

THE COALITION FOR 21ST CENTURY PATENT REFORM

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Stays of Patent Infringement Actions Brought Against Customers and End-Users Should Be Available

Some patent owners – most notably patent assertion entities (PAEs), legal entities that acquire patents solely for the purpose of asserting them in litigation – have been criticized for engaging in the practice of filing infringement suits against large numbers of customers, retailers or end users, rather than the manufacturer or primary supplier of the product alleged to infringe. Such suits are brought to prompt settlement based less on the merits of the case and more on the avoidance of the costs of litigation, because customer or end user defendants typically find it difficult to mount an adequate defense to infringement allegations. They may lack sufficient technical knowledge of the accused product, or financial resources, and will thus have less motivation than the manufacturer of the product to litigate the issue to a final conclusion.

Under current law, the stay of a customer suit pending resolution of an action brought by or against the manufacturer of the accused product is not automatic, but rather is left to the discretion of the district court. Unfortunately, some district courts decline to exercise such discretion, thus attracting a disproportionate number of infringement suits brought against customers or end users in those districts.

The Coalition for 21st Century Patent Reform (“21C”) believes that a manufacturer or supplier should be given the right to intervene in actions against customers or end users, or to proceed in a separate action against the patent owner. Customers or end users who have been sued should have the option, if they agree to be bound by the outcome, to stay the actions against them pending the outcome of the infringement suit between the patent owner and the manufacturer or supplier. This right to stay customer/end user suits would curtail the practice of filing such suits to coerce settlements and would promote resolution of patent disputes between the parties in the best position to litigate the merits of the case: the patent owner and the manufacturers or suppliers of the products accused of infringement.

Both Chairman Goodlatte in Section 5 of his May 23, 2013 “Discussion Draft” and the Obama Administration in its June 4, 2013 “White House Task Force on High-Tech Patent Issues” paper have also proposed allowing manufacturers to intervene in actions against consumers and end users. Both proposals would also give customers and end users the right to stay patent infringement actions against them pending the outcome of an action between the patent owner and the manufacturer of the accused product or process. With certain amendments and other clarifications (see <http://www.patentsmatter.com/issue/113Congress.php>), the 21C

would support Section 5 of the Discussion Draft, but cannot comment on the Task Force proposal in the absence of seeing specific language.

While the 21C is supportive of proposals to curb patent infringement litigation brought against customers or end users, we do not believe that they should enjoy complete immunity from patent infringement suits. The 21C believes that would go too far. Rather than providing blanket immunity for customers or end users, the 21C believes that a procedural remedy – the right to stay cases against customers or end users – strikes the appropriate balance between curbing abusive litigation practices and ensuring that patent enforcement is not unduly restricted. In some circumstances, legitimate infringement claims may arise against customers or end users; for example, where the manufacturer has supplied the product in accordance with the customer’s specifications, or where the supply agreement places the risk of infringement liability on the customer or end user. Likewise, legitimate infringement claims may arise from acts beyond the mere use of the manufacturer’s product as intended; for example, the patented invention may be directed to the method of using a product, or to a system created when a product is combined with other components. For such inventions, it may be that litigation between the patent owner and the manufacturer will not resolve all infringement issues. In such cases, it may be appropriate to lift the stay following adjudication between the patent owner and manufacturer to allow a customer or user suit to proceed.

Moreover, carving out a new immunity that would allow certain parties to practice the patent rights of others without incurring any infringement liability runs the risk of unintended consequences. For example, would-be infringers might game the system to take advantage of such immunity. A manufacturer could stop just short of selling an infringing product so that an end-user customer, if immune from infringement, could complete the assembly of what would otherwise be an infringing device. An end user stay, rather than immunity, avoids such unintended consequences and balances the interests of deterring suits against end users, on one hand, against ensuring that patented inventions directed toward end uses are not made valueless, on the other hand.

Finally, another important safeguard is provided by making intervention by a manufacturer or supplier voluntary, as it would not be appropriate in all cases. Because infringement allegations may involve multiple potentially responsible parties, intervention may not be practical in multi-supplier markets with non-linear supply chains. Moreover, voluntary intervention would ensure that this proposal does not have the unintended consequence of impacting contractual obligations that may exist between suppliers and purchasers and that may allocate the risks of infringement or the costs of defending against infringement allegations. But when a manufacturer or supplier is truly the party whose interests are primarily at risk if there is not an adequate defense of an infringement allegation, it would have the voluntary right to defend its products against infringement accusations, rather than being made to stand on the sidelines as windfall settlements are forced upon its customers.

The 21C proposes the following language to curb patent infringement litigation brought against customers or end users:

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

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

(a) The court shall grant a motion to intervene as a party-defendant or counterclaim-defendant brought by the manufacturer or supplier of a product alleged to infringe the patent or patents in dispute, or a system or components that implement a process alleged to infringe the patent or patents in dispute, provided that such motion to intervene is brought within 60 days of service of the civil action.

(b) Provided that the manufacturer or supplier of a product alleged to infringe the patent or patents in dispute, or of a system or components that implement a process alleged to infringe the patent or patents in dispute, is a party to the civil action, the court shall grant a motion to stay the action against any other party accused of infringing the patent or patents in dispute solely by being a customer or end user of the product alleged to infringe the patent or patents in dispute, or of the system or components that implement the process alleged to infringe the patent or patents in dispute, provided that –

(i) such stay of the action applies only to those patents in dispute, and only to those products, systems or components accused of infringement, for which any party against whom the action is to be stayed agrees to be bound by any judgment or finding on any issue of fact or law in the civil action; and

(ii) such motion to stay is brought within 60 days of service of the civil action.

(c) Provided the manufacturer or supplier of a product alleged to infringe the patent or patents in dispute, or of a system or components that implement a process alleged to infringe the patent or patents in dispute, is also a party to another declaratory judgment or infringement action involving the same product alleged to infringe the same patent or patents in dispute, or the same system or components that implement the same process alleged to infringe the same patent or patents in dispute, the court shall grant a motion to stay the action against any party accused of infringing the patent or patents in dispute by being customers or end users of the product alleged to infringe the patent or patents in dispute, or of the system or components that implement the process alleged to infringe the patent or patents in dispute, provided that –

(i) such stay of the action applies only to those patents in dispute, and only to those products, systems or components accused of infringement, for which any party against whom the action is to be stayed agrees to be bound by any judgment or finding on any issue of fact or law in the separate declaratory judgment or infringement action; and

(ii) such motion to stay is brought within 60 days of service of the civil action.

For purposes of this Section, the terms "customer" and "end-user" shall not apply to any person or persons who –

(a) Modify a product, system or component accused of infringement except in accordance with the manufacturer's or supplier's instructed or intended use;

(b) Combine or use a product, system or component accused of infringement with any other product, system or component, except in accordance with the manufacturer's or supplier's instructed or intended use;

(c) Engage in manufacture, design or development of the product, system or component accused of infringement; or

(d) Receive compensation from another person or entity to use the product, system or component accused of infringement for the benefit of the other person or entity's customers.

The Coalition has approximately 50 members from 18 diverse industry sectors and includes many of the nation's leading manufacturers and researchers.

The Coalition's Steering Committee includes 3M, Caterpillar, General Electric, Johnson & Johnson, Eli Lilly and Procter & Gamble.

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