

IMPORTANT NOTICE:
This Publication Has Been Superseded

See the Most Current Publication at
[https://thesedonaconference.org/publication/Commentary on
Patent Litigation Best Practices Introductory Chapter](https://thesedonaconference.org/publication/Commentary_on_Patent_Litigation_Best_Practices_Introductory_Chapter)

THE SEDONA CONFERENCE WORKING GROUP SERIES

WGS

THE SEDONA CONFERENCE

Commentary on Patent Litigation Best Practices: Introductory Chapter

A Project of The Sedona Conference
Working Group on
Patent Litigation Best Practices (WG10)

PUBLIC COMMENT VERSION



The Sedona Conference Commentary on Patent Litigation Best Practices: Introductory Chapter

*A Project of The Sedona Conference Working Group on
Patent Litigation Best Practices (WG10)*

AUGUST 2014 PUBLIC COMMENT VERSION

| | |
|--------------------------------|---|
| Author: | The Sedona Conference |
| Editor-in-Chief: | Gary M. Hoffman |
| Managing Editor: | Jim W. Ko |
| WG10 Chair Emeriti: | Hon. Paul R. Michel (ret.) Robert G. Sterne |
| WG10 Judicial Advisors: | Hon. Joy Flowers Conti Hon. Faith S. Hochberg |
| Chapter Editor: | Patrick M. Arenz |
| Contributing Editors: | Donald R. Banowit Henry S. Hadad Karen E. Keller Robert O. Lindefield John A. Scott |

The opinions expressed in this publication, unless otherwise attributed, represent consensus views of the members of The Sedona Conference Working Group 10. They do not necessarily represent the views of any of the individual participants or their employers, clients, or any other organizations to which any of the participants belong, nor do they necessarily represent official positions of The Sedona Conference.

We thank all of our Working Group Series Sustaining and Annual Sponsors, whose support is essential to our ability to develop Working Group Series publications. For a listing of our sponsors, click on the “Sponsors” navigation bar on the homepage of our website.

REPRINT REQUESTS:

Requests for reprints or reprint information should be directed to Craig W. Weinlein, Executive Director, The Sedona Conference, at info@sedonaconference.org or 602-258-4910.

The logo for the Working Group Series (WGS) consists of the letters 'WGS' in a bold, black, sans-serif font. The 'W' and 'G' are connected, and the 'S' is slightly larger and positioned to the right.

Copyright 2014
The Sedona Conference
All Rights Reserved.
Visit www.thesedonaconference.org

Preface

Welcome to the Public Comment Version of The Sedona Conference Commentary on Patent Litigation Best Practices: Introductory Chapter, a project of The Sedona Conference Working Group on Patent Litigation Best Practices (WG10). This is one of a series of working group commentaries published by The Sedona Conference, a 501(c)(3) research and educational institute that exists to allow leading jurists, lawyers, experts, academics, and others, at the cutting edge of issues in the areas of antitrust law, complex litigation, and intellectual property rights, to come together—in conferences and mini-think tanks called Working Groups—and engage in true dialogue, not debate, in an effort to move the law forward in a reasoned and just way.

WG10 was formed in late 2012 under the leadership of its now Chair Emeriti, the Honorable Paul R. Michel and Robert G. Sterne, to whom The Sedona Conference and the entire patent litigation community owe a great debt of gratitude. The mission of WG10 is “to develop best practices and recommendations for patent litigation case management in the post-[America Invents Act] environment.” The Working Group consists of over 200 active members representing all stakeholders in patent litigation. To develop this Introductory Chapter, the core drafting team held numerous conference calls over the past several months, and the underlying concepts and then the draft itself were the focus of the dialogue at The Sedona Conference WG10 Annual Meeting in Washington, D.C. in September 2013 and the WG10 Midyear Meeting in San Francisco in April 2014, respectively.

The Introductory Chapter represents the collective efforts of many individual contributors. On behalf of The Sedona Conference, I thank in particular Gary Hoffman who has graciously and tirelessly served as the Editor-in-Chief for this and all chapters for this Commentary on Patent Litigation Best Practices, and as the Chair of WG10. I also thank everyone else involved for their time and attention during the drafting and editing process, including: Patrick M. Arenz, Donald R. Banowit, Henry S. Hadad, Karen E. Keller, Robert O. Lindefeld, and John A. Scott. The Working Group was also privileged to have the benefit of candid comments by several judges with extensive patent litigation experience, including the Honorable Paul R. Michel, the Honorable Joy Flowers Conti, and the Honorable Faith S. Hochberg, with Judge Conti and Judge Hochberg also serving as the WG10 Judicial Advisors for this ongoing endeavor to draft all of the chapters of this Commentary. The statements in this Commentary are solely those of the non-judicial members of the Working Group; they do not represent any judicial endorsement of the recommended practices.

Working Group Series output is first published in draft form and widely distributed for review, critique, and comment, including in-depth analysis at Sedona-sponsored conferences. Following this period of peer review, the draft publication is reviewed and revised by the Working Group taking into consideration what is learned during the public comment period. Please send comments to info@sedonaconference.org, or fax them to 602-258-2499. The Sedona Conference hopes and anticipates that the output of its Working Groups will evolve into authoritative statements of law, both as it is and as it should be.

Craig W. Weinlein
Executive Director
The Sedona Conference
August 2014

Foreword

The advancement and growth of technology is a critical factor to the economic health of the United States and all developed countries. The patent system was established in accordance with our Constitution to promote science and the useful arts, which should support investment in developing new technologies. At the same time, however, there is a perception among a number of people that there has been an increase in the occurrence of patent cases considered to be “abusive” and that deter the advancement of science, fueled by a significant growth in the number of costly patent cases filed in the district courts. The perception, whether or not reality, that “abusive” litigation is stifling the growth of innovation helped lead to the recent activities in Congress seeking to change the patent laws to attempt to control the perceived abuses.

In deciding to undertake the formation of Working Group 10 (WG10), The Sedona Conference believed then and now that the system can be significantly improved and abuses minimized by the development and utilization of procedures enhancing the efficient and cost-effective management of patent litigation. The Sedona Conference has been fortunate to be able to put together a Working Group composed of leading members of the federal trial and appellate court benches, including judges in the Patent Pilot Program, litigators who primarily represent patentees and those who primarily represent accused infringers in federal court, the Patent Office, and the International Trade Commission, and also in-house lawyers from a wide diversity of industries, all dedicated to developing best practices for carrying out this goal.

In pursuing this project, we found it critical to define the target audience for whom we were developing these best practices. Should they be primarily directed toward the courts or the litigators? To a certain type of company? To patent holders or accused infringers? As the goal of WG10 is to improve the entire patent litigation system for the benefit of all of its stakeholders, the consensus of WG10 is that the views of all participants in the process must be heard and considered and that the Working Group’s recommendations should include best practices directed to all segments of the process. The best practices should further the goals of Rule 1, which states that the Federal Rules of Civil Procedure “should be construed and administered to secure the just, speedy, and inexpensive determination of every action and proceeding.” Best practices should reflect that it is incumbent on the court—as well as attorneys and parties—to work toward a fair, cost-effective, non-burdensome, and non-frivolous patent litigation system.

