THE RISE OF THE END USER IN PATENT LITIGATION

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ABSTRACT

The patent system focuses on the actions of two players: the patentee and its competitor. It assumes that the competitor will represent the interests of the end user. But increasingly, end users are becoming significant players in the patent system, their interests sometimes diverging from those of competitors. Attention has recently turned to Patent Assertion Entities (“PAEs”) – also known as patent trolls – who are suing vast numbers of customers using patented technologies in their everyday businesses. Yet, end users were also principal players in some of the main recent patent cases before the Supreme Court. In Bowman v. Monsanto, Monsanto sued farmers for re-using its patented self-replicating seeds. In Association for Molecular Pathology v. Myriad Genetics, patients and physicians sued to invalidate breast cancer gene patents. And, patients and drug stores repeatedly challenge pay-for-delay agreements between patentees and competitors, claiming they undermine patients’ interests in access to generic drugs.

The drafters of the America Invents Act (the “AIA”) intended the legislation to catch up with the changing patent landscape. Yet, the AIA did not predict and is largely ill-equipped to address the growing role of end users. The AIA addresses the needs of small entities, mainly, by adding procedures to challenge patents in the United States Patent and Trademark Office (“PTO”), providing a cheaper and faster forum for challenging validity. However, end users are different from small technological competitors. End users lack technological sophistication, they are often one-time players and tend to become involved in the patent dispute

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relatively late in the life of the patent. The AIA’s novel PTO procedures are largely unsuitable for end users because they permit expansive challenges mostly early in the life of the patent before end users are likely to be implicated.

Paradoxically, as end users play an increasingly larger role in patent law disputes, they have few legal tools to assert their interests. This Article argues for the need to equip end users with tools to defend their interests in this new litigation landscape. Specifically, since end users, who lack internal resources of technological sophistication, are especially ill suited to fund the expense of patent litigation, fee shifting is particularly warranted when the prevailing party is an end user. In 2014, the Supreme Court decided two fee shifting cases: Highmark v. Allcare and Octane Health v. Octane Fitness, in which it lowered the standard courts need apply to award fee shifting in patent cases. And, at the same time, a flurry of Congressional bills proposes different versions of fee shifting. Yet, while these bills and cases address the general fee shifting standard and the issue of PAE lawsuits, they do not consider the unique status of the end user. This Article argues for the need to consider the special status of end users in any fee shifting reform.
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INTRODUCTION

The landscape of patent litigation is changing. While two players traditionally dominated patent litigation: the patent owner and the competitor, end users are increasingly occupying a growing role in patent litigation. The media, legislators and commentators have recently started paying attention to PAEs’, also known as patent trolls, lawsuits against customers.1 PAEs, who own mainly software patents, are threatening to sue and suing thousands of customers, who use the allegedly patented technology they purchase from manufacturers and suppliers.2 For example, in January 2013, Personal Audio, LLC, a PAE, began sending demand letter for licensing fees and suing podcasters, including comedian Adam Carrolla, claiming it owns a patent over podcasting technology, and that these individual podcasters are infringing its patent.3 Another PAE, Project Paperless LLC, sent multiple demand letters for licensing fees and even sued small businesses, claiming that anyone using an office scanner to scan documents and email them infringes its patent.4

While lawsuits against customer end users have garnered some attention, end users are occupying a growing role beyond lawsuits filed by PAEs. End users were litigants in some of the main recent patent cases before the Supreme Court decided in 2013. In Association for Molecular Pathology v. Myriad Genetics, patients and physicians sued Myriad Genetics (“Myriad”) to invalidate Myriad’s breast cancer gene patents.5

2 James Bessen, Jennifer Ford et al., The Private and Social Costs of Patent Trolls, REGULATION, Winter 2011-12, at 26, 28 (stating that PAEs are particularly common in the software industry); Chien & Reines, supra note 1, at 8–10 (discussing PAE lawsuits of multiple customers).
5 Ass’n for Molecular Pathology v. Myriad Genetics, Inc., 133 S. Ct. 2107 (2013); Complaint at ¶ 1-26, Ass’n for Molecular Pathology v. United States Patent & Trademark
Their goal was to enhance patients’ access to Myriad’s breast cancer genetic testing, which Myriad priced at $3,000. And in Bowman v. Monsanto, Monsanto, which owns patents on genetically engineered seeds, sued farmers who re-used its seeds by saving some of the crops for re-planting the next season.

