

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)

JULY 2015 EDITION



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**Author:** The Sedona Conference

**Editor-in-Chief:** Gary M. Hoffman

**Managing Editor:** Jim W. Ko

**Judicial Advisors:** Hon. Joy Flowers Conti  
Hon. Faith S. Hochberg (ret.)  
Hon. Barbara M. G. Lynn

**Chapter Editor:** Patrick M. Arenz

**Contributing Editors:** Robert A. Armitage  
Donald R. Banowit  
Henry S. Hadad  
Karen E. Keller  
Robert O. Lindefeld  
Hon. Paul R. Michel (ret.)  
John A. Scott

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## *Preface*

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Welcome to the July 2015 Edition 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, in conferences and mini-think tanks called Working Groups, to engage in true dialogue, not debate, in an effort to reach consensus solutions designed 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. This Chapter was first published as a “public comment version” in August 2014, and the editors have reviewed the comments received through the public comment process and also during the WG10 Annual Meeting in New Orleans in November 2014 and the WG10 Midyear Meeting in Miami in May 2015. The drafting process for this Chapter has been supported by the Working Group 10 Steering Committee and Judicial Advisors. This Chapter is published here in “final” version, subject, as always, to further developments in the law that may warrant a second edition.

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: Robert A. Armitage, Patrick M. Arenz, Donald R. Banowitz, Henry S. Hadad, Karen E. Keller, Robert O. Lindefeld, John A. Scott, and Kenneth J. Withers. 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, the Honorable Faith S. Hochberg, and the Honorable Barbara M. G. Lynn. The statements in this Commentary are solely those of the non-judicial members of the Working Group; they do not represent judicial endorsement of the opinions expressed or the practices recommended.

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 [comments@sedonaconference.org](mailto:comments@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  
July 2015

## *Foreword*

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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 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.

Since the publication for public comment of the first Chapters of WG10’s Commentary on Patent Litigation Best Practices, WG10 has received a remarkable amount of interest in its efforts, and an increase in the number of judges, in-house lawyers, and lawyers from firms requesting to join and participate in the Working Group. Our Working Group now includes over 100 attorneys, with litigators from both the plaintiff side and defense side and in-house counsel, and over 20 federal judges, including a number of judges participating in the Patent Pilot Program.

This year, The Sedona Conference has been working with several groups to provide presentations relating to the WG10 Commentary on Patent Litigation Best Practices, including at the Third Circuit Judicial Conference, the Ninth Circuit Judicial Conference, the Eastern District of Texas Bench & Bar Conference, the Federal Circuit Bar Association Bench & Bar Conference, the American

Intellectual Property Law Association Annual Meeting, and the Intellectual Property Owners Association Annual Meeting.

This July 2015 Edition of the Introductory Chapter to the WG10 Commentary has now been fully updated to incorporate all of the comments received in response to the August 2014 public comment version and to track the latest legislative patent reform proposals to date. It is the consensus viewpoint of WG10 that the courts should be allowed a reasonable degree of latitude and discretion in managing their cases, and that case management of patent litigation cases should not be unduly impinged upon by the legislature in its efforts to reform patent litigation. The best avenue for addressing the concerns about the high costs of patent litigation is through initiatives such as the Patent Pilot Program, enacted in 2011, and the consensus, non-partisan development of best practice recommendations such as those presented by The Sedona Conference.

We extend our appreciation to all of our WG10 members for your contributions to our ongoing efforts to develop consensus best practice recommendations for an improved patent litigation system, and toward their adoption, in whole or in part, by the bench and bar.

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

Patrick M. Arenz  
Chapter Editor

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

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## **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.”<sup>1</sup> The perception, whether or not reality, that “abusive” litigation is stifling the growth of innovation has helped lead to the recent efforts in Congress seeking to reform patent litigation and the patent system as a whole.

The consensus of The Sedona Conference’s Working Group 10 (WG10) is that the system can best be improved by the courts adopting and the parties following a number of procedures enhancing the efficient and cost-effective management of patent litigation. WG10 believes that the courts, not the legislature, are best positioned to develop such procedures. The mission of WG10 is to develop best practices and recommendations for patent litigation case management in the post-AIA environment.<sup>2</sup> 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 has developed the following principle:

WG10 is developing these Best Practices to improve the system for resolving patent disputes and make it more fair and efficient. These Best Practices are to apply to and benefit all stakeholders in patent litigation, both bench and bar, and to and for all types of patent holders and accused infringers. These Best Practices should further the goals of Federal Rule of Civil Procedure 1 and “should be construed and

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<sup>1</sup> This perception is apparent from comments made by President Obama in 2014: “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 (Jan. 28, 2014), <http://www.whitehouse.gov/the-press-office/2014/01/28/president-barack-obamas-state-union-address>.

<sup>2</sup> 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.

administered to secure the just, speedy, and inexpensive determination of every action and proceeding,” all to help ensure a non-frivolous patent litigation system.

### 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. The goal of WG10 is to reach consensus and publish commentaries on patent litigation best practices, as well as overarching principles that help set a guide for these best practices, to further The Sedona Conference’s mission of “moving the law forward in a reasoned and just way.”

WG10 was originally organized into five working drafting teams: Case Management from a Judicial Perspective; Discovery; Summary Judgment; Use of Experts; and Parallel United States Patent and Trademark Office (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.

In the months leading up to WG10’s Annual Meeting held in New Orleans in November 2014, WG10 published for public comment five Chapters of the Patent Litigation Best Practices Commentary, consisting of: Introductory Chapter (August 2014); Summary Judgment (August 2014); Use of Experts, *Daubert*, and Motions *in Limine* (October 2014); Parallel USPTO Proceedings (October 2014); and Discovery (October 2014). WG10 subsequently published for public comment the Chapter on Case Management Issues from the Judicial Perspective (February 2015).

WG10 has several new teams in the process of drafting proposals regarding

- use of mediators as a case management tool for narrowing the issues in dispute and improving prospects for settlement;
- heightened pleading standards—implications and compliance;
- the potential impact of *Teva v. Sandoz* on the claim construction process;
- impact of *Alice v. CLS Bank*—when and how the courts should address Section 101 patentability; and
- impact of *Octane Fitness/Highmark*—proposed best practices for the litigation and management of attorney fee-shifting motions.

The initial concepts developed by these teams were the focus of the dialogue during the Midyear Meeting held in Miami, Florida in May 2015. The first topic on the use of mediators as a case management tool will then be targeted for publication for public comment, and some or all of the

rest likely will be targeted for incorporation into a supplemental public comment iteration of the Case Management Issues from the Judicial Perspective Chapter later this year.

