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# The mandatory stay provision of the 2013 joint House-Senate patent bill

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### PATENTS

The author discusses patent legislation proposed in the 113th Congress that, if enacted, would *mandate* a stay of some cases, stripping district court judges of their independence and discretion in handling patent infringement cases. The author explains that the proposed provisions would also undo the prohibitions against instituting certain administrative post-grant proceedings at the Patent and Trademark Office during a parallel court proceeding challenging patent validity, promote de facto the lowest damages “apportionment” scheme, and perversely and illogically insert plaintiffs into unresolvable situations involving a combination of direct and indirect infringing parties, thereby denying relief to patentees.

## The Mandatory Stay Provision of the 2013 Goodlatte Patent Bill

**- Will Congress succumb to the Sirens' song and take over the judiciary's case management role in patent litigation?**



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### 1. Introduction

According to mythological accounts, ancient Mediterranean voyagers confronted a subtle danger embodied in alluring form: the Sirens. The Sirens compelled all who heard their sound to draw near their reef-surrounded isle. “Their song though irresistibly sweet was no less sad than sweet and lapped both body and soul in a fatal lethargy the forerunner of death and corruption.”<sup>1</sup> Those succumbing to the Sirens’ song perished as their boats were wrecked on the submerged reefs surrounding the island. Others escaped this fate, however, by blocking off the sound itself.

The Sirens are now singing a seductive song about how to stop patent “trolls” and their “abusive litigation.” It appears that several large corporations who cultivated the patent “troll” narrative trill forth their song, promising efficiency and fairness with concomi-

<sup>1</sup> Perry W. C., “The sirens in ancient literature and art,” 14 *The Nineteenth Century*, 109, 117 (1883). <http://books.google.com/books?id=t8ACAAAIAAJ&pg=PA117>.

tant benefits for all. Those giving heed to this modern Siren song are lulled into abandoning or subordinating to concerns of “litigation abuse” other fundamental long held values and principles of equity, separation of powers, judicial independence, and prudent judgment.

The America Invents Act is one of the most sweeping patent legislations in over a century, the effects of which are yet to be fully understood. Even before the full implementation of the AIA, legislators in both chambers of Congress have heard the Siren muses and called for yet additional changes in our patent law, ostensibly to curb purported “abusive patent litigation.” The majority of the proposed provisions in these bills appear to focus on the patent litigation process, ironically by stripping the federal judiciary of its procedural and discretionary case-management tools.

An insidious example of such legislative proposal is a provision titled “Customer-Suit Exception”—Section 5 of a “discussion draft”<sup>2</sup> introduced by House Judiciary Committee Chairman Robert W. Goodlatte (R-Va.) (hereinafter, the Goodlatte Bill). This provision, if enacted, would strip district court judges of their independence and discretion in handling cases and would introduce delays in judicial enforcement of patents by *mandating* a stay of some cases while another case involving the same patent is pending.

In 1952, the Supreme Court discussed the principle of choice of federal forum where a declaratory judgment action was brought in a different forum by the manufacturer, after the patentee had sued a customer for infringement. The court, while endorsing the discretionary authority of trial courts to determine the applicability of exceptions, stated the general rule governing choice of forum:

The manufacturer who is charged with infringing a patent cannot stretch the Federal Declaratory Judgments Act to give him a paramount right to choose the forum for trying out questions of infringement and validity. He is given an equal start in the race to the courthouse, not a headstart.<sup>3</sup>

Federal courts have generally applied this rule. As detailed in Section 2 below, however, courts have exercised their discretionary authority and recognized a “customer-suit exception” to the general rule by favoring a manufacturer’s action to resolve patent validity and infringement charges while staying the customer proceeding. The Federal Circuit recognized that “[t]he customer suit exception is an *exception* to the general rule that favors the forum of the first-filed action.”<sup>4</sup>

Section 5 of the proposed Goodlatte Bill is misleadingly titled “customer-suit exception” because it proposes to turn the exception into a rule—a rule for mandatory stay in essentially every instance of a customer suit.

Motivated by anecdotal accounts of allegedly abusive patent litigation, the proponents of mandating the customer-suit exception stay explain in the Goodlatte Bill’s one-page summary (emphasis added):

<sup>2</sup> House Judiciary Committee Press Release, May 23, 2013, [http://judiciary.house.gov/news/2013/05232013\\_5.html](http://judiciary.house.gov/news/2013/05232013_5.html)

<sup>3</sup> *Kerotest Mfg. Co. v. C-O-Two Fire Equip. Co.*, 342 U.S. 180, 185, 92 U.S.P.Q. 1 (1952).

<sup>4</sup> *Tegic Commc’ns Corp. v. Bd. of Regents of the Univ. of Texas Sys.*, 458 F.3d 1335, 1343, 80 U.S.P.Q.2d 1201 (Fed. Cir. 2006) (72 PTCJ 441, 8/18/06) (citations omitted, emphasis added).

Customer-Suit Exception—allows a manufacturer of the allegedly infringing product to intervene and stay cases against downstream customers and retailers, *who are not in the best position to defend an infringement suit*. This provision helps protect small businesses and customers from abusive patent suits.

