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# Addressing the Elephant: The Potential Effects of the Patent Cases Pilot Program and Leahy-Smith America Invents Act

## **Keywords**

Patents -- United States, Inventions -- Law & legislation, Patent laws & legislation -- United States, Multidistrict litigation, Joinder of parties, Patentability, Technological innovations -- United States, Statutes -- United States -- States

## AFTERWORD

# ADDRESSING THE ELEPHANT: THE POTENTIAL EFFECTS OF THE PATENT CASES PILOT PROGRAM AND LEAHY- SMITH AMERICA INVENTS ACT

THE HONORABLE RANDALL R. RADER\*

### INTRODUCTION

Recently, I have seen several big-budget television commercials invoke patents while marketing their goods. The general public's recognition of the importance of patents to innovation and our economy is perhaps at an all-time high. Many factors probably drive this increased awareness, including our daily dependence on modern technology and media coverage of high-profile litigations and patent acquisitions.

This increased attention has implications as well in the legal world. For those of us embedded within the patent system, we are experiencing a very important shift in the perception and operation of our discipline. For instance, many of the more prominent jurisdictions for patent trials are implementing local rules allowing uniform, fast, and cost-effective discovery and case development. The Patent Cases Pilot Program<sup>1</sup> is similarly starting to influence the processes and efficiency of patent litigation with a heightened expertise in our already-marvelously-competent trial judges. Of course, the elephant in the room regarding changes to patent law and litigation is the enactment of the Leahy-Smith America Invents

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\* Chief Circuit Judge, U.S. Court of Appeals for the Federal Circuit. I would like to thank Jim Hughes and Stefani Meyer for their assistance in preparing this Afterword.

1. Pub. L. No. 111-349, 124 Stat. 3674 (2011).

Act<sup>2</sup> (AIA). While the full impact of these changes—mostly procedural in nature—remain to be seen, a statement of our expectations for these changes at this point may well help assess the degree of change achieved by this legislation. Therefore, at this point of embarkation for the AIA and the advent for the Patent Pilot Program, I will briefly look at the potential for change in both district court patent litigation and Patent Office review of issued patents.

### THE PATENT PILOT PROGRAM

The Patent Pilot Program (“Program”), about a year-and-half old now, has several intriguing levers for patent litigation development. Congress created this ten-year pilot project with the goal of increasing U.S. district court judge expertise and efficiency in adjudicating patent cases. In operation, the Program funnels patent cases to interested judges in a select number of district courts. When a patent case is filed in a participating district court, the case is initially assigned randomly to a judge in the district, independent of the list of judges who have volunteered to hear patent cases. If the case falls to a judge who is not participating in the program, that judge may decline to accept the case. The declining decision triggers a random reassignment to one of the volunteers to hear patent cases.<sup>3</sup> Each of the pilot districts has its own case assignment rules. Typically, non-participating judges have thirty days to decline a randomly assigned patent case. Some districts give only seven days to elect reassignment.

A district qualified for the Program based on the court’s experience or interest in patent cases. Eligibility was predicated on the district’s ranking as one of the top fifteen districts with the largest number of patent and plant variety protection cases filed in 2010, or on the district’s adoption of (or intent to adopt) local patent rules. For context, the year 2010 saw the filing of just over three thousand patent cases.<sup>4</sup> Ten district courts accounted for about fifty-four percent of these cases.<sup>5</sup>

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2. Pub. L. No. 112-29, 125 Stat. 284 (2011) (codified in scattered sections of 28 and 35 U.S.C.).

3. Patent Cases Pilot Program § 1(a)(1).

4. See Jason Rantanen, *Patent Suit Filings for 2010 Show a Slight Rise*, PATENTLYO (Jan. 27, 2011), <http://www.patentlyo.com/patent/2011/01/patent-suit-filings-for-2010-show-a-slight-raise.html> (stating that there were 3,605 patent cases filed in 2010).