#### **D. CALL FOR COOPERATION AND ADOPTION**

The Sedona Conference's Working Group 10 submits that if WG10's principles and best practice recommendations are adopted in whole or in part, then patent litigation will be more efficient and effective, to the benefit of all stakeholders.

We respectfully ask the courts to consider making a statement in their customary scheduling orders, discovery orders, or standing orders in patent cases conveying the following concept:

The parties are encouraged to review and act consistently with the Principles and Best Practices presented in The Sedona Conference WG10's Commentary on Patent Litigation Best Practices, in particular with respect to cooperatively narrowing the issues in dispute, complying with and attempting to enforce discovery obligations, and keeping the court timely informed of developments in the case that significantly impact the case management schedule.

## II. *The High Costs of Patent Litigation*

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### 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.<sup>3</sup> In 2014, the number of new patent litigations filed decreased to 5,004,<sup>4</sup> the first year of decrease following 4 years of increase in patent litigation case filings (starting with 2,539 in 2009).<sup>5</sup> For the fifth consecutive year since 2010, the USPTO issued a record number of patents in 2014 (over 325,000),<sup>6</sup> and there continues to be a high correlative trend (94% since 1991) between the number of patents issued by the USPTO and the number of actions filed.<sup>7</sup> The complexity of the substantive issues in patent cases, including the patent issues, damages issues, and the technologies involved, have increased in recent years.

One source of the general upward trend in patent lawsuits is the result of more patent suits being filed overall by both patent assertion entities (PAE)<sup>8</sup> and practicing entities. In recent years, more than half of the new patent cases commenced in district courts in the United States were filed by

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<sup>3</sup> See Owen Byrd & Brian Howard, *2013 Patent Litigation Year in Review*, LEX MACHINA, i, available at <http://pages.lexmachina.com/rs/lexmachina/images/LexMachina-2013%20Patent%20Litigation%20Year%20in%20Review.pdf?aliId=436562> (last visited July 7, 2015); 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>.

<sup>4</sup> Whether 2014 is a change in direction or an aberration remains to be seen. Recent data suggests that patent lawsuit filing rates in the first five months of 2015 are comparable to 2013 levels. See Brian Howard, *Spring 2015 Patent Case Filing Trends*, LEX MACHINA (June 10, 2015), available at <https://lexmachina.com/spring-2015-patent-case-filing-trends-2/>.

<sup>5</sup> See Brian Howard, *Patent Case Trends and the Business of Litigation*, LEX MACHINA (Feb. 5, 2015), available at <https://lexmachina.com/patent-case-trends-business-litigation/>. There has been some discussion that this decrease may be a result of recent patent decisions by the Supreme Court in *Alice* and *Octane*. See *id.* (“While the various possible causes of the district court litigation slow-down, including the *Alice* decision, the rise of PTAB reviews, among other developments (e.g., the *Highmark/Octane* case decided by the Supreme Court in April 2014, relating to attorneys’ fees), remain difficult to precisely weigh, it’s clear after six months of lackluster business that the landscape is shifting. Patent litigation work is decreasing, and what remains is becoming defrayed between the new PTAB and district courts.”).

<sup>6</sup> The USPTO issued 244,341 patents in 2010, 247,713 patents in 2011, 276,788 patents in 2012, 302,948 patents in 2013, and 326,033 in 2014. See U.S. Patent Statistics Chart, Calendar Years 1963–2014, U.S. Patent and Trademark Office, Patent Technology Monitoring Team (PTMT), USPTO.GOV, [http://www.uspto.gov/web/offices/ac/ido/ocip/taf/us\\_stat.htm](http://www.uspto.gov/web/offices/ac/ido/ocip/taf/us_stat.htm) (last visited July 7, 2015).

<sup>7</sup> PricewaterhouseCoopers LLP, *2014 Patent Litigation Study*, at 5 (July 2014), available at <http://www.pwc.com/us/en/forensic-services/publications/2014-patent-litigation-study.jhtml>.

<sup>8</sup> The application of the term PAE is a subject of debate at times. If a large operating company with a large patent portfolio sets up a group to license (and where needed litigate) its portfolio, is the group a PAE? Or if the licensing relates to a technology in which the operating company is no longer active, does this make it a PAE?

PAEs.<sup>9</sup> 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) were filed as a single suit against multiple defendants, but after the AIA, such suits had to be filed as multiple individual suits against each defendant. This magnifies 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.<sup>10</sup> 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 many cases are end-users of technology that such users did not create. A significant level of corporate attention to the patent system has resulted in Congress proposing several patent reform bills to reduce perceived abuses.<sup>11</sup>

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

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<sup>9</sup> 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](http://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf) (“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.”).

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

<sup>11</sup> See *President Barack Obama’s State of the Union Address*, *supra* note 1; Saving High-Tech Innovators from Egregious Legal Disputes [SHIELD] 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 7, 2015); 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 7, 2015), reintroduced as Innovation Act, H.R. 9, 115th Cong. (2015), available at [http://judiciary.house.gov/\\_cache/files/a2c6b5ad-af48-483f-9e3e-d3420dda64e6/goodla-008-xml.pdf](http://judiciary.house.gov/_cache/files/a2c6b5ad-af48-483f-9e3e-d3420dda64e6/goodla-008-xml.pdf) (last visited July 7, 2015), with Manager’s Amendment to H.R. 9 as amended during markup and approved by the House Judiciary Committee on June 11, 2015, available at <http://judiciary.house.gov/index.cfm/hearings?ID=2848E2C2-F705-4A03-800C-64930626A395> (last visited July 7, 2015) [hereinafter H.R. 9 June 11, 2015 Amendment]; 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 7, 2015); Patent Abuse Reduction Act of 2013, S. 1013, 113th Cong. (2013), available at <http://www.gpo.gov/fdsys/pkg/BILLS-113s1013is/pdf/BILLS-113s1013is.pdf> (last visited July 7, 2015); Patent Transparency and Improvements Act of 2013, S. 1720, 113th Cong. (2013), available at <http://www.gpo.gov/fdsys/pkg/BILLS-108s1720rs/pdf/BILLS-108s1720rs.pdf> (last visited July 7, 2015); Targeting Rogue and Opaque Letters [TROL] Act of 2015, H.R. 2045, 115th Cong., available at <http://www.gpo.gov/fdsys/pkg/BILLS-114hr2045ih/pdf/BILLS-114hr2045ih.pdf> (last visited July 7, 2015); Demand Letter Transparency Act of 2015, H.R. 1896, 115th Cong., available at <http://www.gpo.gov/fdsys/pkg/BILLS-114hr1896ih/pdf/BILLS-114hr1896ih.pdf> (last visited July 7, 2015); Innovation Protection Act, H.R. 1832, 115th Cong., available at <http://www.gpo.gov/fdsys/pkg/BILLS-114hr1832ih/pdf/BILLS-114hr1832ih.pdf> (last visited July 7, 2015); Support Technology and Research for Our Nation’s Growth [STRONG] Patents Act of 2015, S. 632, 115th Cong. (2015), available at <http://www.gpo.gov/fdsys/pkg/BILLS-114s632is/pdf/BILLS-114s632is.pdf> (last visited July 7, 2015); Protecting American Talent and Entrepreneurship [PATENT] Act of 2015, S. 1137, 114th Cong. (2015), available at <http://www.judiciary.senate.gov/imo/media/doc/PATENT%20Act.pdf> (last visited July 7, 2015), with Manager’s Amendment to S. 1137 approved by the Senate Judiciary Committee on June 2, 2015, available at <http://www.judiciary.senate.gov/imo/media/doc/S.%201137%20Managers%20Amendment.pdf> (last visited July 7, 2015) [hereinafter S. 1137 June 2, 2015 Amendment].