Gary M. Hoffman
Editor-in-Chief
Chair, Working Group 10 Steering Committee

Patrick M. Arenz
Chapter Editor

Table of Contents

| | | |
|-------|---|----|
| I. | Development of Best Practices in Patent Litigation—Improving the System for the Benefit of All Participants and Parties | 1 |
| A. | Introduction | 1 |
| B. | What is a Best Practice?..... | 1 |
| C. | The Sedona Conference and the WG10 Drafting Teams..... | 2 |
| II. | The High Costs of Patent Litigation | 3 |
| A. | Statistics—Number of Cases Filed and Cost of Patent Litigation | 3 |
| B. | Other Factors Impacting Costs of Patent Litigation | 5 |
| III. | Proposed Patent Reform Legislation and Federal Judicial Conference Amendments to Rules | 7 |
| A. | Claim Construction..... | 8 |
| B. | Enhanced Specificity in the Initial Complaint..... | 9 |
| C. | Fee Shifting..... | 10 |
| D. | Judicial Conference Amendments to Federal Rules Proposed by the House Bill | 10 |
| IV. | The Patent Pilot Program | 11 |
| V. | Potential Impact of the Proposed Amendments to the Federal Rules of Civil Procedure | 12 |
| VI. | Issues Raised by Parallel Proceedings | 14 |
| A. | Different Burdens of Proof..... | 14 |
| B. | Different Standards for Claim Construction | 14 |
| C. | Different Approaches to Discovery and Due Process..... | 15 |
| D. | The Race to the Federal Circuit— <i>Fresenius USA, Inc. v. Baxter Intern., Inc.</i> | 15 |
| VII. | Courts Should be Allowed a Reasonable Degree of Latitude and Discretion for Managing Their Cases | 17 |
| VIII. | Development of Best Practices and Development of New, Improved Rules and Procedures by the Courts | 19 |

I. Development of Best Practices in Patent Litigation—Improving the System for the Benefit of All Participants and Parties

A. INTRODUCTION

Over the last ten years, there has been a significant growth in the number of costly patent cases filed in the district courts. At the same time, there is a perception among a number of people that there has been an increase in the occurrence of patent cases considered to be “abusive.”¹ The perception, whether or not reality, that “abusive” litigation is stifling the growth of innovation helped lead to the recent activities in Congress seeking to change the patent laws to attempt to control the perceived abuses.

Whether such a perception is accurate or not, the consensus of The Sedona Conference’s Working Group 10 (WG10) is that the system can be improved by procedures enhancing the efficient and cost-effective management of patent litigation. The mission of WG10 is to develop best practices and recommendations for patent litigation case management in the post-AIA environment.² The Working Group Steering Committee is composed of members of the federal trial and appellate court benches, including judges in the Patent Pilot Program, litigators who primarily represent patentees and those who primarily represent accused infringers in federal court, the Patent Office and the International Trade Commission, and also in-house lawyers from a wide diversity of industries. The initial formation of WG10 began in late 2012.

B. WHAT IS A BEST PRACTICE?

When WG10 began this project to develop best practices for patent litigation, common questions included: “Who are we drafting these Best Practices for? My client? My side (plaintiffs or defendants)? Both parties? The judiciary?” In response to those questions, WG10 developed the following principle:

The Best Practices developed here are not to apply to only one particular group (e.g., judges, litigators), but to the system as a whole. Best practices should be crafted with the intent of applying to and benefiting both bench and bar, with the goal of enhancing an efficient, reasonable, and fair system in the handling of patent litigation. The best practices should further the goals of Rule 1 (“[The Federal Rules of Civil Procedure] should be construed and administered to secure the just, speedy, and inexpensive determination of every action and proceeding”). Best practices should reflect that it is incumbent on the court—as well as attorneys and parties—to work toward a fair, cost-effective, non-burdensome, and non-frivolous patent litigation system.

¹ This perception is apparent from comments made by President Obama earlier this year: “Let’s pass a patent reform bill that allows our businesses to stay focused on innovation, not costly, needless litigation.” *President Barack Obama’s State of the Union Address*, WHITEHOUSE.GOV, <http://www.whitehouse.gov/the-press-office/2014/01/28/president-barack-obamas-state-union-address> (last visited July 24, 2014).

² On September 16, 2011, the Leahy-Smith America Invents Act (AIA) was signed into law, representing the most significant change to the U.S. patent system since 1952.

C. THE SEDONA CONFERENCE AND THE WG10 DRAFTING TEAMS

The Sedona Conference Working Group Series (WGS) is a collection of think-tanks consisting of leading jurists, lawyers, experts, and consultants brought together by a desire to address “tipping point” issues in antitrust law, IP, and complex litigation. The Sedona Conference selects the initial “core” of each Working Group by invitation to ensure the proper balance and representation of the diverse viewpoints needed to explore fully the assigned mission of each Group.

WG10 is presently organized into five working drafting teams: Case Management from a Judicial Perspective, Discovery, Summary Judgment, Use of Experts, and Parallel USPTO Proceedings. Each of these teams, in coordination with the Steering Committee and leadership of WG10, was tasked with the development of proposed best practices for their subject areas. The initial concepts developed by the teams were the focus of the dialogue at WG10’s inaugural Annual Meeting held in September 2013 in Washington DC. With the benefit of the comments received during that meeting, each team set to work to identify best practices for further review and discussion at the Midyear Meeting held in San Francisco in April 2014. Our goal is to reach consensus and publish commentaries on patent litigation best practices to carry out The Sedona Conference’s mission of “moving the law forward in a reasoned and just way.”

II. *The High Costs of Patent Litigation*

A. STATISTICS—NUMBER OF CASES FILED AND COST OF PATENT LITIGATION

The number of patent lawsuits filed nationwide hit a record high in 2013. An estimated 6,092 actions were filed in U.S. district courts in 2013, compared to 5,418 filed in 2012, a 12.4% increase.³ For the fourth consecutive year since 2010, the USPTO also issued a record number of patents in 2013 (over 300,000),⁴ and there continues to be a high correlative trend (96% since 1991) between the number of patents issued by the PTO and the number of actions filed.⁵ Not only has the number of cases across the country increased, but so has the complexity of the substantive issues, both the patent issues and related damages issues, and the technologies involved.

The increase in patent lawsuits are a result of more patent suits being filed overall by both patent assertion entities (PAE) and practicing entities. In the last year or two, more than half of the new patent cases commenced in district courts in the United States were filed by PAEs.⁶ This number may be distorted, however, because many of those suits, brought by PAEs before the anti-joinder provision of the America Invents Act (AIA), would have been filed as a single suit against multiple defendants, but after the AIA, had to be filed as multiple individual suits against each defendant. This distorts the numbers when comparing pre- and post-AIA and makes it appear that PAEs have comparatively filed far more suits since the AIA than they actually have.⁷ A view that has emerged is a perception, rightly or wrongly, of PAEs as “patent trolls” that initiate frivolous suits as a mechanism for extracting settlements from large numbers of defendants, who in

³ See Owen Byrd & Brian Howard, *2013 Patent Litigation Year in Review*, LEX MACHINA.COM, i, available at <http://pages.lexmachina.com/rs/lexmachina/images/LexMachina-2013%20Patent%20Litigation%20Year%20in%20Review.pdf?aliId=436562> (last visited July 24, 2014); see also Lisa Shuchman, *Patent Litigation Study Shows Rise in Suits, Awards*, CORPORATECOUNSEL.COM (May 13, 2014), <http://www.corpcounsel.com/id=1202654759148/Patent-Litigation-Study-Shows-Rise-in-Suits,-Awards?slreturn=20140505153107> (last visited July 24, 2014).

⁴ The USPTO issued 244,341 patents in 2010, 247,713 patents in 2011, 276,788 patents in 2012, and 302,948 patents in 2013. See U.S. Patent Statistics Chart, Calendar Years 1963–2013, U.S. Patent and Trademark Office, Patent Technology Monitoring Team (PTMT), USPTO.GOV, http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm (last visited July 24, 2014).

⁵ PricewaterhouseCoopers LLP, *2013 Patent Litigation Study*, at 5–6 (2013), available at <http://www.pwc.com/us/en/forensic-services/publications/2013-patent-litigation-study.jhtml> (last visited July 24, 2014).

⁶ See Executive Office of the President, *Patent Assertion and U.S. Innovation*, at 1 (June 2013), available at http://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf (last visited July 24, 2014) (“Suits brought by PAEs have tripled in just the last two years, rising from 29 percent of all infringement suits to 62 percent of all infringement suits.”).