5. See OFFICE OF JUDGES PROGRAM, ADMIN. OFFICE OF THE U.S. COURTS, JUDICIAL BUSINESS OF THE UNITED STATES COURTS: 2010 ANNUAL REPORT OF THE DIRECTOR 190, tbl.C-11 (2011), available at <http://www.uscourts.gov/uscourts/Statistics/JudicialBusiness/2010/JudicialBusinesspdfversion.pdf>; Dennis Crouch, *Concentration of Patent Cases in the Eastern District of Texas*, PATENTLYO (Apr. 18 2011, 2:40 PM), <http://www.patentlyo.com>

The Program intentionally included both larger and smaller district courts from at least three different judicial circuits. Congress instructed the Director of the Administrative Office of the United States Courts to make selections from two cohorts after establishing a pool of interested, eligible district courts. The first statutory category demanded at least three district courts with a minimum of ten authorized district judgeships and at least three interested judges.<sup>6</sup> The statute also demanded at least three district courts with fewer than ten authorized district judgeships and at least two interested judges.<sup>7</sup>

Fourteen district courts were selected to participate in the Program. These include districts with well-known patent activity such as the Eastern District of Texas and three of the California districts. District courts with developing patent activity, such as the District of Nevada and the Western District of Tennessee, were also selected.<sup>8</sup>

Finally, the statute calls for a midterm and a final report to Congress. These reports will analyze the increase in judicial expertise and the efficiency of patent cases. Specifically, the reports will compare volunteering judges and non-volunteering judges on both their rate of reversal on claim construction and substantive patent law and their time to trial or entry of summary judgment. Additionally, the reports will discuss any evidence indicating that litigants chose the participating district courts in an attempt to secure a given outcome and will also analyze the merits of extending the program to all district courts.

The Program's structure presents some interesting issues of potential forum selection, transfer, and joinder. The judges who have volunteered to take patent cases are known in each participating district. Therefore, if litigants acquire an accurate sense of the non-participating judges who are likely to decline patent cases, they may feel they can also acquire assignment of their case to a judge uniquely interested in their dispute.

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/patent/2011/04/concentration-of-patent-cases-in-the-eastern-district-of-texas.html (listing the most popular jurisdictions for patent cases in 2010).

6. *District Courts Selected for Patent Pilot Program*, U.S. COURTS (June 7, 2011), [http://www.uscourts.gov/News/NewsView/11-06-07/District\\_Courts\\_Selected\\_for\\_Patent\\_Pilot\\_Program.aspx](http://www.uscourts.gov/News/NewsView/11-06-07/District_Courts_Selected_for_Patent_Pilot_Program.aspx).

7. *Id.*

8. *Id.* The full list of district courts selected for the Program in 2010 included the Eastern and Southern Districts of New York, the Western District of Pennsylvania, the District of New Jersey, the District of Maryland, the Northern District of Illinois, the Southern District of Florida, the District of Nevada, the Eastern and Northern Districts of Texas, the Western District of Tennessee, and the Central, Northern, and Southern Districts of California. *See id.*

The AIA's new joinder statute in the context of the Program may also drive changes in litigation patterns. The AIA's new joinder provision states that a plaintiff may not join accused infringers in one action based "solely on allegations that they each have infringed the patent or patents in suit."<sup>9</sup> This provision took effect in the initial wave of the AIA changes on September 16, 2011. On the day before, district courts saw the largest number of patent cases filed in recent history.<sup>10</sup> Over fifty cases were filed accusing over eight hundred entities of patent infringement.<sup>11</sup> The average complaint that day accused more than sixteen entities of infringement.<sup>12</sup> These filings were in line with the trend, at that time, of accusing increasing numbers of parties in a single suit.<sup>13</sup> For comparison, in the months before this spike, only ten to twenty cases were filed each day.<sup>14</sup>

Some commentators expect the new joinder rules, combined with a perception that the United States Court of Appeals for the Federal Circuit has elevated its scrutiny of denials to transfer venue, will create a change in patent litigation strategies.<sup>15</sup> Will this change direct more cases to district courts participating in the Program? Preliminary indications suggest that parties *have* selected a filing forum based on a district court's participation in the Program.<sup>16</sup> Moreover, district courts themselves consider participation in the Program when evaluating motions to transfer.<sup>17</sup> The Judicial Panel on Multidistrict Litigation has also considered the Program when

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9. 35 U.S.C. § 299(b) (Supp. V 2012).