End user involvement is not limited to PAE lawsuits and major patent cases. In the pharmaceutical industry, patients increasingly find that competitors of patented drug owners fail to protect their interests. Patients, drug stores and the Federal Trade Commission are challenging numerous agreements (known as pay-for-delay agreements) between patented drug owners and generic manufacturers. Through these agreements, patent owners compensate generic manufacturers not to enter the market, and plaintiffs are suing to invalidate these agreements in order to obtain access to cheaper generic drugs. The Supreme Court decided one of these cases – FTC v. Actavis – in 2013.

Finally, end users are likely to become even more prevalent in patent litigation, as an emerging new technology – the 3D printer – becomes more popular. 3D printers can replicate three-dimensional products. And, although 3D printers so far do not have the capabilities of Star Wars replicators, they are no longer an expensive curiosity. UPS has started deploying these printers at its stores for people to come and use and Staples sells them for around $1300. 3D printers transform the access to the means of production. They allow consumers the opportunity to make...
items at home,\textsuperscript{14} thus, making it more likely that an individual or a small business will make an infringing item that will expose them to patent liability.\textsuperscript{15}

End users may be individuals or businesses, they are often small but may not necessarily be so, and they occupy different roles in the patent litigation landscape. This Article defines end users broadly to include those using a patented technology for personal consumption and those using it in business. Yet, they are strictly users. Even if they incorporate the patented technology within a product or service they offer their customers they do not make or sell the technology itself. They are usually not knowledgeable about it. And, at times, they may be even unaware of its existence.\textsuperscript{16}

End users differ from small technological competitors in three respects. First, end users are usually individuals or businesses that are not technological companies (or do not produce and supply the allegedly infringing technology). This puts them at a significant disadvantage in patent disputes, where arguments for patent invalidity and infringement need to rely on intricate understanding of the patented technology, the prior art and the alleged infringing technology. Second, end users usually become embroiled in the patent conflict relatively late in the life of the patent, after the patented technology enters the market and achieves widespread adoption. Third, end users are typically one-time players. They are not in the business of producing and selling the technology. In most cases the technology is ancillary to their business and they do not have a long-term stake. End users would, therefore, prefer to settle or withdraw from use of the technology, than pursue litigation.\textsuperscript{17}

As end users are taking a greater role at the center and in the shadows of patent litigation, they are faced with the absence of appropriate procedural litigation tools. The equities of end user cases differ and so does our sympathy toward them. Some end users may be willful infringers while others may be individuals or small businesses unaware they are using a technology, whether patented or not.\textsuperscript{18} Yet, irrespective of whether their substantive claims are justified, they are uniquely situated players. End users need procedural tools that will grant them equal footing to that of patent owners and competitors.

The promoters of the recent patent reform, the America Invents Act (the “AIA”), which came into effect primarily in 2013, intended patent

\begin{footnotes}
\footnotetext[14]{See id. at 12.}
\footnotetext[15]{See id. at 4. Doherty, supra note 11, at 359–60.}
\footnotetext[16]{See infra Part II(A).}
\footnotetext[17]{See infra Part II(A).}
\footnotetext[18]{See infra Part II(A). Some propose that end users should be give immunity from lawsuits. See e.g., The Electronic Frontier Foundation, Legislative Solutions for Patent Reform, at \url{https://www.eff.org/issues/legislative-solutions-patent-reform#enduser}. This Article does not weigh the equity of end users cases and does not presume that all end users are necessarily blameless. End users come in all shades and colors. Instead, the Article’s goal is more limited to placing end users in a more equal procedural standing with the traditional patent players.}
\end{footnotes}
legislation to catch up with the changing patent landscape. One of their goals was to protect the interests of small entities. Yet, the AIA failed to predict and is largely ill-equipped to address the growing role of end users. A major set of reforms focused on procedures in the PTO. The goal was to provide an efficient, timely and less costly alternative to the notoriously expensive patent litigation and assist the PTO by relying on the expertise of the public.\(^{19}\)

The AIA amended the third party submission process to facilitate interested parties’ submissions to challenge patent applications.\(^{20}\) It also created the post-grant review procedure to provide a forum for challenging a patent application in the PTO.\(^{21}\) Yet, these procedures fail to address the needs of end users, mainly because they are available only very early in the life of the patent. A party can submit a third party submission no later than the issuance of the patent,\(^{22}\) while a petitioner can challenge a patent’s validity in a post-grant review only up to nine months from the issuance of the patent.\(^{23}\) End users are unlikely to be aware of the technology so early in the life of the patent because it usually has not yet entered the market, and even if it has, it is unlikely to have already gained widespread adoption.\(^{24}\)