⁷ See Christopher A. Cotropia, Jay P. Kesan, & David L. Schwartz, *Unpacking Patent Assertion Entities (PAEs)* (Nov. 10, 2013), Illinois Program in Law, Behavior and Social Science Paper No. LBSS 14–20, Nov. 10, 2013, available at <http://ssrn.com/abstract=2346381> (last visited July 24, 2014); see Shuchman, *supra* note 3; Colleen V. Chien, *Patent Trolls by the Numbers*, Santa Clara Univ. Legal Studies Research Paper No. 08-13, Mar. 13, 2013, available at <http://ssrn.com/abstract=2233041> (last visited July 24, 2014).

many cases are end-users of technology that such users did not create. A significant level of public attention to the patent system has resulted in Congress proposing several patent reform bills to reduce the perceived abuses.⁸

Some district courts are experiencing congestion that is likely attributable in part, at least in the patent-heaviest districts, to the rapid growth in the number of new patent case filings. Absent settlement or withdrawal prior to the Rule 16 conference, new patent cases may be assigned schedules, hearing dates, and trial dates without taking into account the nature of the parties or complexity of the technology at issue. Some judges in patent-heavy districts have double and even triple-booked calendars in anticipation of settlements.⁹

Nationally, the percentage of patent cases tried (either to the bench or to a jury) has recently been around 2 to 3 percent.¹⁰

Additionally, patent litigation entails high costs for both litigations instituted by PAEs and in competitor-versus-competitor suits. According to the 2013 Economic Study done by the AIPLA, for a relatively simple patent litigation: where the amount at risk is less than \$1 million, the median fees and cost through trial is \$700,000; where the amount at risk is between \$1 and \$10 million, the amount is \$2 million; where the amount at risk is between \$10 and \$25 million, the amount is \$3.325 million; and where the risk is in excess of \$25 million, the amount is \$5+million.¹¹ These amounts vary depending on the area of the country where the attorneys are from, the district court where the litigation is pending, and the complexity of the litigation. It has been reported that in the recent smart phone wars between Apple and Samsung, Apple has spent in excess of \$60 million on litigation fees and costs.¹²

⁸ See *President Barack Obama's State of the Union Address*, *supra* note 1; Saving High-Tech Innovators from Egregious Legal Disputes Act of 2013, H.R. 845, 113th Cong. (2013), *available at* <http://www.gpo.gov/fdsys/pkg/BILLS-113hr845ih/pdf/BILLS-113hr845ih.pdf> (last visited July 24, 2014); Innovation Act, H.R. 3309, 113th Cong. (2013), *available at* <http://www.gpo.gov/fdsys/pkg/BILLS-113hr3309ih/pdf/BILLS-113hr3309ih.pdf> (last visited July 24, 2014); Patent Quality Improvement Act of 2013, S. 866, 113th Cong. (2013), *available at*: <http://www.gpo.gov/fdsys/pkg/BILLS-113s866is/pdf/BILLS-113s866is.pdf> (last visited July 24, 2014); Patent Abuse Reduction Act of 2013, S. 1013, 113th Cong. (2013), *available at* <http://beta.congress.gov/113/bills/s1013/BILLS-113s1013is.pdf> (last visited July 24, 2014); Patent Transparency and Improvements Act of 2013, S. 1720, 113th Cong. (2013), *available at* <http://beta.congress.gov/113/bills/s1720/BILLS-113s1720is.pdf> (last visited July 24, 2014).

⁹ For example, Judge Sue L. Robinson of the District of Delaware testified before a Senate Judiciary Committee subcommittee in September 2013 that she was “double and even triple-booked for patent trials through 2015.” *Top Del. Judge Unveils Rules to Speed Up Patent Cases*, LAW360.COM (Mar. 24, 2014), <http://www.law360.com/articles/521241/top-del-judge-unveils-rules-to-speed-up-patent-cases> (last visited July 24, 2014).

¹⁰ See Table C-4. U.S. District Courts—Civil Cases Terminated by Nature of Suit and Action Taken, During the 12-Month Period Ending June 30, 2013, at 3, *available at* <http://www.uscourts.gov/uscourts/Statistics/StatisticalTablesForTheFederalJudiciary/2013/june/C04Jun13.pdf> (last visited July 24, 2014); Table C-4. U.S. District Courts—Civil Cases Terminated by Nature of Suit and Action Taken, During the 12-Month Period Ending September 30, 2012, at 3, <http://www.uscourts.gov/uscourts/Statistics/JudicialBusiness/2012/appendices/C04Sep12.pdf> (last visited July 24, 2014); Table C-4. U.S. District Courts—Civil Cases Terminated by Nature of Suit and Action Taken, During the 12-Month Period Ending September 30, 2011, at 3, <http://www.uscourts.gov/uscourts/Statistics/JudicialBusiness/2011/appendices/C04Sep11.pdf> (last visited July 24, 2014).

¹¹ See American Intellectual Property Law Association, 2013 Report of the Economic Survey, at I-129–I-136 (2013) [hereinafter *2013 Report of the Economic Survey*].

¹² Dan Levine, *Apple Spent Over \$60 Million on U.S. Lawyers Against Samsung*, REUTERS.COM (Dec. 6, 2013), <http://www.reuters.com/article/2013/12/06/us-apple-samsung-fees-idUSBRE9B50QC20131206> (last visited July 24, 2014).

B. OTHER FACTORS IMPACTING COSTS OF PATENT LITIGATION

The cost of discovery in patent litigation is dependent on many factors, including: the type of technology involved, the prevalence of prior art, whether the parties are marketplace competitors, the accused products, the potential exposure to damages, the extent to which the patentee does not overstate its infringement claims and the defendant does not assert a large number of frivolous alleged prior art, and the extent to which the parties cooperate in facilitating discovery.

The venue's local rules, standing orders, or default practices also play a part in the costs of discovery, given the nature and timing of the required disclosures. For example, the Local Patent Rules of the Eastern District of Texas provide for the disclosure of infringement and invalidity contentions very early in suit, which are deemed to be the parties' final contentions, absent a showing of good cause.¹³ The patent owner must chart the accused products to the allegedly infringed claims, and the defendants must prepare and produce all the invalidity theories that may be used in the case.

The complexity of the technology¹⁴ at issue often is a factor driving the cost, scheduling, and approach to many patent cases. A patent suit involving a simple mechanical invention asserted against one commercial product will be litigated differently than, for example, a complex patent asserted against several industry competitors.¹⁵ ¹⁶ Determining the scope of the claims for sophisticated technologies can be an especially daunting task. In addition, often the technology is developed and brought to fruition through the efforts of multiple scientists doing extensive research over a period of time. All of these factors, among many others, add to the complexities of patent litigation.

Certain cases may lend themselves to early resolution. The parties may agree that the construction of very few claim terms is outcome determinative of the entire or a significant portion of the litigation. In these cases, courts may elect to consider an early round of claim construction and/or summary judgment in order to facilitate the disposition of the suit. Other cases are not prone to early or speedy resolution due to a large number of highly factual issues not amenable to disposition in a motion to dismiss or by summary judgment.

With an increase in court traffic or decrease in court availability, parties may experience higher litigation costs; higher costs, in turn, may fuel a defendant's decision to settle a low-value PAE-asserted case before discovery, fueling the perception that PAE-asserted cases are a meritless form of harassment. Others point out that, at the other end of the spectrum, absent the presence of PAEs, owners of high quality patents which are being infringed will be deterred from enforcing those patents because of the high fees and even out-of-pocket costs in contingent fee cases, and uncertainty of patent litigation. They argue that the infringers of such patents, knowing this fact, rarely voluntarily agree to pay reasonable licensing fees. Thus, the high cost of patent litigation invites abuse from both patent owners of poor quality patents and infringers of high quality patents.

The comments made about low quality patents have been made for many years.¹⁷ There are a variety of reasons that have been ascribed as the cause of such quality issues, including for example, the work load of the patent examiners, the growth of highly sophisticated new technologies where the examiners may not have an adequate collection of prior art, and the limited time spent by an examiner in examining each patent

¹³ E.D. Tex. Patent L.R. 3–6.

¹⁴ The technologies involved can vary greatly from relatively simple mechanical devices to highly sophisticated subjects, for example complex advanced electronics, nanotechnology, biotech drugs and computer systems.

¹⁵ For statistics describing the cost of a simple, single-patent patent litigation in various different fields of technology, both through discovery and through trial, see *2013 Report of the Economic Survey*, *supra* note 11, at I-129–I-136.

¹⁶ The legislative drafters of the AIA's intent notwithstanding, some patent infringement suits continue in practice to be asserted against multiple defendants.