Undeniably, in some cases, grant of a stay in a customer patent proceeding pending resolution in a manufacturer proceeding of common issues related to the same patent *can* be efficient and beneficial for all parties. However, for this to be true, the manufacturer court proceeding must: (i) be dispositive of the common substantive core issues such as claim construction, or invalidity of the patent; (ii) be carried-out with reasonable dispatch; and (iii) have results binding on all parties including at the customer proceeding and in other tribunals. Indeed, as Section 2 describes in further detail, courts already recognize, and not infrequently apply, stays in patent cases having the conditions for a “customer-suit exception.”

However, the *mandatory* stay provision of the proposed Goodlatte Bill would compel a stay in essentially every customer proceeding. Unfortunately, it would not only fail to ensure any of the elements (i) through (iii) above, but instead it would facilitate abuse and delay by alleged infringers.

For example, it would deny a patentee’s right for timely preliminary injunction against customer infringers; it would illogically put a halt to a “customer” direct infringement proceeding in favor of a related “manufacturer’s” contributory infringement proceeding, which by law requires a determination of direct infringement—the very determination that can only be made during the “customer” proceeding; and it would gratuitously *eliminate* the AIA’s prohibitions of Sections 315(a) and 325(a) against a party instituting inter partes or post-grant reviews (IPR or PGR) at the U.S. Patent and Trademark Office after that party files a civil action proceeding for invalidating the patent. This undermines the AIA’s legislative intent of Sections 315(a) and 325(a).<sup>5</sup>

## 2. Shifting risks onto patentees and taking away the district courts’ independence and discretion to efficiently manage patent cases

Some patent cases may have evidentiary and factual uncertainties that are best resolved in a “manufacturer” proceeding. It seems to me, however, that the mere reality of such uncertainty cannot form the basis for *shifting* the uncertainty risks onto the patentee. Nor is it a reason to turn on their heads the presumptions and the burden of proof that now exists in the courts—a movant for a stay bears a heavy burden of demonstrating the propriety of issuing the stay.

In keeping with the adage “*justice stayed is justice denied*,” the Supreme Court explained that if there is a possibility that a stay will damage a party, the movant for the stay “must make out a clear case of hardship or

<sup>5</sup> See the proposed language in Section 5 of the Goodlatte Bill for 35 U.S.C. § 296(e), enabling a “covered manufacturer” to challenge the patent at the PTO under § 311 or § 321 after initiating a court proceeding challenging the validity of that patent, thus permitting an end-run around the provisions prohibiting IPR and PGR challenges in such circumstances.

inequity in being required to go forward.”<sup>6</sup> The court earlier clarified that “[a] stay is not a matter of right, even if irreparable injury might otherwise result . . . . It is an exercise of judicial discretion. The propriety of its issue is dependent upon the circumstances of the particular case.”<sup>7</sup> In 1995, the Supreme Court reinforced this notion by holding that the *discretionary standard* governs district court’s decision to stay action during parallel court proceedings.<sup>8</sup>

The Supreme Court has recognized that “[t]he power to stay proceedings is incidental to the power inherent in every court to control the disposition of the causes on its docket with economy of time and effort for itself, for counsel, and for litigants.”<sup>9</sup>

In exercising such discretion to sever or stay, courts consider a wide range of relevant factors. Of paramount importance is the temporal extent of a stay: the Supreme Court stated that abuse of discretion resides in any “stay of indefinite duration in the absence of a pressing need.”<sup>10</sup> Many courts use a four-element standard for ascertaining the propriety of a stay: (1) whether the defendants are likely to prevail in the related proceeding; (2) whether, absent a stay, the defendants will suffer irreparable harm; (3) whether the issuance of a stay will cause substantial harm to the other parties to the proceeding; and (4) the public interests at stake.<sup>11</sup>

The propriety of stays in patent cases has been specifically addressed by the federal courts. The Supreme Court stated: “If [the alleged infringer] is forehanded, subsequent suits against him by the patentee can *within the trial court’s discretion* be enjoined pending determination of the declaratory judgment suit. . . . If he is anticipated, the court’s *discretion* is broad enough to protect him from harassment of his customers.”<sup>12</sup>

However, the court cautioned against “rigid mechanical solution[s],” stressing the importance of conservation of judicial resources and the comprehensive disposition of litigation.<sup>13</sup> As the court recognized, the trial court’s discretion tempers the preference for the first-filed suit, when such preference should yield to the forum in which all interests are best served.<sup>14</sup>

Rather than apply a “rigid mechanical solution” of a stay in every instance, the Federal Circuit explained that it prefers “to apply in patent cases the general rule whereby the forum of the first-filed case is favored, unless considerations of judicial and litigant economy, and the just and effective disposition of disputes, require

otherwise.”<sup>15</sup> “The guiding principles in the customer suit exception cases are efficiency and judicial economy,” the court explained.<sup>16</sup> The Federal Circuit explained that reasons to favor later filed cases include the convenience and availability of witnesses, absence of jurisdiction over all necessary or desirable parties, or the possibility of consolidation with related litigation, or considerations relating to the real party in interest.<sup>17</sup>