Congress created two additional procedures – the inter partes review and the covered business methods patents review – in which a petitioner can challenge a patent’s validity after the post-grant window closes.\(^{25}\) Unfortunately, while end users could time-wise avail themselves of the inter partes review, the scope of permitted challenges is significantly narrower than in the post-grant review procedure, limiting the options for

\(^{19}\) See Bradley William Baumeister, Critique of the New Rule 1.99: Third Party Information Disclosure Procedure for Published Pre-Grant Applications, 83 J. PAT. & TRADEMARK OFF. SOC’Y 381, 383–84 (2001) (explaining that the public would provide the PTO with public documents that in an ideal world the examiner could find on his own); Philip De Corte & Anthony C. Tridico et al., AIA Post Grant Review & European Oppositions: Will They Work in Tandem, or Rather Pass Like Ships in the Night?, 14 N.C. J.L. & TECH. 93, 126 (2012) (explaining that the goal of creating the post-grant review was to create a cheaper, more effective way than litigation to challenge patent validity).

\(^{20}\) See infra Part III(A)(i).

\(^{21}\) See infra Part III(A)(ii).

\(^{22}\) A party can submit a third party submission, as long as it is submitted before the earlier of (i) the date of notice of allowance, or (ii) the later of: six months from the publication of the application or the date of the first rejection by an examiner. 35 U.S.C. § 122(e) (2013).

\(^{23}\) See id § 321(c).

\(^{24}\) Technologies have different adoption rates and some may be adopted earlier than others. But generally, it is less likely that money will be invested in commercialization before a patent is granted. See Everett M. Rogers, Diffusion of Innovations 219–66 (Free Press 5th ed. 2003) (discussing rates of adoption of new technologies and the factors affecting those rates). For discussions of the problem of patenting early in the technological cycle before the technology is ready for commercialization, see generally, Christopher A. Cortopia, The Folly of Early Filing in Patent Law, 61 HASTINGS L.J. 65 (2009); Ted Sichelman, Commercializing Patents, 62 STAN. L. REV. 341 (2010).

such a challenge. The covered business method patents review is also a limited alternative for end users, particularly because it is available only to petitioners who are directly sued or threatened by the patentee.

Another AIA reform expanded the user rights defense. A party who successfully asserts user rights can continue using the patented invention without paying licensing fees within certain restrictions. The defense now applies to all inventions not just business methods, and importantly, no longer requires that the party asserting the defense to be the inventor who reduced the invention to practice. Eliminating the reduction to practice requirement provides end users with access to the defense. However, to take advantage of the defense the end user needs to have used the invention in commerce at least one year before the filing of the patent application or public disclosure. This renders the prior user rights defense largely inapplicable to end users, who are less likely to have access to the technology that early in the life of the patent.

The AIA’s failure to account for the rise of the end user leaves end users without tools that can put them on more equal footing with traditional patent litigation parties. This Article examines the role that fee shifting of litigation expenses to the prevailing party can play in end user cases. Fee shifting, by no means, will motivate all end users to litigate even meritorious cases and challenge potentially invalid patents. The advent of the end user is a complex phenomenon. A series of reforms is needed to address this transformation, including: changing the standards for standing to sue in patent litigation; expanding the customer suit exception; and changing contractual practices to incorporate more frequent use of indemnification procedures between manufacturers and customers. At the same time, fee shifting is applicable to the diverse array of end user cases and can contribute toward leveling the footing of end users in all type of end user-patentee disputes.

The general U.S. rule governing fee shifting (“The American Rule”) does not allow the prevailing party to recover legal fees from the loser. Challenges under inter partes review are limited to narrower grounds, i.e., only prior art and obviousness, while challenges under post-grant review can extend to broader grounds, including subject matter, utility, definiteness, written description and enablement. See id. § 311(b) (providing the grounds permitted for challenges under inter-partes review); Id. § 321(b) (providing the grounds permitted for challenges under post-grant review).

See infra Part II(A)(iv)


See 35 U.S.C. § 273(a) (2013). See also Kappos & Rea, supra note 28, at 18 (stating that the AIA does not require the party asserting prior use rights to be the actual inventor).

See infra Part III(B).

I address this issue of end users’ standing to sue for declaratory judgment in a separate article, see, Gaia Bernstein, End Users and Standing to Sue (on file with author) [hereinafter Bernstein, End Users and standing to sue].