10. *Rush to Judgment: New Dis-Joinder Rules and Non-Practicing Entities*, PATENTLYO (Sept. 20, 2011, 2:10 PM), <http://www.patentlyo.com/patent/2011/09/rush-to-judgment-new-dis-joinder-rules-and-non-practicing-entities.html>.

11. *Id.*

12. *Id.*

13. Susan Decker, *Apple, Google Targeted in Surge Before Patent Law Changes*, BLOOMBERG (Sept. 12, 2011, 6:37 PM), <http://www.bloomberg.com/news/2011-09-12/apple-google-targeted-as-patent-cases-surge-before-law-changes.html>.

14. See *Rush to Judgment*, *supra* note 10 (providing a chart of the number of patent cases filed in the preceding months).

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

16. *Tech. Licensing Corp. v. Harris Corp.*, No. 9C820, 2012 U.S. Dist LEXIS 52663, at \*9–10 (N.D. Ill. Apr. 16, 2012) ("[Plaintiff] asserts that it elected to file suit in the Northern District of Illinois on account of this district's . . . participation in the Patent Pilot Program . . . [T]he expediency of patent discovery and trials promoted by the Patent Pilot Program is a material consideration for many patent plaintiffs, and will not be discounted."); *Venue Implications of the Patent Pilot Program*, LAW 360 (Oct. 29, 2012, 12:00 PM), <http://www.law360.com/articles/389793/venue-implications-of-the-patent-pilot-program>.

17. *Compression Tech. Solutions LLC v. EMC Corp.*, No. 4:11CV1579, 2012 WL 1188576, at \*9 (E.D. Mo. Apr. 6, 2012) ("When considering the question of 'judicial economy,' the Court notes the following. The Northern District of California is familiar with patent litigation. Indeed, it was . . . selected in June 2011 to be in Patent Pilot Program [which] 'is intended to improve the adjudication of patent disputes.'"); *Venue Implications of the Patent Pilot Program*, *supra* note 16.

determining consolidation of a multidistrict infringement action.<sup>18</sup> The Program's influence on venue transfer is a significant developing trend in patent litigation. The future promises cooperation between bench and bar to find venues that best suit the convenience of parties and the logical distribution of patent cases.

#### POST ISSUANCE PATENT OFFICE REVIEW UNDER THE AIA

The AIA touches on two types of third-party initiated Patent Office review of issued patents: post-grant review (PGR) and inter partes review (IPR). Congress responded to criticisms that the previous inter partes reexamination procedures devolved into a slow litigation supplement rather than an efficient litigation alternative. Thus, these new procedures hope to achieve a swifter, cost-efficient alternative to litigation. Of course, that hope may rely on some hopeless assumptions.

In any event, PGR provides a new procedure for third party challenges to issued patents within a nine-month window from issuance.<sup>19</sup> The available grounds of PGR are generally broader than IPR, which is focused on printed publications. The scope and immediate review of the PGR process may make it particularly attractive to close competitors. Close competitors often track each other's patent applications as they move through the Patent Office. If these competitors continue this tracking and see advantages in an early challenge to validity, PGR will allow challenges shortly after issuance without district court litigation. This process may thereby reduce costs to entities with sophisticated patent management programs. With that advantage in mind, the PGR presents the prospect of changes in patent portfolio management strategies. If PGR operates efficiently, will competitors feel a need to devote more resources to monitoring patent issuance? And, in the event of increased monitoring, will entities face more liability when litigation occurs, either due to willfulness infringement doctrines or due to jury perception that the litigation might have been avoided with a simple license? In addition, how will sophisticated patent managers integrate PGR procedures into their current interplay with related companies in international opposition proceedings?

