single lawsuit when they had nothing in common other than the accusation of infringement. The AIA imposes new requirements that must be fulfilled before a patentee can join multiple accused infringers in one action.³⁶ Under Federal Rule of Civil Procedure 20(a)(2), multiple defendants can be joined in one action only if “(A) any right to relief is asserted against them jointly, severally, or in the alternative with respect to or arising out of the same transaction, occurrence, or series of transactions or occurrences; and (B) any question of law or fact common to all defendants will arise in the action.”

The AIA codifies the standard in Federal Rule of Civil Procedure 20(a)(2) into patent law and adds that “accused infringers may not be joined in one action as defendants or counterclaim defendants, or have their actions consolidated for trial, based solely on allegations that they each have infringed the patent or patents in suit.”³⁷ Plaintiffs unable to meet this new requirement now must file separate lawsuits alleging infringement of the same patents and thus lose the tactical advantage that comes from wholesale joinder.

5. NPE Study

In addition to the statutory reforms in the AIA, the legislation also required the Government Accounting Office (GAO) to “conduct a study of the consequences of litigation by NPEs, or by patent assertion entities.”³⁸ The study was to be completed by September 2012 and to include:

(1) The annual volume of litigation described in subsection (a) over the 20–year period ending on the date of the enactment of this Act.

(2) The volume of cases comprising such litigation that are found to be without merit after judicial review.

(3) The impacts of such litigation on the time required to resolve patent claims.

(4) The estimated costs, including the estimated cost of defense, associated with such litigation for patent holders, patent licensors, patent licensees, and inventors, and for users of alternate or competing innovations.

³⁶ 35 U.S.C. § 299.

³⁷ 35 U.S.C. § 299(b).

³⁸ See n.7 *supra*.

(5) The economic impact of such litigation on the economy of the United States, including the impact on inventors, job creation, employers, employees, and consumers.

(6) The benefit to commerce, if any, supplied by NPEs or patent assertion entities that prosecute such litigation.

To-date, the GAO has not released its study. The GAO estimates completion by early 2013; however, no exact date has been set. This study may be a valuable tool for assessing what aspects of the patent system and patent litigation need to be the focus of continued improvement.

V. Proposed Solutions To Curb Abusive Litigation Practices

Although it is far too early to assess the full impact of the changes to patent litigation brought about by judicial efforts to improve substantive and procedural aspects of patent infringement litigation, as well as legislative efforts to address patent litigation concerns, most notably by enactment of the AIA reforms, a number of new legislative proposals are being suggested to curb what are perceived by some stakeholders to be abusive litigation practices by NPEs. In the view of the 21st Century Coalition, some elements of these proposals warrant further discussion; but overall, calls for additional legislation that will impact the value and enforceability of patent rights so soon after enactment of the AIA and the other efforts to reform patent litigation discussed above are largely premature.

Specifically, the proposals currently being discussed with respect to fee-shifting in patent infringement litigation appear flawed because they target certain types of patent owners – NPEs, however that term is defined – rather than using fee shifting to deter the types of litigation abuse that proponents of fee-shifting claim they are seeking to discourage. By singling out NPEs for disparate treatment, rather than making any losing party that asserts non-meritorious claims or defenses pay the legal fees of its opponent, these proposals risk undermining the fundamental premise of the revisions enacted by the AIA: the patent laws should be balanced and neutral, and should not be used as a means to pick winners and losers among industry segments, technologies or types of patent owners.

Similarly, proposals for legislation establishing uniform discovery limits in all patent cases, beyond the limits already provided in the Federal Rules of Civil Procedure, are not sufficiently targeted to curb discovery abuse in patent cases. The district courts are best positioned to tailor the scope and limits of discovery in individual patent cases and the courts with the most active patent dockets are doing so, through a combination of Local Rules, Model Orders and the recently-enacted Patent Pilot Program. Discovery is best managed by the district courts, not by legislation that would supplant these ongoing case management efforts and limit the discretion of district court judges to manage the patent cases on their dockets.

A. Balanced “Loser Pays” Rules, Focused on Curbing Litigation Abuse, Not the Litigant, Will Discourage Non-Meritorious Patent Litigation

As mentioned previously, 35 U.S.C § 285 currently empowers district courts to award attorneys’ fees to prevailing parties in “exceptional” cases. However, we believe that Section 285 is invoked too rarely to serve as an effective deterrent against litigants who seek to assert specious positions – including questionable assertions of infringement or questionable infringement defenses. Thus, the 21st Century Coalition has long advocated for a relaxation of the “exceptional” case standard to permit fee shifting in more cases and thereby encourage both plaintiffs and defendants alike in patent infringement actions to assert only meritorious positions.