complexity of the technology at issue. Some judges in patent-heavy districts have double and even triple-booked calendars in anticipation of settlements.<sup>12</sup>

Nationally, the percentage of patent cases tried (either to the bench or to a jury) has recently been around 2 to 3 percent.<sup>13</sup>

Additionally, patent litigation entails high costs for both litigations instituted by PAEs and in competitor-versus-competitor suits. According to the AIPLA's 2013 report, 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.<sup>14</sup> 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 smartphone wars between Apple and Samsung, Apple has spent in excess of \$60 million on litigation fees and costs.<sup>15</sup>

## 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 number of patents being asserted, 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 tenuous alleged prior art, and the extent to which the parties cooperate in facilitating discovery.

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<sup>12</sup> 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>.

<sup>13</sup> See 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, 2014, at 3, *available at* <http://www.uscourts.gov/uscourts/Statistics/JudicialBusiness/2014/appendices/C04Sep14.pdf>; 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>; 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, *available at* <http://www.uscourts.gov/uscourts/Statistics/JudicialBusiness/2012/appendices/C04Sep12.pdf>; 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, *available at* <http://www.uscourts.gov/uscourts/Statistics/JudicialBusiness/2011/appendices/C04Sep11.pdf>.

<sup>14</sup> 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*].

<sup>15</sup> Dan Levine, *Apple Spent Over \$60 Million on U.S. Lawyers Against Samsung*, REUTERS (Dec. 6, 2013), <http://www.reuters.com/article/2013/12/06/us-apple-samsung-fees-idUSBRE9B50QC20131206>.

The venue's local rules, standing orders, and default practices also play a part in the costs of discovery, given the nature and timing of required disclosures. For example, the Local Patent Rules of the Eastern District of Texas provide for the disclosure of infringement and invalidity contentions early on during litigation, and those are deemed to be the parties' final contentions, absent a showing of good cause.<sup>16</sup> 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 technology<sup>17</sup> 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 or group of patents asserted against several industry competitors.<sup>18</sup> <sup>19</sup> 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<sup>20</sup> before discovery, fueling the perception among some that PAE-asserted cases are a meritless form of harassment. Others point out that, at the other end of the spectrum, some high quality patent owners, both PAEs and practicing entities, will be deterred from enforcing those patents because of the high fees 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.

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<sup>16</sup> E.D. Tex. Patent L.R. 3–6.

<sup>17</sup> The technologies involved can vary greatly from relatively simple mechanical devices to highly sophisticated subjects, like complex advanced electronics, nanotechnology, biotech drugs, and computer systems.

<sup>18</sup> 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 14, at I-129–I-136.

<sup>19</sup> The intent of the legislative drafters of the AIA notwithstanding, some patent infringement suits continue in practice to be asserted against multiple defendants, as such suits are often consolidated for handling under multidistrict litigation procedures.

<sup>20</sup> Both PAEs and practicing entities at times assert low quality patents and other times assert high quality patents, although some believe that the assertion of low quality patents is a greater issue with PAEs.

The comments made about low quality patents have been made for many years.<sup>21</sup> There are a variety of reasons that have been ascribed as the cause of such quality issues, including the work load of 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 application. Over the years, the USPTO has hired more patent examiners and made efforts to improve the quality of the patents issued and to shorten 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 computer software and 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 USPTO, and other issues. Since all patent litigation stems from an issued patent, these kinds of issues and concerns add to the complexities and costs of patent litigation.

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<sup>21</sup> Indicative of the level of concern over the issue of patent quality is the bill introduced in the Senate directed at this very issue. *See* S. 866 (Patent Quality Improvement Act of 2013), *supra* note 11. 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.

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

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During the past year-plus, Congress has been considering legislation introduced to address concerns raised by certain industries over the number of patent lawsuits brought by PAEs.<sup>22</sup> PAEs have become increasingly visible in recent years because of the large number of infringement actions they have filed, primarily against firms in the tech industry and retail businesses. The cost of litigating these cases has served as justification for these businesses to seek government intervention. Congress has considered a number of bills with the goal of curbing supposed abuses by these PAE litigants.

The House, with the White House's support, passed the "Innovation Act," introduced by Representative Bob Goodlatte in 2013.<sup>23</sup> The Senate was concurrently considering its own proposals in the Senate Judiciary Committee. On May 21, 2014, Senator Leahy withdrew patent litigation reform efforts from the Senate Judiciary Committee's agenda due to a lack of broad bipartisan support on how to approach the proposed reforms.<sup>24</sup> 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

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<sup>22</sup> 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.

*IPO Comment: Defining Trolls; We've Met the Enemy and They are Us*, IPO DAILY NEWS (May 19, 2014), [http://www.ipo.org/index.php/daily\\_news/ipo-comment-defining-trolls-weve-met-enemy-us/](http://www.ipo.org/index.php/daily_news/ipo-comment-defining-trolls-weve-met-enemy-us/).

<sup>23</sup> H.R. 3309, *supra* note 11.

<sup>24</sup> 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](http://www.leahy.senate.gov/press/comment-of-senator-patrick-leahy-d-vt_chairman-senate-judiciary-committee-on-patent-legislation).

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.

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.

The 2013 House-passed bill was reintroduced by Rep. Goodlatte in the current Congress on February 5, 2015 as H.R. 9.<sup>25</sup> On April 29, 2015, Senator Grassley introduced the Protecting American Talent and Entrepreneurship (PATENT) Act, which is a revised version of proposed Senate legislation from 2013.<sup>26</sup>

S. 1137 was reported out of the Senate Judiciary Committee on June 2, 2015, and H.R. 9 was reported out of the House Judiciary Committee on June 11, 2015.<sup>27</sup> Both the House and Senate bills were modified during the committee markup process from the forms in which they were originally introduced.