¹⁷ Indicative of the level of concern over the issue of patent quality is the bill introduced in the Senate named after this very issue. See S. 866, *supra* note 8. The perception of poor quality patents and what constitutes a "poor quality" patent, however, is not well defined and often is in the "eyes of the beholder."

application. Over the years, the PTO has hired more patent examiners and worked at trying to improve the quality of the patents issued and to decrease the time it takes to examine patent applications. The perception of quality problems in issued patents often occurs in areas of new technologies, such as with computer software and in biotech. At times, this evolves from the changing nature of the law as to what should or should not be protected, how such developments should be claimed, the lack of an adequate database for searching prior art in the PTO, and other issues. Since all patent litigation stems from an issued patent, these types of issues and concerns add to the complexities of patent litigation.

III. Proposed Patent Reform Legislation and Federal Judicial Conference Amendments to Rules

During the past year, Congress has been considering legislation introduced to address concerns of the number of costly patent lawsuits raised by certain industries around litigation brought by PAEs.¹⁸ PAEs have gained increased visibility in recent years due to an increase in infringement actions filed primarily against the tech industry and retail businesses. There is a perception that a significant number of these actions are being filed by PAEs against various industry groups including retailers, advertisers, and banks. The cost of litigating these cases has served as justification for those kinds of businesses to seek government intervention. Congress has considered a number of bills with the goal of curbing perceived abuse.

The House passed the “Innovation Act”¹⁹ with the White House’s support. The Senate was considering its own proposals before Senator Leahy’s Judiciary Committee. On May 21, 2014, the pending Senate bill was withdrawn by Senator Leahy due to a lack of broad bipartisan support on how to approach patent reform.²⁰ Senator Leahy in withdrawing the bill stated:

Unfortunately, there has been no agreement on how to combat the scourge of patent trolls on our economy without burdening the companies and universities who rely on the patent system every day to protect their inventions. We have heard repeated concerns that the House-passed bill went beyond the scope of addressing patent trolls, and would have severe unintended consequences on legitimate patent holders who employ thousands of Americans.

I have said all along that we needed broad bipartisan support to get a bill through the Senate. Regrettably, competing companies on both sides of this issue refused to come to agreement on how to achieve that goal.

¹⁸ The definition of the terms Patent Assertion Entities (PAEs) and “patent trolls” and what entities fall into such categories has been the subject of controversy. As stated in a comment by the Intellectual Property Owners Association:

This Thursday the Senate Judiciary Committee will try again to approve legislation to eradicate the hated patent trolls. We don’t know if we support eradicating trolls. Depends on the definition.

The use of terms like troll and “patent abuser” by Senators and lobbyists makes us cringe. According to the *National Journal*, the Consumer Electronics Association said recently, “It is time for the Senate to do the right thing: Ignore the pleas of trial lawyers, universities, and others who routinely profit from patent abuse, and pass strong, commonsense reforms to protect American innovators and entrepreneurs . . .” Universities are abusers? Really? Another synonym for troll is “non-practicing entity.” Our 2014 Inventor of the Year, DEAN KAMEN, is an NPE. Another synonym is “patent assertion entity.” Aren’t people supposed to assert their property rights?

But we think we’ve got it. We’ve noticed that patent complaints and pleadings are signed by lawyers. Possibly a majority are signed by the 12,000 members of our association. Our members! As the comic strip character Pogo said, “We’ve Met the Enemy and They Are Us.” IPO supports balanced and non-discriminatory legislation to eradicate frivolous patent litigation and bad faith demand letters by ANYONE. Even us. See the IPO website for details.

IPO Comment: Defining Trolls; We’ve Met the Enemy and They are Us, IPO.COM (May 19, 2014), http://www.ipo.org/index.php/daily_news/ipo-comment-defining-trolls-weve-met-enemy-us/ (last visited July 24, 2014).

¹⁹ H.R. 3309, *supra* note 8.

²⁰ Press Release, *Comment of Senator Patrick Leahy (D-Vt.), Chairman, Senate Judiciary Committee, on Patent Legislation*, LEAHY.SENATE.GOV (May 21, 2014), http://www.leahy.senate.gov/press/comment-of-senator-patrick-leahy-d-vt_chairman-senate-judiciary-committee-on-patent-legislation (last visited July 24, 2014).

Because there is not sufficient support behind any comprehensive deal, I am taking the patent bill off the Senate Judiciary Committee agenda. If the stakeholders are able to reach a more targeted agreement that focuses on the problem of patent trolls, there will be a path for passage this year and I will bring it immediately to the Committee.

We can all agree that patent trolls abuse the current patent system. I hope we are able to return to this issue this year.

It is unclear whether Congress will be in a position to pass legislation during the current 113th Congressional term, but the issue is not likely to disappear and will likely be revisited again. WG10 will continue to monitor the progress of this legislative initiative and update its recommendations as warranted. For now, however, a few comments about the pending legislation is appropriate.

There are four key provisions of the proposed Innovation Act passed by the House that, if implemented, would significantly impact case management of district court litigation: (1) deciding claim construction prior to opening fact discovery, (2) requiring enhanced specificity in the initial complaint, (3) compulsory attorney fee shifting, and (4) instructing the Judicial Conference to institute new discovery rules designed to alleviate the burdens created by broad discovery demands.²¹ While Congress was spurred to action in response to certain advocacy groups with concerns about cases brought by PAEs, many of these proposals are not limited to those cases, and would affect all patent cases.

A. CLAIM CONSTRUCTION²²

Typically, patent cases proceed with fact discovery (and then expert discovery) opening soon after the pleadings are complete, followed by trial. Courts construe claim terms during the case, with some courts opting to conduct a *Markman* hearing during discovery, some courts doing it early in the discovery process (for example, the Northern District of California and the Eastern District of Texas), and others doing it as part of summary judgment or shortly before trial (for example the District of Delaware).²³ With certain limited exceptions, the Innovation Act that was passed by the House would now require courts to construe claims very early in the process and most significantly prior to any fact discovery.²⁴ While there are some situations where there is little or no discovery needed for the accused products, this is not universally the case. However, the Innovation Act essentially treats all patent litigation in the same manner without leaving much discretion, if any, to the district court judge.

²¹ In addition to the provisions impacting case management, the proposed Innovation Act also contains numerous provisions around the identification of assignees and real parties of interest, oversight of demand letters, and fee shifting, as well as certain technical changes to the post-grant proceedings created under the America Invents Act.

²² See *The Sedona Conference Report on the Markman Process* (2010), available at <https://thesedonaconference.org/download-pub/497> (last visited July 24, 2014) [hereinafter, *WG5 Report on the Markman Process*]. The provisions on timing of the claim construction hearing in the Innovation Act are inconsistent with the recommendation of the WG5 Report. Cf. H.R. 3309, *supra* note 8.

²³ There are significant pros and cons for each of these approaches. The topic is addressed in the *WG5 Report on the Markman Process*. See *id.* The concern that this Working Group 10 Introductory Chapter is focused on is whether fact discovery should be held in complete abeyance until after claim construction, as proposed by the Innovation Act. H.R. 3309, *supra* note 8.

²⁴ See H.R. 3309, *supra* note 8 (“Except as provided in subsections (b) and (c), in a civil action arising under any Act of Congress relating to patents, if the court determines that a ruling relating to the construction of terms used in a patent claim asserted in the complaint is required, discovery shall be limited, until such ruling is issued, to information necessary for the court to determine the meaning of the terms used in the patent claim, including any interpretation of those terms used to support the claim of infringement.”).

Supporters of this proposal have asserted two benefits. The first purported benefit is that early claim construction would allow for resolution of specious claims before any discovery costs are imposed. Indeed, several companies submitted to Congress that they have had this experience, whereby a PAE stipulated to noninfringement following an adverse claim construction so that it could immediately appeal that construction. In some portion of the patent cases, early claim construction can lead to the grant of summary judgment or a significant factor to motivate settlement. However, early claim construction will not necessarily lead to early summary judgment in all cases. Where a party is not willing to stipulate to a final decision to pursue immediate appeal, summary judgment motions may not be decided on appeal until the nonmovant is allowed to develop a complete discovery record. The added time caused by holding discovery in abeyance during the *Markman* process and not beginning it until after the claims are construed inherently delays the time to trial and resolution of the case if summary judgment is not granted.