Courts have decided both in favor and against “customer suit exception” stays in different patent cases by weighing numerous relevant factors. These factors include (a) whether the same parties and issues are involved in the two actions;<sup>18</sup> (b) whether the “manufacturer’s” case is likely to resolve the issues in the action against the “customer”;<sup>19</sup> (c) whether the patent claims at issue in the “customer” proceeding are at issue in the “manufacturer” proceeding;<sup>20</sup> (d) whether the parties agreed to be bound by the “manufacturer” suit ruling;<sup>21</sup> (e) whether the patentee promised not to sue the “manufacturer” for infringement;<sup>22</sup> (f) whether the patentee had previously agreed to go forward without the damages discovery information it later sought from the “customer” defendants;<sup>23</sup> (g) whether the “customer” may obtain infringing product from other manufacturers that are not parties to the “manufacturer” proceeding;<sup>24</sup> (h) whether the patentee has a *special interest* in

<sup>15</sup> *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, 937, 27 U.S.P.Q.2d 1241 (Fed. Cir. 1993), abrogated on other grounds by *Wilton*, 515 U.S. 277.

<sup>16</sup> *Spread Spectrum Screening LLC v. Eastman Kodak Co.*, 657 F.3d 1349, 1357, 100 U.S.P.Q.2d 1266 (Fed. Cir. 2011) (82 PTCJ 742, 9/30/11) (quoting *Tegic*, 458 F.3d at 1343).

<sup>17</sup> *Genentech*, 998 F.2d at 938; *Kahn v. Gen. Motors Corp.*, 889 F.2d 1078, 1081-83, 12 U.S.P.Q.2d 1997 (Fed. Cir. 1989).

<sup>18</sup> *Kahn*, 889 F.2d at 1081.

<sup>19</sup> *Katz v. Lear Siegler, Inc.*, 909 F.2d 1459, 1463, 15 U.S.P.Q.2d 1554 (Fed. Cir. 1990) (in evaluating the customer-suit exception in patent cases, “the primary question is whether the issues and parties are such that the disposition of one case would be dispositive of the other”); *Kahn*, 889 F.2d at 1081-82; *Tegic*, 458 F.3d at 1343; *Genentech*, 998 F.2d at 938; *Spread Spectrum*, 657 F.3d at 1358 (clarifying that “the manufacturer’s case need only have the potential to resolve the ‘major issues’ concerning the claims against the customer—not every issue—in order to justify a stay of the customer suits.”)

<sup>20</sup> *Kahn*, 889 F.2d at 1081.

<sup>21</sup> *Refac Int’l Ltd. v. IBM Corp.*, 790 F.2d 79, 81, 229 U.S.P.Q. 712 (Fed. Cir. 1986), modified on rehearing, 798 F.2d 459, 230 U.S.P.Q. 537 (Fed. Cir. 1986) (affirming a stay of proceeding as to 31 “customer” defendants who had agreed to be bound by the decision in a continuing court proceeding against six “manufacturers.”); *Kahn*, 889 F.2d at 1082 (noting that “customer” had not agreed to be bound by a decision or any injunction against “manufacturer.” But see *Katz*, 909 F.2d at 1464, where the Federal Circuit upheld the stay of a customer suit where the customer had not agreed to be bound by the outcome of the manufacturer’s suit, weighing other factors more heavily).

<sup>22</sup> *Tegic*, 458 F.3d at 1343 (the patentee’s “express promise not to sue [manufacturer] for any past, present, or future acts of infringement weighs strongly against favoring [manufacturer’s] action” in a stay decision).

<sup>23</sup> *Micro Motion Inc. v. Kane Steel Co.*, 894 F.2d 1318, 1327, 13 U.S.P.Q.2d 1696 (Fed. Cir. 1990).

<sup>24</sup> *Tegic*, 458 F.3d at 1343 (noting that the named “manufacturer” in suit is not the only supplier to the alleged infringing “customer.”); *Emerson Electric Co. v. Black & Decker Mfg. Co.*, 606 F.2d 234, 241, 206 U.S.P.Q. 894 (8th Cir. 1979) (affirming the district court’s refusal to stay the case against the “customer” Sears, noting that it was not deterred from selling

<sup>6</sup> *Landis v. North American Co.*, 299 U.S. 248, 255 (1936).

<sup>7</sup> *Virginian Ry. Co. v. United States*, 272 U.S. 658, 672-73 (1926) (emphasis added, internal citation omitted).

<sup>8</sup> *Wilton v. Seven Falls Co.*, 515 U.S. 277, 279 (1995) (holding that the discretionary standard, not “exceptional circumstances” test, governs a district court’s decision to stay a declaratory judgment action during the pendency of parallel state court proceedings.)

<sup>9</sup> *Landis*, 299 U.S. at 254; see also *Will v. Calvert Fire Ins. Co.*, 437 U.S. 655, 665 (1978).

<sup>10</sup> *Landis*, 299 U.S. at 255.

<sup>11</sup> *Delaware River Port Authority v. Transamerican Trailer Transp. Co.*, 501 F.2d 917, 920 (3d Cir. 1974); *Glick v. Koenig*, 766 F.2d 265, 269 (7th Cir. 1985); *Steelworkers v. Oregon Steel Mills, Inc.*, 322 F.3d 1222, 1227 (10th Cir. 2003) (citing *Battle v. Anderson*, 564 F.2d 388, 397 (10th Cir. 1977)).

<sup>12</sup> *Kerotest*, 342 U.S. at 185-6 (1952) (emphasis added).

<sup>13</sup> *Id.* at 183.