Specifically, since 2006, the 21st Century Coalition has supported amending 35 U.S.C § 285 to require fee awards to prevailing parties, unless the court makes a finding that the losing party's position was "substantially justified" or that "special circumstances" make the fee award "unjust":

The court shall award, to a prevailing party, reasonable attorneys' fees and other expenses incurred by that party, unless the court finds that the position of the nonprevailing party or parties was substantially justified or that special circumstances make such an award unjust.³⁹

The 21st Century Coalition supports this language and would support similar efforts to use fee-shifting to address the litigation behavior sought to be discouraged – the assertion of unjustified claims or defenses in patent infringement cases – in a balanced fashion, seeking to curtail such behavior whether it comes from a plaintiff or a defendant. In other words, such abusive litigation behavior should be targeted regardless of the party that engages in it. With respect to patent owners, there is no basis to single out NPEs for special treatment as opposed to patent owners who practice their inventions - if either type of patent owner takes an unjustified litigation position, fee shifting is warranted. Any litigant asserting non-meritorious litigation positions should face the prospect of "loser pays" regardless of that litigant's business model.

The recently-introduced "Shield Act,"⁴⁰ while well-intentioned and an improvement on earlier versions of the bill, misses the mark because it focuses on the litigant, not the litigation behavior that proponents of fee-shifting claim they are seeking to discourage. Under the current language of the Shield Act, litigation abuse is not targeted at all. The only targets of the Act are certain types of patent owners who lose infringement cases, no matter if their arguments were entirely meritorious or how close the issues in the case may have been. The Shield Act tilts the playing field against such patent owners by making it riskier for them to assert their patents, even when their infringement allegations are well-founded. The proper role of fee shifting is as a tool to curb litigation abuse, not as a mechanism to penalize certain types of patent owners or to discourage patent enforcement depending on who owns the patent.

The 21st Century Coalition believes that the focus of fee-shifting should be on curbing litigation abuse, rather than on deterring meritorious suits by patent owners who have not commercialized their patents. The assertion of non-meritorious litigation positions should be no more acceptable by an accused infringer than by a patent owner, and no more acceptable by a practicing patent owner than by an NPE. The 21st Century Coalition believes that fee shifting can encourage meritorious litigation behavior and can discourage litigation abuse if it is applied in a balanced, principled manner, targeting misbehavior on the part of any litigant.

B. The Judiciary Is Best Positioned To Adopt Rules and Model Orders To Prevent Discovery Abuse.

The 21st Century Coalition is sympathetic to concerns about the scope and costs of discovery in patent cases. In patent infringement cases, the discovery burdens are frequently asymmetrical. NPEs typically have few documents and little to disclose in discovery, so they may propound extremely burdensome discovery to corporations without fearing that they will be on the receiving end of corresponding burdens. Coupled with the growth of electronically stored information that is an easy

³⁹ Similar language to amend 35 U.S.C § 285 was proposed first in the Patent Reform Act of 2006, S. 3818, 109th Cong., 2d Sess. (introduced August 3, 2006).

⁴⁰ Saving High-tech Innovators from Egregious Legal Disputes Act of 2013, H.R. 845, 113th Cong., 1st Sess. (introduced February 27, 2013).

target for burdensome discovery, it can result in cases mushrooming out-of-control, absent active and engaged case management.

The question, however, is whether the judge presiding over a particular case, or Congress, is in the best position to assess what is a fair and appropriate scope of discovery in that case. To put it another way, what is the best approach to promote active and engaged case management and to ensure that discovery is properly managed in patent cases? In our Coalition's view, legislation is not the solution. Rather, the district courts are best positioned to tailor the scope and schedule for discovery in patent cases. Hence, "uniform" legislation is not needed and would be counterproductive to the extent it limits the discretion of district court judges to manage the patent cases on their dockets.

The Federal Rules of Civil Procedure confer considerable discretion to district courts to manage the civil cases on their dockets, including patent cases. Moreover, many district courts have adopted local patent rules to help standardize and streamline pre-trial procedure in patent litigation. Since the Northern District of California first adopted local patent rules in 2001, more than 20 district courts have adopted formal patent local rules. Several other districts have implemented patent rules on a provisional basis and individual judges across the country have standing orders tantamount to local patent rules. As discussed above, the Federal Circuit Advisory Council and the International Trade Commission recently adopted Model Orders governing e-discovery in patent cases,⁴¹ and several district courts are following suit.