Given that either or both of the bills will soon be in a posture where they could be scheduled for floor action, it is possible that some variation of either or both these bills could pass the current Congress and become law. Below is a summary of some key provisions of S. 1137 as reported out by the Senate Judiciary Committee that, if enacted, will significantly impact case management of district court litigation.<sup>28</sup> Reference is additionally made to the relevant provisions of H.R. 9 for purposes of comparison.

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<sup>25</sup> H.R. 9, *supra* note 11.

<sup>26</sup> S. 1137, *supra* note 11.

<sup>27</sup> H.R. 9 June 11, 2015 Amendment, *supra* note 11.

<sup>28</sup> In the House version that was recently voted out of committee, some of the provisions would only apply where a district court (and thus possibly only to the judges who are part of the court) is part of the Patent Pilot Program. *See* H.R. 9 June 11, 2015 Amendment, Amendment #1 by Rep. Goodlatte, *supra* note 11, at § 6(a). This version would require that at least six of the pilot program districts be designated to develop sets of local rules to achieve the discovery goals and that after eighteen months these rules be implemented. In due course, the Judicial Conference would review these rules and would decide whether to implement them for all districts. Since participation in the

There are four key subject areas that have been on the table over the course of these legislative patent reform efforts 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.<sup>29</sup> 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 potentially affect almost all patent cases.

## A. CLAIM CONSTRUCTION<sup>30</sup>

Typically, patent cases proceed with fact discovery (and then expert discovery) opening soon after the pleadings are complete, followed by trial. The courts construe claim terms during the case, with some courts opting to conduct a *Markman* hearing during discovery, some courts conducting claim construction 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).<sup>31</sup> With certain limited exceptions, the prior House bill would have required courts to construe claims very early in the process and most significantly prior to any fact discovery, which would have been presumptively stayed.<sup>32</sup> While there are some situations where there is little or no discovery needed for the accused products, this is not universally the case. The House bill, nevertheless, essentially treated all patent litigation in, essentially, the same manner without leaving much discretion, if any, to the district court judge. The version voted out of the House committee in June 2015, however, eliminated such an early claim construction requirement, and now only requires a stay when there are pending pretrial motions (1) to sever a claim or drop a party, (2) to transfer, or (3) to dismiss for improper venue.<sup>33</sup> The latest amendment passed during

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Patent Pilot Program is voluntary, if the bill is passed, it will be interesting to see which districts participate in this endeavor or if any districts or individual judges opt out of the Patent Pilot Program as a result.

<sup>29</sup> In addition to the provisions impacting case management, the Senate and House bills also contain numerous provisions relating to oversight of demand letters and the stay of infringement actions against customers, as well as certain technical changes to the post-grant proceedings created under the America Invents Act.

<sup>30</sup> See *The Sedona Conference Report on the Markman Process* (Nov. 2010), available at <https://thesedonaconference.org/download-pub/497> [hereinafter *Sedona 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. 9, *supra* note 11.

<sup>31</sup> There are significant pros and cons for each of these approaches. The topic is addressed in the *Sedona WG5 Report on the Markman Process*. See *id.* The concern this Working Group 10 Introductory Chapter focuses on is whether fact discovery should be held in complete abeyance until after claim construction, as proposed by the Innovation Act. H.R. 9, *supra* note 11.

<sup>32</sup> See H.R. 3309, *supra* note 11, at § 3(d)(1) (“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.”).

<sup>33</sup> See H.R. 9 June 11, 2015 Amendment, Amendment #1 by Rep. Goodlatte, *supra* note 11, at § 3(a).

markup by the full committee adds (4) [motions to] dismiss the action pursuant to Federal Rule of Civil Procedure 12(b).<sup>34</sup>

Supporters of the prior House proposal for stay of discovery pending claim construction 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 patent cases, early claim construction can in fact successfully lead to the grant of summary judgment or be a significant factor to motivate settlement. However, early claim construction will not 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 or reviewed 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 lengthens the time to trial and resolution of the case, assuming 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 a construction 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 of early claim construction, even if early case resolution is not possible, is that it helps 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 earlier 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 cases which are not resolved as a result of early construction. Such delays would extend the time needed to resolve the dispute and result in 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

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<sup>34</sup> See H.R. 9 June 11, 2015 Amendment, Amendment #16 by Rep. Collins, *supra* note 11.

party that 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 likely should, take place during the middle of fact discovery.<sup>35</sup>

As a best practice, WG10 maintains that it would be inadvisable to hold up fact discovery until after the court construes the claims. This position is consistent with the Senate bill's approach on the topic and the version voted out of the House committee in June.<sup>36</sup>

## **B. ENHANCED SPECIFICITY IN THE INITIAL COMPLAINT**

Both the House bill and the Senate bill also require the patent owner to provide heightened specificity in its initial complaint. Specifically, under both bills,<sup>37</sup> complaints would be required to specify the following:

- "Each claim of each patent infringed."
- "The accused process, machine, manufacture, or composition of matter ("accused instrumentalities"), as well as name or model number or description of the accused instrumentality."
- Certain specified grounds for the alleged infringement. The grounds for the alleged infringement previously required by the House bill include "a clear and concise statement of where each element of each claim is found, and how each limitation of each claim is met," whereas the Senate bill takes a more moderated approach requiring more broadly "[a] description of the elements that are allegedly infringed and how the accused instrumentality allegedly infringes those elements." The House bill as now amended by committee is closer on this issue to the Senate bill.<sup>38</sup>
- "For each claim of indirect infringement, the acts of the alleged indirect infringer that contribute to, or are inducing, a direct infringement."

Both the House and Senate bills have provisions addressing what should happen when the plaintiff is unable to provide such required information because it is "not readily accessible" (the term used

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<sup>35</sup> See *Sedona WG5 Report on the Markman Process*, *supra* note 30.

<sup>36</sup> See S. 1137, *supra* note 11, at § 5(a) (stating "discovery shall be stayed" only during the pendency of a motion to dismiss, a motion to transfer, or a motion to sever accused infringers, if filed prior to the first responsive pleading).

<sup>37</sup> See H.R. 9, *supra* note 11, at § 3(a)(1); S. 1137, *supra* note 11, at § 3(b)(1).