<sup>14</sup> *Id.* at 184.



proceeding specifically against the “customer;”<sup>25</sup> (i) whether the “customer” case also involves alleged tortious conduct liability on a basis other than the patents at suit;<sup>26</sup> (j) whether forum shopping alone motivated the choice of venue for the “customer” suit;<sup>27</sup> (k) whether patentee will be irreparably harmed by staying the action and denying his request for a preliminary injunction against the “customer;”<sup>28</sup> (l) whether the “customer” is accused of direct infringement and the “manufacturer” could be held liable only as a contributory infringer;<sup>29</sup> (m) whether the “manufacturer” was sufficiently solvent to satisfy a judgment;<sup>30</sup> and (n) the convenience of each forum in determining which suit should proceed.<sup>31</sup>

Inexplicably, however, the mandatory stay provision of the Goodlatte Bill leaves no room for courts to weigh any of these factors or consider any of the “circumstances of the particular case”—it prescribes a one-sided mandate that the court “shall” issue a stay upon request of an alleged infringer but not upon any request by the patentee.

While the proponents of the mandatory stay would argue that it is merely procedural, its true effect would be substantive<sup>32</sup> because none of the factors (a)-(n) above would be considered, adding cost to patent litigation. It would also contradict the express authority un-

der 28 U.S.C. § 1657 delegated to the courts to determine priority of civil actions, an authority which may well supersede the proposed statute.<sup>33</sup>

der 28 U.S.C. § 1657 delegated to the courts to determine priority of civil actions, an authority which may well supersede the proposed statute.<sup>33</sup>

In so undermining the federal courts’ role in procedural rulemaking for patent cases only—based on mere allegations of “abusive patent suits” against customers—Congress runs the risk of raising a substantial question of separation of powers by impermissibly impeding the courts’ ability to decide cases effectively and by disturbing the important balance reached 80 years ago for *all* areas of litigation.

In 1934, after more than two decades of debate, Congress enacted the Rules Enabling Act<sup>34</sup> through which Congress delegated procedural rulemaking authority to the Supreme Court. In practice, the Rules Enabling Act process has resulted in minimal participation by the Supreme Court, as the U.S. Judicial Conference takes the lead in rule amendment or promulgation<sup>35</sup> using the Conference’s vast expertise through not only their own diverse membership including both litigators and judges, but also the researchers at the Federal Judicial Center.<sup>36</sup>

### 3. Effective evisceration of patentees’ right for relief in cases involving combinations of direct and contributory infringers

Section 5 of the proposed Goodlatte Bill has a breathtakingly illogical provision dealing with contributory infringement. Proposed 35 U.S.C. § 296(c)(1)(B-D) would mandate a stay of a “customer” proceeding, *precisely* in situations where such customer direct infringement is essential to deciding contributory infringement claims in the “manufacturer” proceeding. This provision is flawed because the claim for indirect infringement by the “manufacturer” requires a showing of direct infringement by the “customer.”

infringing devices by a judgment against its supplier, having subsequently switched to another supplier.)

<sup>25</sup> *Codex Corp. and Yellow Freight Sys., Inc., v. Milgo Elec. Corp.*, 553 F.2d 735, 738 n6, 194 U.S.P.Q. 49 (1st Cir. 1977) (“There may be situations, due to the prospects of recovery of damages or other reasons, in which the patentee has a *special interest* in proceeding against a customer himself, rather than solely as a shadow of the manufacturer, and therefore less weight should be given to the manufacturer’s forum.”); *Emerson Electric*, 606 F.2d at 241 (affirming the district court’s refusal to stay the case against Sears (the “customer”), noting that it was a large corporation demonstrating that a judgment against its supplier did not deter it from selling infringing devices, and that the patentee had a *special interest* in proceeding against Sears, as customer.)

<sup>26</sup> *Kahn*, 889 F.2d at 1081.

<sup>27</sup> *Gluckin & Co. v. Int’l Playtex Corp.*, 407 F.2d 177, 178, 160 U.S.P.Q. 513 (2nd Cir. 1969); *Kahn*, 889 F.2d at 1081; *Genentech*, 998 F.2d at 938.

<sup>28</sup> *Kahn*, 889 F.2d at 1079 (noting the patentee’s concern “that by the time the [manufacturer] action is over his business will be dead”). 35 U.S.C. § 271(d)(3) provides that “[n]o patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief . . . by reason of [his seeking] . . . to enforce his patent rights against infringement or contributory infringement.”

<sup>29</sup> *In re Laughlin Prods., Inc.*, 265 F. Supp.2d 525, 537 (E.D. Pa. 2003) (“However, where the patentee alleges that the customers themselves directly infringed the method or process disclosed in the patent, the customer suit exception does not apply.”) (citations omitted); *see also* cases listed in note 39 below.

<sup>30</sup> *Nat’l Broom Co. of California, Inc. v. Brookstone Co., Inc.*, No. 3:09-cv-00959-JSW (N.D. Cal. 2009) (finding patentee has a special interest in proceeding against “customers” because “manufacturer” was not sufficiently solvent to satisfy a judgment).

<sup>31</sup> *Genentech*, 998 F.2d at 937-938.