PGR's effect on district court litigation presents another layer of

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18. See, e.g., *In re Maxim Integrated Prods., Inc.*, Patent Litig., 867 F. Supp. 2d 1333, 1335–36 (J.P.M.L. 2012) (“We are of the view that the Western District of Pennsylvania is an appropriate transferee district . . . [it] is participating in the national Patent Pilot Program . . .”).

19. 35 U.S.C. § 321(c) (Supp. V 2012).

complexity. For instance, patentees might delay filing infringement actions based on newly issued patents to avoid PGR challenges. On the other side of this equation, potential infringers may view the nine-month window as leverage for negotiating a favorable license agreement in lieu of a PGR challenge. The PGR period may also delay or adversely affect the value of a patent as a vehicle to seek venture capital for a new venture. The market may discount a new patent's contribution to a patent portfolio during this nine-month window. Indeed, the PGR period may evolve into an extended examination period that increases costs and uncertainties without much promise of supplying an efficient litigation alternative.

While it is too soon to predict the effect of PGR on patent valuation, licensing, and enforcement, PGR is certain to affect the internal business and legal practices of many entities with significant patent portfolios. Nonetheless, the statute phases in eligibility of issued patents for PGR review. As a result, the PGR process will not swing into full action until patents filed under the AIA's new "first-to-file" regime start to issue, meaning a period around 2015 to 2018.<sup>20</sup> Thus, the statute gives patentees, their competitors, and the Patent Office time to establish expectations and internal procedures to accommodate this new PGR process.

The second new litigation-related Patent Office review process is IPR.<sup>21</sup> IPR took effect on September 16, 2012 and replaces the previous inter partes reexamination practice.<sup>22</sup> This process presents a few differences worth noting between the use and potential effect of IPR, PGR, and district court litigation. First, the Patent Office could initially see more IPR petitions compared to inter partes reexamination requests. Unlike the previous inter partes reexamination, the new IPR process does not exclude patents issued from applications filed before November 29, 1999, thus increasing the universe of patents eligible for IPR. IPR, however, will have limitations. For instance, it is not generally available during the window when PGR is an option for a third party challenger. Of course, with PGR still in a phasing-in period, this limitation may have little immediate effect.

Additionally, the IPR process includes a requirement that the petitioner may only trigger an institution with a showing of a "reasonable likelihood of prevailing" rather than a "substantial new

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20. Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 3(n), 125 Stat. 284, 293 (2011).

21. 35 U.S.C. §§ 311-318 (Supp. V 2012).

22. See 35 U.S.C. §§ 311-318 (2006).

question of patentability” (SNQ) that prevailed under the old reexamination statute.<sup>23</sup> This new standard may create an uncertainty for third-party challengers. Yet, the AIA actually implemented this new “reasonable likelihood” threshold standard, effective September 16, 2011, in the previous inter partes reexamination procedure.<sup>24</sup> Under the SNQ standard, the Patent Office granted about ninety-five percent of inter partes reexamination requests. Once again, it is too soon to predict if this new standard will reduce the number of issued patents further reviewed by the Patent Office. At least one study, however, shows that requests for reexamination under the new “reasonable likelihood” standard were initially granted at rates similar to the previous standard.<sup>25</sup> However, this initial rate and practice has yet to undergo scrutiny in the courts.