See generally Love & Yoon, supra note 1.

See Arcamabel v. Wiseman, 3 U.S. (3 Dall.) 306 (1796) (stating that “[t]he general practice of the United States is in opposition to [the indemnity rule] and even if that
Yet, Congress carved many exceptions to the American Rule under which fee shifting to the prevailing party can occur.\textsuperscript{34} The current standard under the Patent Act is that courts have the discretion to grant attorney fees to the prevailing party in exceptional circumstances.\textsuperscript{35} Congress and the Supreme Court are intensively scrutinizing this standard this year. The Supreme Court decided two cases involving fee shifting in patent litigation: \textit{HighMark v. Allcare}\textsuperscript{36} and \textit{Octane Fitness v. Icon Health & Fitness.}\textsuperscript{37} In \textit{Octane}, the Supreme Court lowered the standard for awarding fee shifting in patent litigation.\textsuperscript{38} At the same time, Congress is considering multiple bills advocating different versions of fee shifting.\textsuperscript{39} The impetus for this activity is concerns regarding the impact of PAE lawsuits on innovation.\textsuperscript{40}

The petitions before the Supreme Court and some of the bills presented to Congress focused on facilitating fee shifting generally, without targeting PAEs specifically, while other bills focused on PAEs, making it more likely that fee shifting to the prevailing party will occur if the loser is a PAE.\textsuperscript{41}

This Article argues that the case for fee shifting is particularly strong where end users are implicated. First, there is significant inequality between

\textsuperscript{34} See Peter N. Cubita & Jeffrey S. Lichtman et al., \textit{Awards of Attorney's Fees in the Federal Courts}, 56 ST. JOHN'S L. REV. 277, 286–89 (1982) (describing federal statutes that authorize awards of attorneys' fees to "prevailing parties"); Charles Silver, \textit{Unloading the Lodestar: Toward a New Fee Award Procedure}, 70 TEX. L. REV. 865 (1992) (stating that "fee shifting is common in federal cases" and that by enacting over 150 statutes entitling parties who prevail to claim fee awards, Congress greatly restricted the American Rule).


\textsuperscript{38} See Octane Fitness v. Icon Health, No 12-1184, slip. op. at 7-9 (U.S. Apr. 29, 2014).

\textsuperscript{39} See Shield Act, H.R. 845, 113\textsuperscript{th} Cong. § 2 (2013); Patent Abuse Reduction Act, S. 1013, 113\textsuperscript{th} Cong. § 5 (2013); Innovation Act, H.R. 3309, 113\textsuperscript{th} Cong. § 3 (2013); Patent Litigation Integrity Act of 2013, S. 1612, 113\textsuperscript{th} Cong. § 201 (2013).

\textsuperscript{40} See e.g., Petition for Writ of Certiorari at 18–19, Octane Fitness v. Icon Health & Fitness, Inc., 496 Fed. Appx. 57 (Fed. Cir. 2012) (No. 12-1184), 2013 WL 1309080, at *18–*19 (arguing for the need to lower the standard for an alleged infringer to prove exceptional circumstances under Section 285 of the Patent Act); Innovation Act, H.R. 3309, 113\textsuperscript{th} Cong. § 3 (2013) (amending Section 285 to provide that attorney fees will be awarded to the prevailing party, unless the court finds that the conduct or position of the nonprevailing party were substantially justified, or that special circumstances make the award unjust).

\textsuperscript{41} See e.g., Shield Act, H.R. 845, 113\textsuperscript{th} Cong. § 2(d) (2013).
the parties when an end user is part of litigation. Patent litigation is exorbitantly expensive compared to many other forms of civil litigation. These costs are even higher for end users because patent litigation relies on technological expertise to invalidate a patent. End users, unlike technological competitors, cannot rely on in-house expertise and need to expend significant resources on external experts. In addition, unlike patent owners, they cannot avail themselves of contingent fee representation. This puts end users at a grave disadvantage, making them much more likely to settle and avoid litigation even when their claims are meritorious.