<sup>32</sup> Jack B. Weinstein, “Procedural Reform as a Surrogate for Substantive Law Revision,” 59 *Brooklyn Law Review* 827, 829, 83638 (1993) (suggesting that changes to substantive law that discourage civil litigation are being made in the name of procedural changes, thus obscuring discussion of the substantive changes).

<sup>33</sup> 28 U.S.C. § 1657(a) (“*Notwithstanding any other provision of law, each court of the United States shall determine the order in which civil actions are heard and determined, except that the court shall expedite the consideration of any action brought under chapter 153 or section 1826 of this title, any action for temporary or preliminary injunctive relief, or any other action if good cause therefor is shown. For purposes of this subsection, ‘good cause’ is shown if a right under the Constitution of the United States or a Federal Statute (including rights under section 552 of title 5) would be maintained in a factual context that indicates that a request for expedited consideration has merit.*”) (emphasis added).

<sup>34</sup> 28 U.S.C. § 2072.

<sup>35</sup> *See* Peter G. McCabe, “Renewal of the Federal Rulemaking Process,” 44 *American University Law Review* 1655, 1658 (1995) (The Judicial Conference, which ultimately submits proposed rules or rule amendments to the Supreme Court for review, is assisted by a Standing Committee and five advisory committees—for the civil rules, criminal rules, appellate rules, bankruptcy rules, and rules of evidence. A proposed rule or rule amendment is considered first by the appropriate advisory committee. The proposed rule or amendment is then sent to the Standing Committee for approval. Following approval by the Standing Committee, the proposed or amended rule is sent to the Judicial Conference for approval. Finally, the Judicial Conference transmits the proposed or amended rule to the Court. The Court has seven months to review and transmit the proposed or amended rule to Congress, which, in turn, has at least seven months to delay, modify, or veto the proposed rule or amendments. Absent affirmative action by Congress, the proposed or amended rule takes effect on the following December 1.)

<sup>36</sup> *See* <http://www.fjc.gov>.

Under well settled law, any showing of induced or contributory infringement requires proof that some other party directly infringes.<sup>37</sup> Where “customers” themselves are alleged direct infringers and “manufacturer” could be liable only under theories of contributory infringement or active inducement, the “manufacturer” proceeding cannot advance until there is a complete resolution of direct infringement by the “customer.”<sup>38</sup> For this reason, courts *invariably* deny stays under the “customer-suit exception” in such contributory infringement cases.<sup>39</sup> Courts in these cases found that because the customers—the alleged direct infringers—would be necessary parties to the manufacturer action, no efficiency would be gained through a stay.

The enactment of the Goodlatte Bill’s mandatory stay provisions would perversely eviscerate the rights of holders of method or system patent claims that are directed to “use” by end users or customers of suppliers, or in situations involving a combination of direct and indirect infringing parties. This problem would be particularly acute under the Federal Circuit’s recently adopted holding that a mere showing of a good faith belief in patent invalidity can avoid *all* liability for induced infringement of a valid patent.<sup>40</sup> For in these

<sup>37</sup> *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 526, 173 U.S.P.Q. 769 (1972); *Aro Mfg. Co., Inc. v. Convertible Top Replacement Co.*, 365 U.S. 336, 341, 128 U.S.P.Q. 354 (1961); *Henry v. A.B. Dick Co.*, 224 U.S. 1, 12 (1912).

<sup>38</sup> *Kahn*, 889 F.2d at 1082 (application of customer-suit exception is an abuse of discretion where outcome of declaratory action by manufacturer would not resolve direct infringement action against customer).

<sup>39</sup> *Laughlin*, 265 F. Supp.2d at 537 (customer-suit exception does not apply where the patentee alleges that the customers themselves directly infringed the claimed method or process); *Air Prods. and Chems., Inc. v. MG Nitrogen Svcs., Inc.*, 133 F. Supp.2d 354, 358 (D. Del. 2001) (“[‘Customer’] is not merely a reseller of the [patented equipment but] directly infringes the patents-in-suit by using the [claimed method], [‘customer’] use of the [his system], of which the [‘manufacturer’s’ equipment] is just a part, directly infringes the claims-in-suit, [‘manufacturer’s’] sale of the equipment only induces or contributes to infringement.”); *A.P.T., Inc. v. Quad Envtl. Techs. Corp., Inc.*, 698 F. Supp. 718, 722 (N.D. Ill., 1988) (customer-suit exception inapplicable where patentee of a process patent has particular interest in bringing suit against manufacturer’s customers, the alleged direct infringers); *Williams Gold Ref. Co. v. Semi-Alloys, Inc.*, 434 F. Supp. 453, 456 (D.C.N.Y. 1977) (denying a stay of first-filed actions against customer claiming infringement of a method patent because such actions were against “more than simply a retailer or wholesaler inasmuch as it is involved . . . in practicing the method patent.”); *Am. Acad. of Science v. Novell Inc.*, No. C-91-4300 EFL, 24 U.S.P.Q.2d 1386, 1388 (N.D. Cal. 1992) (customer-suit exception is inapplicable where the patent owner seeks to hold the manufacturer liable solely on a theory of inducement/contributory infringement, claiming direct infringement only against the customer); *Zemel Bros., Inc. v. Dewey Elecs. Corp.*, No. 82-CV-103, 218 U.S.P.Q. 722, 724, 1982 (N.D.N.Y. 1982) (holding that since there can be no contributory-infringement in the absence of direct infringement, the customers who are allegedly the direct infringers are necessary parties to the actions).