It is also possible that, in many patent cases, claim construction would not result in any clear win or loss for either side, especially where careful litigants have alternate arguments prepared for an adverse construction. For example, a claim construction which is disadvantageous to a patent owner may cause that party to convert a literal infringement argument into one for infringement by equivalence, or one that is disadvantageous to an alleged infringer might simply cause an anticipation argument to be converted into one based on obviousness.

The second purported benefit is that, even if early case resolution is not possible, early claim construction will help narrow and focus discovery, thus lowering overall costs. The reasoning is that litigants will forgo discovery relevant only to the now-rejected construction. It is unclear, however, whether this benefit will be achieved. Litigants may still seek discovery under rejected constructions, because they need to develop a record for trial in the event the court changes its construction prior to or even during trial, or in case the Federal Circuit reverses the district court's claim construction and remands for a new trial. Thus, discovery costs may remain the same regardless of an early construction.

Other commentators have raised additional concerns with the House's proposal. Some of these commentators have questioned whether an early claim construction can be effective without the benefit of some discovery to pinpoint where the construction dispute lies. Some courts handle this issue by requiring contentions to be exchanged prior to claim construction. Other commentators have pointed out that the proposed procedure will be applicable to all patent cases and may add additional time and expense to resolve the cases which are not resolved as a result of the early construction. Such delays may mean delays in resolving the dispute and increased attorney's fees.

Another concern with placing claim construction before fact discovery is that at times it would tend to unfairly benefit the party accused of infringement. That accused infringer, in most cases, is the party which controls many of the nonpublic documents that will be the subject of discovery on both the issues of validity and infringement. Placing claim construction too early in the litigation timeline unduly forces the patent owner to speculate about what the accused infringer's defenses will ultimately be and may lead to unfair "sandbagging" of the patent owner. WG10 believes that the fairer approach is to provide both parties with equal access to the relevant information to ensure that the scope of subtleties in patent claim terms can be fully and fairly appreciated by all parties. The claim construction can, and possibly should be, in the middle of fact discovery.

As a best practice, WG10 maintains that it would be inadvisable to hold up fact discovery until after the court construes the claims.

B. ENHANCED SPECIFICITY IN THE INITIAL COMPLAINT

The House's Innovation Act also requires the patent owner to specify, in detail, how the accused product(s) infringe. The benefit of such an approach is that it forces the patent owner to take positions early in the litigation and reduces abusive "vague" assertions that do little to enable the accused infringer to properly defend itself and possibly seek early dismissal of a case of questionable merit. However, concerns have been expressed that this requirement will lead to excessive motions to dismiss and procedural delays that will simply serve to make patent litigation more costly and lengthy to prosecute. Again, a delicate balance will be difficult to achieve without impacting parties seeking to enforce their intellectual property rights.

C. FEE SHIFTING

Among all of the proposals in the pending legislation, none has received greater scrutiny than the proposal to mandate the award of attorney's fees to the prevailing party in patent litigation cases. The intent of the proposal here is to provide parties frivolously accused of infringement a mechanism by which to recoup its costs to defend against specious claims. In the discussions before the Senate, however, concern has been raised about whether this would unduly discourage legitimate patent litigation, particularly among smaller entities. Complicating the matter even more is the Supreme Court's recent decisions making the recovery of attorney's fees easier to obtain and providing greater discretion by the trial court to award attorney's fees in particular cases.²⁵ Some in Congress have argued that these decisions obviate the need to legislate in the area of attorney's fees, or that a "wait-and-see approach" is more appropriate.

D. JUDICIAL CONFERENCE AMENDMENTS TO FEDERAL RULES PROPOSED BY THE HOUSE BILL

The House's Innovation Act also contains provisions directing the Judicial Conference to take certain actions regarding amending the Federal Rules of Civil Procedure. The House would require the Judicial Conference to set forth new rules defining "core" discovery and requiring its production first, so that parties may have to pay the costs and expenses of any additional "non-core" discovery they seek. Technology companies in particular favor this approach because they feel that their cases often come down to what is in the source code, yet some patent owners seek discovery of millions of additional documents that are never contemplated to be used at trial. Shifting the expense of producing such millions of documents to the parties seeking such discovery might deter or limit that additional discovery. Others have warned, however, that staging discovery so that "core" discovery is then followed by the remainder of discovery could add to costs by creating additional motion practice on a number of issues, such as whether discovery is "core," and also by requiring depositions to be redone following the production of additional documents.

Initial drafts of the House Bill set forth new discovery rules for the Judicial Conference, and required the Conference to implement the rules as written. Those drafts received resistance from the judiciary, as well as from other commentators, and the White House. The consensus was that a "one size fits all" set of rules from Congress did not match the realities of patent cases, which can vary greatly in complexity, and that it was better left to the judiciary to set forth rules with sufficient flexibility to account for these differences. Indeed, these rules may need to be adjusted after being put into practice, and the Judicial Conference is better able to respond than Congress. The final House Bill softened its language to require the Judicial Conference to implement rules within certain parameters, but left the Conference with the discretion to formulate the rules.²⁶

²⁵ See *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014); *Highmark Inc. v. Allcare Health Mgmt. Sys.*, 134 S. Ct. 1744 (2014).

²⁶ See H.R. 3309, *supra* note 8, at § 6(a)(1).

IV. *The Patent Pilot Program*

Another act by Congress to address the increase in costly patent lawsuits was its enactment of the “Patent Cases Pilot Program” (commonly shortened to the Patent Pilot Program) in 2011 with the goals of developing patent expertise within a select group of volunteering judges, and increasing the efficiency and predictability for patent cases.²⁷ The basic design of the Pilot Program was to select a subset of districts and have judges within each volunteer to serve as part of the Pilot Program. Non-participating judges were given the option to decline patent cases that were randomly assigned to them, and those cases would then be reassigned to one of the participating judges.

While early indications suggest the Pilot Program is having its intended effect three years after enactment, the overall success of the Pilot Program needs to be measured over the longer term. The law requires reports to be generated midway through and at the conclusion of the Pilot Program after ten years.²⁸ Those reports are intended to measure whether participating judges have shown increased patent expertise, presumably as measured by the time-to-conclusion for the patent cases they hear and the reversal rate by the Federal Circuit (including reversals of claim constructions), as compared to non-participating judges. Initial data suggests that patent pilot jurisdictions are proceeding with patent cases more quickly than non-patent pilot jurisdictions.²⁹

There is reason to believe that the Pilot Program will develop a group of participating judges whose experience and knowledge will improve the efficiency of patent litigation. For example, these judges may be able to better tailor the case schedule, including by requiring the exchange of early contentions, and setting a presumptive time for a *Markman* hearing. Experienced judges will also become more familiar to litigants, thus improving predictability and efficiency insofar as parties will know their general practices. Experienced judges will also become more familiar with relevant law, and presumably will be able to resolve issues more expediently than their less-experienced colleagues. Given the existence and ongoing refinement of the Pilot Program, there is good reason for Congress to wait to enact further changes to the patent laws until adequate time is given to identify any positive trends.

²⁷ See Patent Cases Pilot Program, Pub. L. No. 111-349 (2011), available at <http://www.gpo.gov/fdsys/pkg/PLAW-111publ349/pdf/PLAW-111publ349.pdf> (last visited July 24, 2014).

²⁸ See Randall R. Rader, *Addressing the Elephant: The Potential Effects of the Patent Cases Pilot Program and Leahy-Smith America Invents Act*, 62 AM. U. L. REV. 1105–1112 (2013); Patent Cases Pilot Program, *supra* note 27, at § 1(e).

²⁹ See Margaret Scoolidge & Peter Scoolidge, *Patent Pilot Program Could Cut Litigation Costs*, CORPORATE COUNSEL (May 22, 2014), available at <http://www.corpcounsel.com/id=1202656204724/Patent-Pilot-Program-Could-Cut-Litigation-Costs?slreturn=20140504172442> (last visited July 24, 2014).