<sup>38</sup> See H.R. 9 June 11, 2015 Amendment, *supra* note 11, at § 3(a)(1); *cf.* H.R. 9, *supra* note 11, at § 3(a)(1).

in H.R. 9) or “not accessible” (the term used in S. 1137).<sup>39</sup> Both require a general description of the information and an explanation (the term used in H.R. 9) or a statement (the term used in S. 1137) by the plaintiff as to why such information is not accessible.<sup>40</sup> The Senate bill’s formulation, however, unlike that of the House bill, specifically ties the “not accessible” determination with “an inquiry reasonable under the circumstances, consistent with Rule 11 of the Federal Rules of Civil Procedure.”<sup>41</sup>

Also relevant to this subject are the forthcoming amendments to the Federal Rules of Civil Procedure that will abolish Rule 84, which provides model forms that attorneys can rely on in several situations, including Form 18, a model patent complaint. In May 2015, the U.S. Supreme Court in effect approved the elimination of the right for patent plaintiffs to file “bare-bone” complaints in accordance with Form 18.<sup>42</sup>

### C. FEE-SHIFTING

Among all of the proposals in the pending legislation, none has received greater scrutiny than the proposal of the House bill to provide a rebuttable presumption, *sua sponte*, in favor of the award of attorney’s fees to the prevailing party in patent litigation cases, unless the court “finds the position and conduct of the nonprevailing party or parties were reasonably justified in law and fact,” or barring “special circumstances.”<sup>43</sup> The House bill as amended by committee leaves this provision unchanged. The intent of the proposal is to provide a party frivolously accused of infringement a mechanism by which to recoup their 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, thus raising significant “access to justice” concerns. 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.<sup>44</sup> 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.

The Senate version takes a more moderate approach with respect to fee-shifting than does the House version. Under S. 1137, prevailing parties would be required to affirmatively move for such fee-shifting, and the court would have to find that the non-prevailing party’s position or conduct

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<sup>39</sup> See H.R. 9, *supra* note 11, at § 3(a)(1); S. 1137, *supra* note 11, at § 3(b)(1).

<sup>40</sup> *Id.*

<sup>41</sup> See S. 1137, *supra* note 11, at § 3(b)(1).

<sup>42</sup> Ryan Davis, *Supreme Court OKs End to Bare-Bones Patent Complaints*, LAW360 (May 20, 2015), <http://www.law360.com/articles/658294/supreme-court-oks-end-to-bare-bones-patent-complaints>. For a full discussion on the Federal Rules of Civil Procedure amendment process, see *infra* Section V (Potential Impact of the Proposed Amendments to the Federal Rules of Civil Procedure).

<sup>43</sup> See H.R. 9, *supra* note 11, at § 3(b)(1).

<sup>44</sup> 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).

was “not objectively reasonable.”<sup>45</sup> The Manager’s Amendment to S. 1137, passed by the Senate Judiciary Committee in June, states that the prevailing party bears the burden of proof in seeking an award of attorney’s fees.<sup>46</sup> There is no rebuttable presumption in favor of attorney fee-shifting under the Senate version.

Both the House and Senate bills require a plaintiff to disclose any entity having rights to enforce the patent or a financial interest in the patent, and the patent owner’s ultimate parent entity.<sup>47</sup> They also have a specific provision targeting PAEs who are unable to pay any attorney fee-shifting award. The House bill would allow the courts to compel an “interested party” to be joined and held liable for attorney fee-shifting should a nonprevailing party be unable to pay a fee-shifting award.<sup>48</sup> The Senate bill allows a court to hold an “interested party” liable for attorney fee-shifting fees only if the patent owner fails to certify an ability to pay such an award or if the patent owner does not certify that its primary business is not as a patent assertion entity.<sup>49</sup> Unlike the House’s version, the Senate’s version would allow for such liability to be extended to an “interested party,” without adding the administrative step of compelling joinder of that party.<sup>50</sup> Furthermore, the Senate bill exempts universities from this fee-recovery provision.<sup>51</sup>

#### **D. JUDICIAL CONFERENCE AMENDMENTS TO FEDERAL RULES PROPOSED BY THE SENATE AND HOUSE BILLS**

The Senate and House bills also contain provisions directing the Judicial Conference to take certain actions regarding amending the Federal Rules of Civil Procedure. Both the Senate and the House versions would require the Judicial Conference to set forth new rules “to address the asymmetries in discovery burdens and costs” in patent cases and making specific reference to the “discovery of core documentary evidence” and requiring its production first, and require parties to pay the costs and expenses of any additional “non-core” discovery they seek, barring mutual agreement between the parties.<sup>52</sup> 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

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<sup>45</sup> See S. 1137, *supra* note 11, at § 7(b).

<sup>46</sup> See S. 1137 June 2, 2015 Amendment, *supra* note 11, at § 7(b).

<sup>47</sup> See H.R. 9, *supra* note 11, at § 4(a); S. 1137, *supra* note 9, at § 10(a)(1).

<sup>48</sup> See H.R. 9, *supra* note 11, at § 3(a)(1).

<sup>49</sup> See S. 1137, *supra* note 11, at § 7(b).

<sup>50</sup> *Id.*

<sup>51</sup> *Id.*

<sup>52</sup> See H.R. 9, *supra* note 11, at § 6(a); S. 1137, *supra* note 11, at § 6(a).

practice on a number of issues, such as whether discovery is “core,” and also by making it necessary for additional depositions to be conducted following the production of additional documents.

Initial drafts of the House bill set forth new discovery rules for the Judicial Conference and would have required the Conference to implement the rules as written. Those drafts generated resistance from the judiciary, as well as from other commentators, and from 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, the rules may need to be adjusted after being put into practice, and the Judicial Conference is better able to respond than Congress. The House bill, as voted out of committee in June, has softened its language to require the Judicial Conference to implement rules within certain parameters, but leaves the Conference with the discretion to formulate the specific rules, which will be initially developed by designated courts that are participating in the Patent Pilot Program.<sup>53</sup> This has brought it closer to the Senate bill as voted out of committee in June.<sup>54</sup>

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<sup>53</sup> See H.R. 9 June 11, 2015 Amendment, *supra* note 11, at § 6(a).

<sup>54</sup> See S. 1137, *supra* note 11, at § 6(a) (stating, e.g., “In developing rules or procedures under this section, the Judicial Conference should consider what kinds of evidence constitute ‘core documentary evidence.’”).

## IV. *The Patent Pilot Program*

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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.<sup>55</sup> The basic design of the Program was to select a subset of districts and have judges within each volunteer to serve as part of the 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 Patent Pilot Program is having its intended effect now four years after enactment, the overall success of the Program needs to be measured over the longer term. The law requires reports to be generated midway through and at the conclusion of the Program's ten year life.<sup>56</sup> 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.<sup>57</sup>

There is reason to believe that the Patent 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, because parties will know their general practices and customs. Experienced judges will also become more familiar with relevant law and, presumably, will be able to resolve issues more expeditiously than their less-experienced colleagues. Given the existence and ongoing refinement of the Patent 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 under the Program.

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<sup>55</sup> 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 7, 2015).

<sup>56</sup> 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); *Id.* at § 1(e).

<sup>57</sup> 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>.