<sup>40</sup> *Commil USA, LLC v. Cisco Systems, Inc.*, No. 2012-1042. Slip Op. 9, 107 U.S.P.Q.2d 1290 (Fed. Cir. 2013) (86 PTCJ 457, 6/28/13) (“good-faith belief of invalidity may negate the requisite intent for induced infringement” because an invalid patent cannot be infringed), at <http://www.cafc.uscourts.gov/images/stories/opinions-orders/12-1042.Opinion.6-21-2013.1.PDF>.

instances, every defendant would claim to have such a belief and because any suit against alleged directly infringing customers would be automatically stayed, the patentee will have no place to turn for relief.

This is not the only aspect of this provision that indicates it has not been properly thought through. It would be unworkable as written in many circumstances and fact patterns beyond those considered in factors (a) through (n) above. Examples are:

(1) When the manufacturer proceeding involves several patents and many claims while the proceeding against a customer involves only one claim of only one of these patents—would it make sense to stay the customer proceeding?

(2) In a case against multiple defendants that are all involved with the same stream of commerce for the same product, but each defendant practices different claims of the patent, it is both inefficient and unfair to the parties to hold up a first proceeding in favor of another which cannot resolve issues essential for the first proceeding.

Courts handle these types of decisions every day using “scalpel” precision. The “cleaver”-blunt intervention of Congress would undermine that. Whereas Congress enacted statutes directing stays of Article III court proceedings pending the disposition of related Article II administrative proceedings at the expert agencies,<sup>41</sup> little reason exists for such intervention in the Judiciary’s own business.

My search in the full U.S. Code found no statute prescribing a mandatory stay in favor of other civil court proceedings except for short and bounded stay periods, circumscribed for specific procedural protection purposes, as shown in Appendix A. In contrast, the mandatory stay provision of the Goodlatte Bill is a substantive reversal of judicial practice over two centuries and disrupts 80 years of codified practice. It is extreme and far reaching so as to break new grounds in Congressional intervention in the judiciary’s dominion.

The stated underlying goal of the mandatory stay provision—curtail unnecessary litigation—is also a general goal in civil litigation, and as such, it is not patent-specific. Therefore, this goal should be addressed in the Federal Rules of Civil Procedure (FRCP). To the extent that FRCP is inadequate, these rules should be amended by the U.S. Judicial Conference based on the expertise of the judiciary.

It is not Congress’ role to micromanage processes that are best left to the judiciary, as those require *judgment*, the “exercise of *judicial discretion*” applied to the relevant facts and “dependent upon the *circumstances of the particular case*.” As the Supreme Court recognized, “an ample degree of discretion, appropriate for disciplined and experienced judges, must be left to the lower courts.”<sup>42</sup>

<sup>41</sup> 35 U.S.C. §§ 315, 325 (stay during PTO administrative proceedings); 49 U.S.C.A. § 14707 (stay pending disposition of administrative proceeding); 28 U.S.C.A. § 1659 (stay court proceeding pending disposition of International Trade Commission proceeding); 17 U.S.C. § 1010(c) (stay infringement proceedings pending administrative decision of the Copyright Royalty Board).

<sup>42</sup> *Kerotest*, 342 U.S. at 183-84.



#### 4. The mandatory stay proposal pulls down pillars of the patent bargain

A troubling fundamental aspect of the proposed mandatory customer-suit exception is that it would chip away at the quid pro quo of the patent bargain. To ensure the Constitutionally-protected exclusive right, patent rights have long been recognized as covering *multiple* and *independent* separate causes of action. The first patent act under our Constitution, the Patent Act of 1790, provided that “if any person or persons shall devise, make, construct, use, employ, or vend within these United States, any . . .” patented item, they shall be liable for infringement.<sup>43</sup>

Today, a patentee’s right to cover all use of an invention is similarly expressed through definitions of *independent* forms of infringement: “whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.” 35 U.S.C. § 271(a). Strict liability attaches to *each* one of these forms of infringement *independently* of the others.

For example, courts have held “that unauthorized use, *without more*, constitutes infringement”<sup>44</sup> and that the mere manufacture of a patented article, *without sale*, constitutes an infringement.<sup>45</sup> These are separate violations, *any* one of which being subject to injunctive relief “to prevent the violation of *any* right secured by patent.” 35 U.S.C. § 283 (emphasis added).

Proponents of the mandatory stay provision propose eliminating *by statute* the independence and discretion of district courts in these matters based on anecdotal allegations that “junk” patents are asserted in “abusive” litigation against downstream customers. Should patent enforcement actions be found meritorious and *not* abusive, would it be appropriate then for Congress to undermine the bedrock discretion that district courts command in issuing stays in accordance with the specific *facts and circumstances* of the case?

The factual and logical underpinning of the mandatory stay is suspect at best. For example, key support for the provision came in the testimony in Congress of the general counsel of J.C. Penney, a national retailer. In her testimony, she argued that non-practicing entities (NPEs) bypass manufacturers or sellers of patented technology and target instead the user-retailer with what she characterized as abusive patent infringement suits for patents that “have nothing to do with the products J.C. Penney actually sells.”<sup>46</sup> She testified that as a result of these suits, J.C. Penney is forced to “spend millions to invalidate patents [they] know are simply junk,”<sup>47</sup> implying that the underlying patents in these suits are invalid. Apparently, the proposed downstream “exception” legislation aims to shield alleged infringers who are not the manufacturers upstream.