V. Potential Impact of the Proposed Amendments to the Federal Rules of Civil Procedure

Recent proposed amendments to the Federal Rules of Civil Procedure may also impact whether further congressional reform is necessary to address challenges in patent litigation, or whether district courts and patent litigators are better suited to address these issues. The Civil Rules Advisory Committee recommended substantial changes to various Federal Rules of Civil Procedure in an attempt to reduce costs and delay in civil litigation. The Committee recommended an amendment to Rule 1, for instance, to underscore the need for cooperation among counsel. The amendment would establish that the rules “should be construed, administered, and *employed by the court and the parties* to secure the just, speedy, and inexpensive determination of every action and proceeding.”³⁰ The Committee recommended additional changes to the scope of discovery, limits on written discovery and depositions, and a higher standard for sanctions for failing to preserve electronically-stored information.³¹

The most significant recommended change for purposes of patent litigation is the change in the scope of discovery. As recommended, Federal Rule of Civil Procedure 26(b)(1) would permit a party to “obtain discovery regarding any nonprivileged matter that is relevant to any party’s claim or defense *and proportional to the needs of the case, considering the importance of the issues at stake in the action, the amount in controversy, the parties’ relative access to relevant information, the parties’ resources, the importance of the discovery in resolving the issues, and whether the burden or expense of the proposed discovery outweighs its likely benefit.* Information within this scope of discovery need not be admissible in evidence to be discoverable.” Proportionality, therefore, helps define the scope of relevant discovery. Perhaps most significantly, there is no longer any reference to “the subject matter involved in the action,” which reflects a move by the courts away from allowing broad discovery as a right and toward requiring discovery to be related to the specific claims and defenses in the pleadings.

This amendment has the potential to curtail extensive and unnecessary discovery costs in civil litigation in general, and may be particularly relevant in patent litigation due to the frequent complaints and statistics about the cost of discovery in patent litigation. But the amendment is not without its challenges. In patent cases, in particular, patent holders and alleged infringers frequently dispute the amount at stake by an order of magnitude. The district court, therefore, will need to assess early on what the value of the case is to make informed decisions on proportionality. This determination is difficult even when fact and expert discovery is completed, particularly as the Federal Circuit has increased scrutiny of damages in patent litigation over the last several years.³²

The amendment to Rule 26, among others, nonetheless was recommended by the Civil Rules Advisory Committee after extensive analysis and public comment. The amendments were approved by the Standing Committee on Rules of Practice and Procedure on May 30, 2014 without substantive change. As of this writing, they are expected to be approved by the Judicial Conference when it meets in September, and to be reported favorably to Congress by the Supreme Court by May of 2015. Unless Congress raises an objection, which is not anticipated, the amendments will go into effect on December 1, 2015. In the meantime, it will

³⁰ See Committee on Rules of Practice and Procedure, Washington DC (May 29-30, 2014), at 77, 91, *available at* <http://www.uscourts.gov/uscourts/RulesAndPolicies/rules/Agenda%20Books/Standing/ST2014-05.pdf> (last visited July 24, 2014).

³¹ Thomas Y. Allman, *The 2013 Civil Rules Package As Adopted* (Apr. 18, 2014), *available at* <http://www.lfcj.com/documents/ALLMAN%20The%202013%20Civil%20Rules%20Package%20As%20Adopted%204.17.14.pdf> (last visited July 24, 2014).

³² See *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1308 (Fed. Cir. 2009); *Wordtech Sys., Inc. v. Integrated Networks Solutions, Inc.*, 609 F.3d 1308, 1319-22 (Fed. Cir. 2010); *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869-73 (Fed. Cir. 2010); *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1312-15 (Fed. Cir. 2011).

not be unusual for judges to consider the pending amendments and accompanying Committee Notes as “persuasive authority,” and parties are urged to take them into consideration now.

Courts and litigants should have the opportunity to develop and grow precedent under these new rules, along with consideration of best practices set forth in the forthcoming WG10 Commentaries on Patent Litigation Best Practices, to see if they can reduce cost and delay in patent litigation before Congress makes further changes to the Patent Act to address those same issues.

VI. Issues Raised by Parallel Proceedings

To further address the rise in costly patent litigation, Congress acted to sign into law on September 16, 2011 the Leahy-Smith America Invents Act (AIA). The AIA established new post-grant proceedings at the U.S. Patent and Trademark Office (“Office”) that fundamentally alter patent litigation in the U.S.

These new proceedings, including post-grant review (PGR), covered business method (CBM) patent review, and *inter partes* review (IPR), are intended to be faster and cheaper alternatives to the determination of a challenge to the validity of a patent asserted in the district courts. These proceedings, nonetheless, still envision an 18-month process. By statute, a patent owner has a deadline of three months from the notice of the filing date of a petition for PGR, CBM, or IPR to file a preliminary response. Thereafter, the Office must determine whether to institute the PGR, CBM, or IPR proceeding within three months of the patent owner’s preliminary response. If the Office institutes a proceeding, then a final determination must be issued not later than one year from the date of institution of the proceeding. That deadline may be extended up to six months for good cause and may be adjusted if multiple proceedings are joined together. The Office has stated, nonetheless, that extensions of the one-year period are anticipated to be rare. Accordingly, a final determination in a PGR, CBM, or IPR proceeding typically will issue within 18 months of the filing of the petition.

By way of comparison, the average time to trial across the district courts is 2.5 years from the filing of the complaint.³³ The Eastern District of Virginia and Western District of Wisconsin have the shortest time to trial (0.97 years and 1.07 years, respectively) and are the only two districts with a time to trial of less than 1.5 years.

Patentability challenges in front of the Office, however, are very different from validity challenges in the federal courts, as outlined briefly below and in more detail in the forthcoming Working Group 10 Chapter on Parallel USPTO Proceedings. Judges and patent litigators must consider these differences in evaluating a request for a possible stay of the district court case pending completion of the post-grant challenge, the preclusive effect of the parallel Office proceeding on the concurrent district court action, and other issues of case management and litigation strategy.

A. DIFFERENT BURDENS OF PROOF

In district court, patent claims enjoy a presumption of validity, which may be overcome only by clear-and-convincing evidence. In contrast, no such evidentiary presumption exists in Office patentability proceedings. The Patent Trial and Appeal Board (PTAB) and Central Reexamination Unit (CRU) use a “preponderance of the evidence” standard for adjudicating patentability. For this reason, challenging a patent’s validity is often easier before the Office than in the district courts.

B. DIFFERENT STANDARDS FOR CLAIM CONSTRUCTION

In district court, claims are construed under the canons of claim construction well-described in the Federal Circuit’s *en banc* decision in *Phillips v. AWH*.³⁴ For example, one such canon of construction counsels courts to construe claims so that they remain valid in view of prior art. This is directly at odds with the Office’s broadest reasonable interpretation (BRI) mandate. As a result the world of available prior art may be more limited in district court than in Office challenges.

³³ See *2013 Patent Litigation Study*, *supra* note 5, at 20.

³⁴ See generally *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005).

The broader construction at the Office favors patent challengers. Due to the different claim construction standards, a patent owner may be forced into the difficult circumstance of having to amend claims, potentially losing past damages, to achieve the same scope at the Office that would have been afforded to the issued claims before a district court.

C. DIFFERENT APPROACHES TO DISCOVERY AND DUE PROCESS

In light of the time frames anticipated for PGR, CBM, and IPR proceedings, discovery is quite limited. In contrast, district court patent actions often permit more extensive discovery conducted over a longer period of time.

In addition, the entire AIA proceeding, from institution to final hearing, is considered to be the “trial.” No live testimony is presented at the final hearing. Instead, essentially all testimony is provided via written affidavits or declarations, with subsequent cross-examination at deposition. Thus, depositions in PGR, CBM, and IPR proceedings are not pretrial exercises to develop a party’s case for trial, but are more akin to direct examination and cross-examination.

PGR, CBM, and IPR proceedings culminate in an oral hearing before at least three members of the PTAB. Each party is typically allotted only 60 minutes for presentation and questioning related to its entire case. Consequently, decisions in PGR, CBM, and IPR proceedings rely heavily on the paper record provided to the PTAB.

In contrast to these proceedings, patent holders generally enjoy a right to trial by jury on the issue of validity in district court, along with contemporaneous cross examination.

D. THE RACE TO THE FEDERAL CIRCUIT—*FRESENIUS USA, INC. V. BAXTER INTERN., INC.*

As exemplified by the Federal Circuit’s decision in *Fresenius USA, Inc. v. Baxter Intern., Inc.*,³⁵ a prior holding of no invalidity by a district court is not inconsistent with and does not preclude a subsequent holding of unpatentability by the Office.