## V. *Potential Impact of the Forthcoming Amendments to the Federal Rules of Civil Procedure*

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Amendments to the Federal Rules of Civil Procedure, due to take effect December 1, 2015, 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 Supreme Court approved substantial changes to various Federal Rules of Civil Procedure in an attempt to reduce costs and delay in civil litigation. An amendment to Rule 1, for instance, underscores the need for cooperation among counsel. That amendment will 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.”<sup>58</sup> The package of amendments modifies the scope of discovery to include proportionality factors, strengthens the judicial case management role, and limits sanctions for failing to preserve electronically-stored information.<sup>59</sup>

The most significant change for purposes of patent litigation is the change in the scope of discovery.<sup>60</sup> Effective December 1, 2015, Federal Rule of Civil Procedure 26(b)(1) will state:

Parties may 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 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

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<sup>58</sup> See Hon. John C. Roberts, *Proposed Amendments to the Federal Rules of Civil Procedure Transmitted to Congress*, April 29, 2015 (emphasis added), available at [http://www.supremecourt.gov/orders/courtorders/frcv15\(update\)\\_1823.pdf](http://www.supremecourt.gov/orders/courtorders/frcv15(update)_1823.pdf).

<sup>59</sup> Thomas Y. Allman, *The 2015 Civil Rules Package As Transmitted to Congress*, 16 SEDONA CONF. J. \_\_\_\_ (forthcoming 2015).

<sup>60</sup> Of additional note, the proposed amendments would also in effect eliminate the right for patent plaintiffs to file “bare-bone” patent infringement complaints in accordance to Form 18. See *supra* Section III.B. (Enhanced Specificity in the Initial Complaint).

assess the value of the case early on in order to make informed decisions on proportionality. This determination is difficult even after fact and expert discovery has been completed, particularly as the Federal Circuit has increased scrutiny of damages in patent litigation over the last several years.<sup>61</sup>

The amendment to Rule 26, among others, nonetheless was recommended by the Civil Rules Advisory Committee after extensive analysis, receipt of more than 2,300 written comments from the public, and conducting three hearings at which 120 witnesses testified. The amendments were approved by the Standing Committee on Rules of Practice and Procedure and the Judicial Conference of the United States, and were reported favorably to Congress by the Supreme Court on April 29, 2015. Unless Congress raises an objection, which is not anticipated, the amendments will go into effect on December 1, 2015. In the meantime, it would 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.

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<sup>61</sup> 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).

## VI. *Issues Raised by Parallel Proceedings*

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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 USPTO 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 USPTO must determine whether to institute the PGR, CBM, or IPR proceeding within three months of the patent owner's preliminary response. If the USPTO 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 USPTO 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.<sup>62</sup> 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.<sup>63</sup>

Patentability challenges in front of the USPTO, however, are very different from validity challenges in the federal courts, as outlined briefly below and in more detail in the Working Group 10 Chapter on Parallel USPTO Proceedings, published for public comment in October 2014.<sup>64</sup> 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 USPTO 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 USPTO 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 USPTO than in the district courts.

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<sup>62</sup> See 2014 Patent Litigation Study, *supra* note 7, at 20.

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

<sup>64</sup> See The Sedona Conference, *Commentary on Patent Litigation Best Practices: Parallel USPTO Proceedings Chapter* (Oct. 2014, public comment version), available at <https://thesedonaconference.org/download-pub/3962>.

## 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*.<sup>65</sup> 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 USPTO's current broadest reasonable interpretation (BRI) mandate.<sup>66</sup> As a result, the world of available prior art may be more limited in district court than in USPTO challenges.

The broader construction at the USPTO favors patent challengers. Due to the different claim construction standards, a patent owner may be forced into the difficult circumstance of having to try to amend claims<sup>67</sup> (and thus potentially losing past damages) to achieve the same scope at the USPTO that would have been afforded in construction of 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." Except in rare circumstances, no live testimony is presented at the final hearing.<sup>68</sup> 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 sixty 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, along with contemporaneous cross examination, on the issue of validity in district court.

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<sup>65</sup> See generally *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005).

<sup>66</sup> The current House bill would change the standard for claim construction used by the PTAB so that it is the same as the standard used by the Courts. See H.R. 9, *supra* note 11, at § 9(b).

<sup>67</sup> For example, the procedures established by the USPTO allow for the amendment of claims by the patentee during an *inter partes* review proceeding, but on a more limited basis than during the original prosecution of the patent. See 37 CFR § 42.121.

<sup>68</sup> Office Trial Practice Guide, 77 Fed. Reg. 48756, 48762 and 48768 (Aug. 14, 2012).

**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.*,<sup>69</sup> 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 USPTO.

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 PTAB’s rejection of the ’434 patent as obvious in 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.<sup>70</sup> Baxter’s petition for *certiorari* before the Supreme Court, however, was denied on May 19, 2014.

The *Fresenius* decision illustrates that timing is critically important when dealing with parallel district court and USPTO 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 USPTO in these proceedings.<sup>71</sup>

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<sup>69</sup> See *Fresenius USA, Inc. v. Baxter Intern., Inc.*, 721 F.3d 1330 (Fed. Cir. 2013).

<sup>70</sup> See *Fresenius USA, Inc. v. Baxter Intern., Inc.*, 733 F.3d 1369 (Fed. Cir. 2013).

<sup>71</sup> 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 in Managing Their Cases*

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Under 28 U.S.C. § 1657, courts have exclusive authority over the order in which they consider litigations before them. Accordingly, it is the consensus viewpoint of Working Group 10 that the courts should be allowed a reasonable degree of latitude and discretion in managing their cases, including through local rules, procedures of individual judges, and rules adopted by the rules committees. The case management of patent litigation cases should not be unduly impinged upon by the legislature in its efforts to reform patent litigation.

Recent public comments from Former Chief Judge Randall R. Rader and Judge Kathleen M. O'Malley of the Federal Circuit have focused on striking the appropriate balance between the efforts of Congress and the mandate of the courts. 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* raising concerns over frivolous patent lawsuits.<sup>72</sup> 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.<sup>73</sup> She stressed the importance of independence for the federal judiciary and cautioned against interfering with a court's exercise of its own authority.<sup>74</sup> Judge O'Malley said Congress should not be in the business of docket control, altering pleadings forms, or imposing Rule 11 sanctions.<sup>75</sup> She further cautioned that some of the legislative fixes that have been proposed are directly

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<sup>72</sup> 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](http://www.nytimes.com/2013/06/05/opinion/make-patent-trolls-pay-in-court.html?_r=0).

<sup>73</sup> 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](http://fstp-expert-system.typepad.com/files/21-k-omalley_keynote-address-ipo-2013.pdf).