Third parties will also face new strategic issues when contemplating an IPR petition. The IPR process has various ramifications regarding district court litigation stays, joinder of additional parties, and the scope of available discovery for the proceeding. Finally, even if the Patent Office sees an explosion in IPR petitions, it will enjoy the discretion to limit the number of IPR petitions granted during each of the first four years of implementation. The Patent Office has the discretion to limit the number of IPR petitions granted to the number of reexamination requests granted in 2010.<sup>26</sup>

When IPR replaced inter partes reexamination last September, the latest reexamination trends showed strong interest in the old procedure. After an initial slow start, interest in inter partes reexamination grew quickly. Starting from just a few requests per year in the early part of the last decade, more than 375 requests were filed in 2011. To be sure, commentators had concerns with some aspects of the previous reexamination process.<sup>27</sup> First, there was the time to completion; the inter partes reexamination process took the Patent Office an average of three years to complete. Some practitioners also perceived that the chance of obtaining a litigation stay varied widely between district court jurisdictions. This combination of concurrent district court litigation and

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23. Leahy-Smith America Invents Act § 6(c)(3)(A)(ii).

24. 35 U.S.C. § 314(a).

25. Marian Flattry & William Raich, *Tempest in a Teapot? An Evaluation of the Heightened Standard for Initiating Inter Partes Reexamination and Implications for Inter Partes Review*, 83 PAT. TRADEMARK & COPYRIGHT J. 795 (2012).

26. Leahy-Smith America Invents Act § 6(c)(2)(B).

27. See Robert G. Sterne et al., *Reexamination Practice with Concurrent District Court Litigation or Section 337 USITC Investigations*, 11 SEDONA CONF. J. 115 (2010).

reexamination complicated the decision to enter the administrative regime. Sixty-seven percent of inter partes reexamination requests filed since the start of the procedure in 1999 focused on patents involved in litigation.<sup>28</sup> In 2011, that ratio increased to over seventy-five percent.<sup>29</sup> Further, the same patent often prompted multiple reexaminations. Between 2000 and 2010, slightly over 2500 unique patents were involved in over 5600 reexamination proceedings.<sup>30</sup> Over ten percent of those unique patents were reexamined more than once.<sup>31</sup> Some patents were reexamined two, three, or even more times—one was submitted to six reexaminations<sup>32</sup>—presumably because these patents were perceived as valuable. While these multiple reexamination numbers include both inter partes and ex parte reexamination—where between seventy-five and ninety percent of ex parte reexaminations were initiated by a third party—it is clear that litigation concerns helped drive activity in the administrative arena. Entities concerned with infringement allegations had motivation to initiate inter partes reexamination, as historically only eleven percent of issued certificates confirmed patentability of all claims.<sup>33</sup>

This backdrop led to attacks on the previous inter partes reexamination practice for allegedly increasing costs as a litigation supplement rather than reducing costs as a litigation alternative. Independent of the merits of these concerns, participants and observers of the patent system will have plenty to contemplate as patentees, patent challengers, and the Patent Office operate within the AIA's new post-issuance challenge procedures.

This brief Afterword only allows for a quick overview of a few examples of the changes that are occurring in the world of patent litigation and enforcement. Of course, the success of these programs and initiatives depends on their ability to supply faster, cheaper, and more predictable outcomes for patent disputes. Moreover, keeping in mind that the patent system's goal is to "promote the progress of science and the useful arts," the real key to success is not litigation efficiency, but technology growth and application.

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28. U.S. PATENT & TRADEMARK OFFICE, INTER PARTES REEXAMINATION FILING DATA (2012), available at [http://www.uspto.gov/patents/stats/IP\\_quarterly\\_report\\_June\\_30\\_2012.pdf](http://www.uspto.gov/patents/stats/IP_quarterly_report_June_30_2012.pdf).

29. See Jason Rantanen, *Inter Partes Re-exam Requests Continue To Rise, for Now*, PATENTLYO (Dec. 15, 2011, 12:19 PM), <http://www.patentlyo.com/patent/2011/12/re-exam-requests-continue-to-rise.html> (discussing the rise of inter partes reexamination requests over the past decade).

30. Sterne et al., *supra* note 27, at 162–65.

31. *Id.*

32. *Id.* (referencing U.S. Patent No. 5,425,051).

33. U.S. PATENT & TRADEMARK OFFICE, *supra* note 28.

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