In September 2009, the Federal Circuit affirmed a district court’s finding of no invalidity with respect to U.S. Patent No. 5,247,434 (“the ’434 patent”), but remanded the case solely on the issues of damages and injunctive relief. The district court entered final judgment in favor of Baxter International, Inc. (“Baxter”) on March 16, 2012, but stayed the damages award pending appeal. The appeal of this final judgment was docketed at the Federal Circuit on April 18, 2012. The Federal Circuit affirmed the Board’s rejection of the ’434 patent as obvious from a parallel *ex parte* reexamination on May 17, 2012, despite the Federal Circuit’s earlier finding of no invalidity. On this point, the Federal Circuit explained that the two decisions were not inconsistent, as “the two proceedings necessarily applied different burdens of proof and relied on different records.” Finally, on July 2, 2013, the Federal Circuit vacated the district court’s judgment, finding that in light of the cancellation of the claims of the ’434 patent during reexamination and affirmance by the Federal Circuit, Baxter no longer had a viable claim against Fresenius.

Several members of the Federal Circuit authored vigorous dissents to this holding, including constitutional objections based on separation of powers and other issues relating to the finality of judgments.³⁶ Baxter’s petition for *certiorari* before the Supreme Court, however, was denied on May 19, 2014.

³⁵ See *Fresenius USA, Inc. v. Baxter Intern., Inc.*, 721 F.3d 1330 (Fed. Cir. 2013).

³⁶ See *Fresenius USA, Inc. v. Baxter Intern., Inc.*, 733 F.3d 1369 (Fed. Cir. 2013).

The *Fresenius* decision illustrates that timing is critically important when dealing with parallel district court and Office proceedings, and likely will result in a race to the Federal Circuit in future parallel proceedings. This result is particularly true with respect to patents undergoing parallel *ex parte* reexamination or legacy *inter partes* reexamination, as a *final* holding of claim invalidity or unenforceability by a court (after all appeals have been exhausted) *is* controlling on the Office in these proceedings.³⁷

³⁷ See MPEP § 2286 (Rev. 7, July 2008) (“Upon the issuance of a final holding of invalidity or unenforceability, the claims being examined which are held invalid or unenforceable will be withdrawn from consideration in the [*ex parte*] reexamination.”); MPEP § 2686.04 (Rev. 7, July 2008) (“Upon the issuance of a final holding of invalidity or unenforceability, the claims held invalid or unenforceable will be withdrawn from consideration in the [*inter partes*] reexamination.”).

VII. Courts Should be Allowed a Reasonable Degree of Latitude and Discretion for Managing Their Cases

Recent public comments from Former Chief Judge Randall R. Rader and Judge Kathleen M. O'Malley of the Federal Circuit have focused on the balance between congressional attempts to reform patent litigation and the need for the courts to have a reasonable degree of latitude and discretion for managing their cases.

In laying out the separation of powers in the Constitution, the Framers wanted judges to decide cases before them without fear of interference or retaliation from the other branches of government. Judge Rader and Judge O'Malley agree that the judicial branch (not the legislative branch) is best positioned to address the current problems with U.S. patent litigation by providing case-by-case fixes, not broad sweeping rules and regulations. In June 2013, Judge Rader coauthored an op-ed in the *New York Times*, which raised concerns over frivolous patent lawsuits.³⁸ The op-ed expressed the opinion that judges underutilize their existing authority to curtail abusive suits by shifting the cost of litigation from the defendant to the plaintiff under Section 285 of the Patent Act, and under Rule 11 of the Federal Rules of Civil Procedure. The op-ed concluded with a call to action: "Judges know the routine all too well, and the law gives them the authority to stop it. We urge them to do so."

In a speech on September 17, 2013 at the IPO annual meeting, Judge O'Malley expressed her opinion that the then pending patent legislation would encroach on the independence of the federal judiciary.³⁹ She stressed the importance of independence for the federal judiciary and cautioned against interfering with a court's exercise of its own authority.⁴⁰ She said Congress should not be in the business of docket control, altering pleadings forms, or imposing Rule 11 sanctions.⁴¹ Judge O'Malley cautioned that some of the legislative fixes that have been proposed are directly intruding upon the inherent authority of the courts to manage and control litigation generally, not just patent litigation.⁴²

During the November 2013 Eastern District of Texas Bench and Bar Conference, Judge Rader laid out a number of tools at the disposal of the judiciary to prevent and discipline patent litigation abuses and "restore confidence in the patent system," including:

- (1) Summary judgment—liberal use of summary judgment procedures ensure that judges give proper priority to the cases that deserve the scarce judicial enforcement resources. With crowded dockets, judges do not enjoy the luxury of postponing every case for trial. Cases lacking merit should be weeded out;⁴³

³⁸ Randall R. Rader, Colleen V. Chien, & David Hricik, *Op-Ed: Make Patent Trolls Pay in Court*, N.Y. TIMES (JUNE 4, 2013), available at http://www.nytimes.com/2013/06/05/opinion/make-patent-trolls-pay-in-court.html?_r=0 (last visited July 24, 2014).

³⁹ Kathleen M. O'Malley, IPO Annual Meeting, Keynote Address, September 17, 2013, at 4, available at http://fstp-expert-system.typepad.com/files/21-k.-omalley_keynote-address-ipo-2013.pdf (last visited July 24, 2014).

⁴⁰ *Id.* at 3–4.

⁴¹ *Id.* at 4.

⁴² *Id.*

⁴³ Randall R. Rader, EDTX Bench and Bar Conf., Keynote Address, November 1, 2013, at 8, available at: <http://mcsmith.blogs.com/files/rader-2013-ed-tex-bb-speech.pdf> (last visited July 24, 2014).

- (2) Fee reversal—when there is litigation abuse, that case should be “exceptional” under section 285 of the Patent Act;^{44 45}
- (3) Promulgation of model rules and orders to:
 - a. Reduce discovery costs and to narrow litigable issues at an early stage of the proceedings (e.g., reduce excess claims and prior art);
 - b. Provide a balanced transfer policy that finds the most appropriate and efficient forum for each patent dispute;
 - c. Stay customer suits in favor of manufacturer suits; and
 - d. Make adjudication more efficient and less expensive.⁴⁶

Judge Rader encouraged each district to devise its own model rules, orders and other tools, and communicate with the other districts to compare efficiency programs and ensure the best ideas gain prominence.⁴⁷

Judge O’Malley has identified a number of areas of concern in recent legislative proposals, including:

- (1) Changes to the Federal Rules of Civil Procedure;
- (2) When and how much discovery should be permitted;
- (3) When *Markman* hearings should occur;
- (4) What evidence may be considered for claim construction;
- (5) Whether fee-shifting should be imposed; and,
- (6) Whether stays should be mandatory.⁴⁸

Under 28 U.S.C. § 1657, courts have exclusive authority over the order in which they consider the litigation before them. Accordingly, the issues outlined above should be addressed by the judiciary (e.g., the rules committees), not the legislature.

⁴⁴ *Id.* at 8–9.

⁴⁵ In April 2014, in addressing the standard for deciding whether a case is “exceptional” for the purpose of awarding attorneys’ fees under 35 U.S.C. § 285, the Supreme Court lowered the bar from the former “objectively and subjectively baseless” standard to one that covers litigation practices that “stand[] out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and facts of the case) or the unreasonable manner in which the case was litigated.” See *Octane Fitness*, 134 S.Ct. at 1756; see also *Highmark*, 134 S.Ct. at 1746 (holding that a district court’s award of attorneys’ fees will no longer be reviewed *de novo*, but rather will now be reviewed on appeal under the more deferential “abuse of discretion” standard).

⁴⁶ Rader, *supra* note 43, at 9–10.

⁴⁷ *Id.*

⁴⁸ O’Malley, *supra* note 39, at 5–11.

VIII. Development of Best Practices and Development of New, Improved Rules and Procedures by the Courts

WG10 and its various drafting teams started work on this Commentary on Patent Litigation Best Practices in early 2013. The participants in this process have included people from all aspects of the patent litigation process including current and retired appellate judges, district court judges, and magistrate judges, large operating companies with significant interests in patents from a variety of different technologies, small technology companies, non-practicing entities, plaintiff litigators, and defense litigators. The participants have also been geographically diverse, with experience practicing patent cases in all parts of the country. Our commentaries are thus the product of input from all of the different types of stakeholders in the patent litigation system.