<sup>74</sup> *Id.* at 3–4.

<sup>75</sup> *Id.* at 4.

intruding upon the inherent authority of the courts to manage and control litigation generally, not just patent litigation.<sup>76</sup>

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 the following:

- (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.<sup>77</sup>
- (2) Fee reversal—when there is litigation abuse, that case should be considered “exceptional” under section 285 of the Patent Act.<sup>78 79</sup>
- (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.<sup>80</sup>

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.<sup>81</sup>

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<sup>76</sup> *Id.*

<sup>77</sup> 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>.

<sup>78</sup> *Id.* at 8–9.

<sup>79</sup> 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, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014); *Highmark Inc. v. Allcare Health Mgmt. Sys.*, 134 S. Ct. 1744, 1746 (2014) (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).

<sup>80</sup> Rader, *supra* note 77, at 9–10.

<sup>81</sup> *Id.*

Judge O'Malley has identified a number of recent legislative proposals that raise concerns of legislative overreach, 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.<sup>82</sup>

Consistent with the above, the Supreme Court, in an opinion handed down in May 2015, stated:

[I]t is still necessary and proper to stress that district courts have the authority and responsibility to ensure frivolous cases are dissuaded. If frivolous cases are filed in federal court, it is within the power of the court to sanction attorneys for bringing such suits. It is also within the district court's discretion to award attorney's fees to prevailing parties in "exceptional cases."<sup>83</sup>

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<sup>82</sup> O'Malley, *supra* note 73, at 5–11.

<sup>83</sup> *Commil USA LLC v. Cisco Systems, Inc.*, \_\_\_ U.S. \_\_\_, at 14 (May 26, 2015) (citing Fed. R. Civ. Proc. 11, 35 U.S.C. § 285, and *Octane Fitness*). The Court made this statement in direct reference to the current legislative context surrounding Patent Assertion Entities and arguments that frivolous patent infringement claims can impose a "harmful tax on innovation." *Id.* at 13–14.

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

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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 handling 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.<sup>84</sup> The breadth and depth of the best practices the Working Group has developed are extensive. These Best Practices are set forth in the 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 Issues from the Judicial Perspective—were published for public comment from August 2014 to February 2015.

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 principles have been developed. These Principles are set forth below.

WG10 believes that adoption of these Principles and 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 in patent litigation. The Principles are:

### Case Management Issues from the Judicial Perspective

- Principle No. 1 – WG10 is developing these Best Practices to improve the system for resolving patent disputes and make it more fair and efficient. These Best Practices are to apply to and benefit all stakeholders in patent litigation, both bench and bar, and to and for all types of patent holders and accused infringers. These Best Practices should further the goals of Federal Rule of Civil Procedure 1 and “should be construed and

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<sup>84</sup> The opinions expressed in this publication, unless otherwise attributed, represent consensus views of the members of The Sedona Conference's Working Group 10. They do not necessarily represent the views of any of the individual participants or their employers, clients, or any organizations to which they may belong, nor do they necessarily represent official positions of The Sedona Conference.

administered to secure the just, speedy, and inexpensive determination of every action and proceeding,” all to help ensure a non-frivolous patent litigation system.

- Principle No. 2 – The parties should advise the court as soon as practicable, during case management conferences and on an ongoing basis, whether motions in this proceeding, or filings or petitions in parallel proceedings, are likely to be filed that may substantially affect the management of the case. The court’s case management schedule should require timely filing of all such motions early enough such that a timely ruling would allow the parties a full and fair opportunity to account for it for purposes of streamlining discovery, motion practice, and trial preparations.
- Principle No. 3 – The parties should actively and cooperatively work to narrow the set of asserted claims, representative products, and prior art references in a good faith and efficient manner. [*see also* Discovery Principle No. 3]
- Principle No. 4 – The parties should disclose, formally or informally, the basis for their positions and requests, to help the court and the parties understand the significance to the case of each and to mitigate against the presentation and litigation of issues that ultimately prove to be of little significance. This Principle applies in particular to the claim construction process, for example, to explain why claim construction of certain terms is needed, especially if the party is requesting a large number of terms to be construed.
- Principle No. 5 – Litigants should be encouraged to only file meritorious motions that will help resolve actual significant disputes in the litigation, and facilitate the expeditious presentation and resolution of such motions. The same concept should apply when frivolous oppositions to such motions are filed. Where litigants fail in this regard, the courts should consider taking appropriate action, such as the award of fees under *Octane* or the preclusion of certain actions at trial.
- Principle No. 6 – Lead counsel of both parties should directly manage their respective litigation strategies and procedures from the start of the case, and ensure there is a close coordination between the issues the party is going to try and the preparations leading up to them.

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

- Principle No. 1 – The PTAB, ITC, and district courts should take steps to harmonize parallel proceedings and exercise their discretion, when possible, to reduce abusive litigation and foster just, speedy, and inexpensive determinations.
- Principle No. 2 – Parties to PTAB proceedings should be afforded a fair opportunity to present appropriate evidence and argument both before and after institution.

## Discovery

- Principle No. 1 – Discovery should be proportionate with the overall nature of the dispute, including factors such as the number of patents or patent families asserted, complexity of the technology involved, the number of accused products involved, the past damages or future value (either monetary or injunctive) of a specific patent litigation, and the importance of the discovery in resolving the issues.
- Principle No. 2 – The parties should meet and confer before the first scheduling conference to discuss the substantive basis for their allegations, specific identification of the claims being asserted and products alleged to infringe, and known prior art, and to discuss the scope of discovery believed to be needed by each party. The parties should also address confidentiality issues. The parties should continue to meet and confer about the above throughout the case and to resolve any disputes expeditiously and independent of any court intervention if at all possible.
- Principle No. 3 – Each party should be required to disclose primary relevant documents and contentions early in the discovery process and have an ongoing duty to disclose any additional such documents once it learns of their existence or relevancy; the court should consider not allowing untimely produced documents or contentions to be admitted at trial.
- Principle No. 4 – Where appropriate and necessary, courts should seek to resolve discovery disputes expeditiously and should use some form of gating function to determine which disputes truly require formal motion practice.
- Principle No. 5 – Discovery sanctions should not be routinely requested and should not be pursued by a party in a manner that overshadows the substantive issues in the case. Routinely seeking discovery sanctions or conducting discovery in a manner primarily aimed at “catching” your opponent in a discovery error is not an efficient use of client or judicial resources.
- Principle No. 6 – If a party’s or attorney’s conduct is egregious during discovery and warrants fee shifting or sanctions, the court should consider appropriate monetary or evidentiary sanctions against the party or counsel to remedy, deter, or punish such conduct.

## Summary Judgment

- 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 reasonably 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.