These rules help promote an efficient discovery process in patent cases. They assist, but are not a substitute for, early engagement by the court in structuring and streamlining patent litigation, and customizing the case schedule to reflect the significant issues. Perhaps the most impactful way courts may keep patent cases in check and moving forward is through active early engagement in narrowing issues and setting an orderly pre-trial schedule. As discussed previously, the 10-year Patent Pilot Program, launched in 14 district courts in 2011,⁴² recognizes the critical importance of providing district court judges with adequate resources to engage in active management of patent cases.

In our Coalition's view, these ongoing efforts by district courts across the country, as well as the Federal Circuit, to tailor discovery to the needs of particular patent disputes should not be preempted by legislation. The courts are in the best position to manage discovery in patent infringement cases, they are fully empowered by the Federal Rules to do so, their Local Rules and Model Orders show that they are doing so, and their efforts should be supported, not preempted.

VI. Allowing Suits Against Manufacturers of Allegedly Infringing Products To Take Precedence Over Suits Against Their Customers

⁴¹ See, e.g., the Federal Circuit's Model Order Regarding E-Discovery in Patent Cases (available at http://www.cafc.uscourts.gov/images/stories/announcements/Ediscovery_Model_Order.pdf). This Model Order requires the parties to exchange core documentation concerning the patent, the accused product, the prior art, and damages before making email production requests. Moreover, it presumptively limits the number of custodians and search terms for all email production requests. However, the parties may jointly agree to modify the limits or request court modification for good cause.

⁴² See n.6 *supra*.

As already explained, a patent litigation practice that has deservedly drawn criticism is the filing of infringement suits against customers, retailers or users of a product accused of infringement, rather than the manufacturer or primary seller of the product. Unfortunately, courts have been inconsistent in their willingness to stay such customer suits in favor of an action against the manufacturer of the accused product. The problem is not unlike the practice that existed prior to the AIA's enactment of 35 U.S.C. § 299 of joining large numbers of defendants in patent infringement cases when the only common allegation was that each defendant had infringed the patent or patents in suit.

Similarly, codification of a right for a manufacturer or supplier of a product alleged to infringe to intervene in an existing suit, or pursue a separate suit to resolve the infringement issue, and to have all other actions against customer-defendants stayed in the meantime would curtail the practice of filing customer suits as a means to obtain windfall settlements. The 21st Century Coalition has suggested the following language to accomplish this objective:

STAYS OF ACTIONS AGAINST NON-MANUFACTURING PARTIES IN PATENT CASES –

In any civil action arising under any Act of Congress relating to patents—

(a) The court shall grant a motion brought by any party to join as a party-defendant or counterclaim-defendant, or a motion to intervene as a party-defendant or counterclaim-defendant, the –

(1) manufacturer or supplier of a product alleged to infringe the patent or patents in dispute; or

(2) user of a manufacturing process, or manufacturer of a system or components that implement a process alleged to infringe the patent or patents in dispute.

(b) Provided that the manufacturer or supplier of a product or components alleged to infringe the patent or patents in dispute, or the user of a manufacturing process, or manufacturer of a system or components that implement a process alleged to infringe the patent or patents in dispute, is a party to the action, the court shall grant a motion to stay the action as to other parties accused of infringing the patent or patents in dispute solely by offering for sale or selling products or processes alleged to infringe the patent or patents in dispute.

(c) The court shall grant a stay of an action upon motion based upon a showing that the same patent or patents that are being asserted in the action against a distributor, reseller, customer or user of an allegedly infringing product or process is also the subject of a declaratory judgment or infringement action instituted by or against the manufacturer or supplier of the allegedly infringing product, or system or components that implement a process alleged to infringe the patent or patents in dispute, provided that such declaratory judgment or infringement action was filed no later than 60 days after the service of the complaint in the action to be stayed.

This proposal would deter customer suits and would promote resolution of patent disputes by the manufacturers or suppliers of the products accused of infringement, or the parties practicing methods alleged to infringe – *i.e.*, the real parties in interest – by allowing those real parties in interest to intervene, as a matter of right, in patent infringement actions brought against their customers. Once the real party in interest is a party to the action, the action would proceed against that party and would be stayed against

non-manufacturing defendants. Moreover, a customer suit would be stayed in favor of a declaratory judgment or infringement action instituted by or against the manufacturer or supplier of the allegedly infringing product or system or components that implement an allegedly infringing process.

Coupled with 35 U.S.C. § 299, this proposal would curb further the practice of coercing unwarranted settlements in patent cases by suing distributors, resellers, customers or users of the allegedly infringing products. Litigation would proceed in the first instance between the real parties in interest: the patent owner and the manufacturer or supplier of the allegedly infringing products.

VIII. Conclusion

The 21st Century Coalition appreciates the invitation to provide our views to the Subcommittee on these and other patent reform proposals, and looks forward to working with Members of the Committee as it continues to consider these issues.