The goal has been to reach consensus on all of the best practices set forth in this Commentary.⁴⁹ The breadth and depth of the best practices the Working Group has developed are extensive. These best practices are set forth in the upcoming Chapters of this Commentary, the first five of which—Discovery; Use of Experts, *Daubert*, and Motions *in Limine*; Summary Judgment; Parallel USPTO Proceedings; and Case Management from the Judicial Perspective—will be published for public comment in the coming months.

In developing these best practices, the Working Group's overarching goal is to simplify and control the cost of patent litigation while still enabling a fair resolution to be obtained through the process. In each of the Chapters, some broad proposed principles have been developed. These proposed principles are set out below.

WG10 believes that adoption of these proposed Principles and forthcoming Best Practices by all participants in the patent litigation system would result in a more efficient and less expensive patent litigation system, and would significantly decrease the level of abuse by all parties to patent litigation. The proposed Principles are:

Discovery

- [Proposed] Principle: The proposed amendment to Federal Rule 26(b)(1), emphasizing the concept of proportionality as central to the scope of discovery, means that the application of proportionality concepts should be at the center of the resolution of all discovery disputes. Where the monetary amount or impact of any potential injunction is less, then the level of discovery should be appropriately tailored to the needs of the specific litigation. All parties in the litigation need to focus on what is really at stake and how to efficiently get to a resolution.
- [Proposed] Principle: Both parties should be encouraged to develop and disclose their legal contentions earlier in the litigation. Earlier and meaningful settlement negotiations, mediation, judicial conferences can only be held if the parties are required to “show their cards” beforehand. As such, the court should require not only contentions regarding infringement and validity, but also responses to the same, with deadlines set as appropriate to the particular case. It is primarily through the responses that “the rubber hits the road,” and the core disputed issues are brought to light for the parties and the court.

⁴⁹ The opinions expressed in this publication, unless otherwise attributed, represent consensus views of the members of The Sedona Conference Working Group 10. They do not necessarily represent the views of any of the individual participants or their employers, clients, or any other organizations to which any of the participants belong, nor do they necessarily represent official positions of The Sedona Conference.

- [Proposed] Principle: The court should convey to the parties its expectations as to discovery conduct, and when the parties fall outside of them, the court should actively intervene to remedy discovery misconduct or deficiencies under Rules 16 and 26, up to and including the imposition of sanctions and attorney fee shifting as authorized by Rule 37.

Use of Experts, *Daubert*, and Motions *in Limine*

- [Proposed] Principle: Expert testimony should be limited to that disclosed in the expert's reports. The court should convey its expectation to the parties, and when the parties fall outside of them, the court should not hesitate in excluding expert testimony, in order to require parties to "show their cards" as to their final legal positions earlier and discourage "sandbagging." The goal is to have full and fair disclosure of all expert opinion and to eliminate or minimize surprises at the trial.

Summary Judgment

- [Proposed] Principle: WG10 calls for a fundamental rethink by the bench and bar about the role and proper use of summary judgment. Summary judgment motions are to be filed for the sole purpose of eliminating issues where there are no reasonable disputed facts, and never as a discovery tool or to "educate" the court. Decisions to file summary judgment motions should be directly managed by the lead counsel, with these principles in mind.

Parallel USPTO Proceedings (from the perspective of district court litigation)

- The development of best practices for the litigants and PTAB in connection with the post-grant review procedures.
- The development of best practices and better coordination between the operations of the district courts and the PTAB in connection with the handling of parallel proceedings for resolving patent disputes efficiently.

Case Management from the Judicial Perspective

- Case management strategies for resolving disputes earlier and more efficiently.
- [Proposed] Principle: Streamlining the claim construction process to help organize and focus the issues in a timely fashion.
- [Proposed] Principle: Attorney fee-shifting awards post-*Octane Fitness*: how to encourage the filing of only meritorious motions, and facilitate the expeditious presentation and resolution of such motions.
- Requiring lead counsel of both parties to directly manage their respective litigation strategies and procedures.
- [Proposed] Principle: There should be a close coordination between the issues the party is going to try and the preparations leading up to them.
- Drafting jury verdict forms to avoid jury confusion and inconsistent verdicts.

While these forthcoming Chapters of the WG10 Commentary on Patent Litigation Best Practices have been over eighteen months in their development, the work of WG10 is far from over. The Working Group will be expanding the topics it is addressing as well as updating the proposals that we have made. In 2014–15, WG10 plans to form new drafting teams to develop the following new Chapters:

Mediation

- The development of best practices on the use of mediation both to resolve entire patent cases, and to resolve disputes within individual cases, to both encourage settlement and also limit the scope of trial.

Parallel USPTO Proceedings (from the perspective of the entire patent litigation system)

- The development of best practices for how district courts and the PTO/PTAB should work together in resolving patent disputes efficiently.

International Trade Commission Hearings (from the ITC practitioner's perspective and from the entire patent litigation system's perspective)

- The development of best practices for how district courts, the PTO/PTAB and the ITC should work together in resolving patent disputes efficiently.

The problems in the current patent litigation system were not created overnight and cannot be resolved by a one-size-fits-all set of rules. WG10 believes, however, that the system can and must be improved and we are committed to continue “moving the law forward in a reasoned and just way.”

Appendix: The Sedona Conference Working Group Series & WGS Membership Program

**“DIALOGUE
DESIGNED
TO MOVE
THE LAW
FORWARD
IN A
REASONED
AND JUST
WAY.”**

The Sedona Conference Working Group Series (“WGS”) was established to pursue in-depth study of tipping point issues in the areas of antitrust law, complex litigation, and intellectual property rights. It represents the evolution of The Sedona Conference from a forum for advanced dialogue to an open think tank confronting some of the most challenging issues faced by our legal system today.

A Sedona Working Group is formed to create principles, guidelines, best practices, or other commentaries designed to be of immediate benefit to the bench and bar and to move the law forward in a reasoned and just way. Working Group output, when complete, is then put through a peer review process involving members of the entire Working Group Series including—where possible—critique at one of our regular season conferences, resulting in authoritative, meaningful and balanced final commentaries for publication and distribution.

The first Working Group was convened in October 2002 and was dedicated to the development of guidelines for electronic document retention and production. The impact of its first draft publication—The Sedona Principles: Best Practices Recommendations & Principles Addressing Electronic Document Production (March 2003 version)—was immediate and substantial. The Principles was cited in the Judicial Conference of the United States Advisory Committee on Civil Rules Discovery Subcommittee Report on Electronic Discovery less than a month after the publication of the “public comment” draft, and was cited in a seminal e-discovery decision of the United States District Court in New York less than a month after that. As noted in the June 2003 issue of *Pike & Fischer’s Digital Discovery and E-Evidence*, “The Principles ... influence is already becoming evident.”

The WGS Membership Program was established to provide a vehicle to allow any interested jurist, attorney, academic, consultant or expert to participate in WGS activities. Membership provides access to advance drafts of WGS output with the opportunity for early input, and discussion forums where current news and other matters of interest can be discussed. Members may also indicate their willingness to volunteer for brainstorming groups and drafting teams.

Visit the “Working Group Series” area of our website, www.thesedonaconference.org for further details on our Working Group Series and WGS membership.

The Sedona Conference was founded in 1997 by Richard Braman in pursuit of his vision to move the law forward in a reasoned and just way. Richard’s personal principles and beliefs became the guiding principles for The Sedona Conference: professionalism, civility, an open mind, respect for the beliefs of others, thoughtfulness, reflection, and a belief in a process based on civilized dialogue, not debate. Under Richard’s guidance, The Sedona Conference attracted leading jurists, attorneys, academics and experts who support the mission of the organization by their participation in WGS and contribute to moving the law forward in a reasoned and just way. After a long and courageous battle with cancer, Richard passed away on June 9, 2014, but not before seeing The Sedona Conference grow into the leading nonpartisan, nonprofit research and educational institute dedicated to the advanced study of law and policy in the areas of complex litigation, antitrust law, and intellectual property rights.