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

- Principle No. 1 – An expert’s testimony should be fairly limited to the opinions and bases for those opinions disclosed in the expert’s Rule 26 report. A party should seek permission to prepare and serve a supplemental report to address any new facts or opinions it intends to offer as soon as an evidentiary issue is identified. The expert should not attempt to supplement the report through deposition or declaration beyond what was fairly set forth in the report.
- Principle No. 2 – The court should not hesitate to exclude expert testimony or demonstrative aids that are not supported by the expert report. Strict adherence to the view that parties must “show their cards” as to their final legal positions during expert discovery will discourage “sandbagging” and result in a fairer process that minimizes surprises at trial.

While these forthcoming Chapters of the WG10 Commentary on Patent Litigation Best Practices have been over two years in their development, the work of WG10 is far from over. The Working Group has expanded the topics it is addressing and is updating the proposals that it has made. WG10 has formed new drafting teams to develop the following new Chapters and additions to existing Chapters:

#### Case Management Issues from the Judicial Perspective, supplemental sections on:

- Heightened pleading standards—implications and compliance
- Impact of *Teva v. Sandoz* on the claim construction process
- Impact of *Alice v. CLS Bank*—when and how the courts should address Section 101 patentability
- Impact of *Octane Fitness/Highmark*—proposed best practices for the litigation and management of attorney fee-shifting motions

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

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

#### Use of Mediators as a Case Management Tool for Narrowing the Issues in Dispute and Improving Prospects for Settlement

- [Proposed] Principle No. 1 – Mediation is designed to benefit the parties by providing an opportunity for mutually acceptable resolution of their disputes, and the integrity of the process should be preserved to achieve that result.
- [Proposed] Principle No. 2 – When used in connection with pending litigation, mediation should be administered to promote the just, speedy, and cost-effective resolution of the litigation.

- [Proposed] Principle No. 3 – Mediation of patent cases must promote the overall goals of the patent system as interpreted by the courts.

Furthermore, WG10 plans on forming a new drafting team to develop the following additional Chapter:

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 USPTO/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 A: The Sedona Conference Working Group Series & WGS Membership Program*

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

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 has convened leading jurists, attorneys, academics, and experts, all of whom support the mission of the organization by their participation in conferences and the Sedona Conference Working Group Series (WGS). 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.

The 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 created when a “tipping point” issue in the law is identified, and it has been determined that the bench and bar would benefit from neutral, nonpartisan principles, guidelines, best practices, or other commentaries. Working Group drafts are subjected to a peer review process involving members of the entire Working Group Series including—when possible—dialogue 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. Its first publication, *The Sedona Principles: Best Practices Recommendations & Principles Addressing Electronic Document Production*, has been cited favorably in scores of court decisions, as well as by policy makers, professional associations, and legal academics. In the years since then, the publications of other Working Groups have had similar positive impact.

Any interested jurist, attorney, academic, consultant, or expert may join the Working Group Series. Members may participate in brainstorming groups, on drafting teams, and in Working Group dialogues. Membership also provides access to advance drafts of WGS output with the opportunity for early input. For further information and to join, visit the “Working Group Series” area of our website, <https://thesedonaconference.org/wgs>.

# *Appendix B: The Sedona Conference Working Group 10 on Patent Litigation Best Practices—List of Steering Committee Members and Judicial Advisors*

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The Sedona Conference's Working Group 10 on Patent Litigation Best Practices Steering Committee Members and Judicial Advisors are listed below. Organizational information is included solely for purposes of identification.

The opinions expressed in publications of The Sedona Conference's Working Groups, unless otherwise attributed, represent consensus views of the Working Groups' members. They do not necessarily represent the views of any of the individual participants or their employers, clients, or any organizations to which they may belong, nor do they necessarily represent official positions of The Sedona Conference. Furthermore, the statements in each publication are solely those of the non-judicial members of the Working Group; they do not represent judicial endorsement of the opinions expressed or the practices recommended.

## **Steering Committee Members**

Gary M. Hoffman, Pillsbury Winthrop Shaw Pittman LLP  
Andrea Weiss Jeffries, WilmerHale  
Patrick M. Arenz, Robins Kaplan LLP  
Donald R. Banowit, Sterne, Kessler, Goldstein & Fox P.L.L.C.  
Marta Beckwith, Aruba Networks, Inc.  
Michael L. Brody, Winston & Strawn LLP  
Monte Cooper, Orrick, Herrington & Sutcliffe LLP  
Melissa Finocchio, Intellectual Ventures  
Henry Hadad, Bristol-Myers Squibb  
R. Eric Hutz, Reed Smith LLP  
Rachel Krevans, Morrison & Foerster LLP  
Paul K. Meyer, TM Financial Forensics, LLC  
Teresa Stanek Rea, Crowell & Moring LLP  
Alexander H. Rogers, Qualcomm Incorporated

## **Judicial Advisors**

Hon. Cathy Ann Bencivengo, U.S. District Judge, Southern District of California  
Hon. Cathy Bissoon, U.S. District Judge, Western District of Pennsylvania  
Hon. Hildy Bowbeer, U.S. Magistrate Judge, District of Minnesota  
Hon. Stanley R. Chesler, U.S. District Judge, District of New Jersey

Hon. Joy Flowers Conti, Chief U.S. District Judge, Western District of Pennsylvania  
Hon. Leonard E. Davis (ret.), Fish & Richardson  
Hon. Theodore R. Essex, Administrative Law Judge, U.S. International Trade Commission  
Hon. Marvin J. Garbis, U.S. District Judge, District of Maryland  
Hon. Paul Grewal, U.S. Magistrate Judge, Northern District of California  
Hon. Faith S. Hochberg (ret.), Judge Hochberg ADR, LLC  
Hon. James F. Holderman (ret.), JAMS  
Hon. Susan Illston, U.S. District Judge, Northern District of California  
Hon. Kent Jordan, U.S. Appellate Judge, Court of Appeals for the Third Circuit  
Hon. Barbara M. G. Lynn, U.S. District Judge, Northern District of Texas  
Hon. Paul R. Michel (ret.), U.S. Appellate Judge, Court of Appeals for the Federal Circuit  
Hon. Kathleen M. O'Malley, U.S. Appellate Judge, Court of Appeals for the Federal Circuit  
Hon. James L. Robart, U.S. District Judge, Western District of Washington  
Hon. Nina Y. Wang, U.S. Magistrate Judge, District of Colorado  
Hon. Ronald M. Whyte, U.S. District Judge, Northern District of California

**WG10 Chair Emeriti**

Hon. Paul R. Michel (ret.), U.S. Appellate Judge, Court of Appeals for the Federal Circuit  
Robert G. Sterne, Sterne, Kessler, Goldstein & Fox P.L.L.C.