I checked the publicly available information on some of the recent NPE patent suits against J.C. Penney, to see the so-called “junk” patents asserted. One recent case involves six patents by inventor Richard Helferich that cover the creation, storage, and delivery of electronic messages and related content to mobile phones.<sup>48</sup> It turns out that *all* six patents asserted against J.C. Penney in this case have been reaffirmed through *multiple* ex parte and/or inter partes reexaminations,<sup>49</sup> including one patent that successfully survived *four* such challenges at the PTO.

Another recent NPE case against J.C. Penney involves two patents owned by Alexsam, Inc. covering technology for activating gift cards and other prepaid card products using the standard credit card terminals deployed at retail point-of-sale locations. Public sources reveal that these two patents have been subject to *six* reexamination requests at the PTO, which has repeatedly confirmed patentability and/or refused to reexamine. Recently, a jury confirmed the validity of both patents and of *every one* of the 12 claims decided in this case.<sup>50</sup>

The J.C. Penney witness knew (or should have known) the extensive reexamination history of at least some of the patents that she chose to characterize as “junk,” because reexamination proceedings for patents in the cases identified above had concluded *prior* to their assertion against her company. Her testimony was simply and carelessly incorrect, and cannot form a credible factual basis for changing patent policy.

Similarly, the J.C. Penney facts and circumstances surrounding the patents asserted by Alexsam as described above belie the notion that litigation abuse would be curtailed or that judicial efficiency and equity would be promoted by the proposed mandatory stay. Here, the Alexsam case tracked the temporal sequence contemplated by the customer-suit exception—Alexsam first sued a manufacturer, IDT Corp., for infringement of the same patents asserted against J.C. Penney years later. The results were *not* indicative of efficiency and dispatch but rather of litigation abuse and delay by the alleged infringer: IDT concealed evidence, thwarted discovery, was unresponsive to specific interrogatories, and gave false responses to the court. It then failed to comply with court orders, further delaying production of responsive documents, thereby delaying the proceeding. Finally, the district court *sanctioned* IDT for its litigation abuse by holding it liable for infringement, a clear indication that the courts are fully capable of surgically and effectively deterring litigation abuse without blunt and overreaching Congressional intervention. A detailed description of IDT’s abusive tactics can be found in the subsequent Federal Circuit case.<sup>51</sup>

<sup>48</sup> *Helferich Patent Licensing, LLC v. J.C. Penney Co.*, No. 1:2011cv09143 (N.D. Ill.), at <http://dockets.justia.com/docket/illinois/ilndce/1:2011cv09143/263741>.

<sup>49</sup> See <http://www.hpl-llc.com/us-post-grant-proceedings>.

<sup>50</sup> See *Alexsam, Inc. v. Best Buy Stores, LP*, No. 2:13-cv-00002 (E.D. Tex. 2013), discussed in *PatentlyO.com* (May 17, 2013), at <http://www.patentlyo.com/patent/2013/05/alexsam-inc-v-best-buy-barnes-noble-gap-jc-penney-mcdonalds-et-aled-tex-2013-alexam-has-asserted-its-gift-car.html>.

<sup>51</sup> *Alexsam, Inc. v. IDT Corp.*, 715 F.3d 1336, 1343-1345, 106 U.S.P.Q.2d 1895 (Fed. Cir. 2013) (86 PTCJ 170, 5/24/13); same at Fed. Cir. Case No. 12-1063, Slip Op. at 11-15, at <http://www.ca9.uscourts.gov/images/stories/opinions-orders/12-1063.Opinion.5-16-2013.1.PDF>.

<sup>43</sup> Patent Act of 1790, Ch. 7, 1 Stat. 109-112 (Apr. 10, 1790), Section 4.

<sup>44</sup> *Aro*, 377 U.S. at 484.

<sup>45</sup> *Becton Dickinson & Co. v. R. P. Scherer Corp.*, 211 F.2d 835, 842, 101 U.S.P.Q. 98 (6th Cir. 1954).

<sup>46</sup> Testimony of Janet L. Dhillon before the House Subcommittee on Courts, Intellectual Property and the Internet, *Hearing on Abusive Patent Litigation* (Mar. 14, 2013), at 3. [http://judiciary.house.gov/hearings/113th/03142013\\_2/Dhillon%2003142013.pdf](http://judiciary.house.gov/hearings/113th/03142013_2/Dhillon%2003142013.pdf).

<sup>47</sup> *Id.* at 5.

The proponents' own experience demonstrates that imposing mandatory stays in patent proceedings would not only fail to ensure judicial efficiency but may encourage litigation abuse by defendants. There appears no credible basis for permitting *mandatory* stays in favor of downstream infringers. Should patentees be stripped of their ability to enforce exclusive rights *at any point* of the infringement chain having the most consequential commercial outcome?

It seems to me that a party engaged in any proven element of infringement should be independently and unconditionally held liable. What unites all of these elements—formally fault-based and faultless liability alike—is the potential efficiency of motivating a well situated party to prevent infringement. It also permits a patentee to timely seek damages commensurate with profits from the infringing activity at whatever level they are gained.

Consider the effect of this provision in the real technology development world, where the “covered manufacturer” could be at any level of the product chain. For example, a patent may cover a method implemented in a chip sold for \$40 to a consumer device manufacturer who designed and ordered the chip to be made for him by the chip manufacturer. The chip is employed within a consumer device sold for \$700, wherein the chip embodies the device's key functions that create consumer demand. Here, the “customer” may be the manufacturer selling the \$700 consumer device and a suit against this “customer,” who is fully responsible for *all* infringement, would be mandatorily stayed in favor of that by the chip “covered manufacturer.”

Hence, an important goal of the proponents of the customer stay provision becomes clearly evident: it is to limit the royalty base associated with reasonable damages to the smallest saleable component of an infringing activity or product for all infringers in the chain. This was the notion proposed by the “apportionment” advocates who failed to achieve this result during the AIA legislation.

The mandatory stay provision indirectly promotes this result by channeling infringement litigation to the manufacturer/component level of the infringement chain, even though the downstream customer may achieve far greater profits from the infringement. It would be difficult to prove the full value of damages in the “manufacturer” proceeding because the appropriate damages evidence resides in the files of the stayed “customer.”

This dynamic would adversely impact patent rights, as patent owners might have to wait years before being able to seek damages against downstream producers or end users, or might simply be worn down by monetary attrition. Infringers would likely use the prospect of limited damages, increased litigation costs and delays, to

negotiate reduced licensing fees or settlement value. Moreover, enacting this provision will likely introduce again the “apportionment” narrative, but this time into patent indemnity negotiations. To the extent that it would undermine and/or redefine understandings with manufacturers of the scope of patent indemnities that their customers obtain, or at least implicitly enjoy, it would upset existing commercial balances and would shift infringement liability away from manufacturers, thereby encouraging infringement.

## 5. Conclusion

Enacting the *unprecedented* mandatory stay provision of the Goodlatte Bill without reserving full judicial discretion for addressing stay motions would undermine the balance of risks that has been set for patentees and users for the last two centuries. It will weaken patent enforcement rights and will cause substantial chilling effects for investments in patented technologies.

This proposed legislation appears in part as an effort to reintroduce elements that its proponents have previously failed to obtain during the AIA legislation: It proposes a provision that would essentially gut the prohibitions against instituting IPR and PGR at the PTO during a parallel court proceeding challenging patent validity, and it would promote de facto the lowest damages “apportionment” scheme—undermining the hard-fought compromises reached during the AIA negotiations. It will perversely insert patentees into “Catch 22” scenarios with no relief in situations involving a combination of direct and indirect infringing parties.

Finally, the proponents of this provision ignore existing inherent market efficiencies that actually ensure that the party “in the best position to defend an infringement suit” often gets to do so anyway—sellers or users often obtain, or at least implicitly enjoy, infringement indemnity from their manufacturer/supplier. The manufacturer can always move to intervene and/or assume an active role in defending its customers without invoking a stay. Allowing manufacturers to delay substantive infringement proceedings by invoking a mandatory stay would upset the cost allocation of the legal uncertainties in the market—it will result in enriching would-be infringers who, at the expense of patentees, could avoid proper share of damages or avoid extending meaningful full-scope indemnifications to their customers.

The proposed mandatory stay provision is wholly unnecessary legislation that sets dangerous precedent for undermining judicial independence and undermining patent rights. Congress should not succumb to the Sirens' song; it should tread cautiously and refrain from stepping into the judiciary's role.



## Appendix A

**Statutes directing a mandatory stay of civil court proceedings.** In a search in the text of all the U.S. Code for statutes meeting the criterion of having the terms “stay” and “motion” further limited to those dealing

with Article III proceedings among private parties (i.e., excluding government agencies or their employees as parties, and excluding stays of rulings or judgments), only the following statutes were found with mandatory stays of civil court proceedings:

Area	Statute(s)	Provision
Bankruptcy	11 U.S.C. § 362	Bankruptcy petition filed operates as a stay for related proceedings; court shall continue the stay only if there is a reasonable likelihood that the party opposing relief from the stay will prevail at the final hearing.
Banks and Banking	12 U.S.C. § 203	45-day stay following conservator appointment.
Banks and Banking	12 U.S.C. § 1787; 12 U.S.C. § 1821; 12 U.S.C. § 4617	Stay following an appointment of a conservator (45 days) or receiver/liquidating agent (90 days).
Banks and Banking	12 U.S.C. § 1464; 12 U.S.C. § 2183; 12 U.S.C. § 2279cc	Stay during the pendency of action for removal of the conservator or receiver.
Banks and Banking	12 U.S.C. § 1823	60-day stay of action to which FDIC becomes a party through its acquisition of the entity involved in such action.
Banks and Banking	12 U.S.C. § 5390	90-day stay after FDIC appointed receiver; 45-day stay after acquisition by bridge financial company.
Securities investor protection	15 U.S.C. § 78eee	Stay bankruptcy or foreclosure proceedings pending the issuance of a protective decree.
Employee retirement income security program	29 U.S.C. § 1342	Stay proceeding for liquidating retirement plan pending adjudication of plan’s termination.