Secondly, end users may want to initiate patent litigation as a preemptive measure to seek declaratory judgment of patent invalidity. Currently, there are significant disincentives for bringing a declaratory judgment action, including the expense of litigation, lack of financial rewards and the risks of triggering countersuits of infringement. At the same time, a declaratory judgment of patent invalidity can be beneficial to many potential infringers not directly before the court. Consequently, actions for declaratory judgment are relatively rare in patent litigation. Fee shifting can help resolve this collective action problem and encourage more declaratory judgment lawsuits under a private attorney general theory. Third, PAEs threaten and sue thousands of users, asserting, what many believe, are weak patent claims. These users tend to settle even when

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42 Jay P. Kesan, *Carrots and Sticks to Create a Better Patent System*, 17 BERKELEY TECH. L. J. 145, 175 (2002) (explaining that fee shifting is particularly important when there is inequality between the parties).
43 See infra Part IV(B).
44 See infra Part IV(B).
47 See Blonder-Tongue Lab. v. Univ. of Ill. Found. 402 U.S. 313, 350 (1971) (holding that a patent infringer can use issue-preclusion to foreclose an infringement suit where the patent claim in question had already been declared invalid in an earlier suit).
48 See Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. REV. 889, 921 (2001) (finding that only about 14 percent of the patent cases filed annually were declaratory judgment actions).
50 Chien & Reines, *supra* note 1 (discussing PAEs suing multiple customers); John R. Allison et al., *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 GEO. L.J. 677, 694 (2011) (finding PAE suits were much less likely than non-PAE suits to result in a ruling for patentee); Robert P. Merges, *The Trouble With Trolls: Innovation, Rent-Seeking,*
their cases are meritorious. Commentators believe that fee shifting is likely to at least reduce the number of meritless patent suits, even if it is unclear whether it will reduce the number of settlements.51 In addition, fee shifting can serve a punitive function to deter and punish such abusive litigation practices.52

End users would benefit from any change that facilitates fee shifting, particularly pro-alleged infringer fee shifting. However, general changes to fee shifting standards are less effective because they do not carry a direct message to the end user.53 Moreover, changes to fee shifting standards that focus on PAE status resolve only a sub-set of end user cases. This Article, therefore, proposes including the end user status as a factor that weighs in favor of fee shifting. While the Article defines end user broadly, including end user status as a factor in the fee shifting analysis enables a more granular investigation into the nature of the specific end user. Even prevailing end users who are not liable for infringement can differ significantly. For example, although most end users know little about the patented technology, some are technological innovators and for other users the patented technology is central to their business. In these cases, inequality between the parties may not be as significant and the justification for fee shifting weaker. In other cases, end users may represent a broader public interest in a declaratory judgment action. In these instances, the private attorney general theory will strengthen the case for fee shifting.

The Article proceeds as follows. Part I describes the growing role of end users in patent litigation. Part II discusses the reasons for the shift from a competitor model to a hybrid competitor-user model and distinguishes the characteristics of the end user from those of the traditional competitor. Part III shows that the AIA largely fails to protect the interests of the end user. Part IV discusses the contemporary fee shifting debate and argues that there is a strong case for including end user status as a factor in fee shifting analysis in patent cases.


52 For discussions of the punitive function of fee shifting, see, Peter N. Cubita & Jeffrey S. Lichtman et al., Awards of Attorney’s Fees in the Federal Courts, 56 ST. JOHN’S L. REV. 277, 288 (1982); Rowe, supra note 49, at 653.

I. THE GROWING ROLE OF THE END USER IN PATENT LITIGATION

Many believe that until recently end users have largely been absent from patent litigation. At the same time, there are some reports indicating that end users have been part of patent litigation during certain historical periods. Empirical research needs to be conducted to establish the exact scope of the transformation. But, few doubt that a change has indeed been taking place. This Part shows that end users are appearing in patent litigation not just as defendants in PAE lawsuits but in a variety of roles. They have appeared as parties in recent major patent cases before the Supreme Court and the Federal Circuit, both as defendants and as plaintiffs in declaratory judgment suits. They also take a central role in challenging pay-for-delay agreements between patent owners and generic manufacturers that undermine users’ interests in access to cheaper drugs.

A. END USERS AS PARTIES IN MAJOR PATENT CASES

End users have played an important role in some of the major patent law cases litigated before the Supreme Court and Federal Circuit. They appeared as both plaintiffs in declaratory judgment actions and as defendants. In Association for Molecular Pathology v. Myriad, patients and physicians sued to invalidate Myriad’s breast cancer gene patents. Myriad owned the patents on BRCA1/BRCA2 – the genetic mutations responsible for a high risk of breast and ovarian cancer. Myriad charged $3,000 for testing for the breast cancer genetic mutations, a rate significantly higher than rates charged for other genetic tests. In

54 Abusive Patent Litigation: The Impact on American Innovation and Jobs, and Potential Solutions: Hearing Before the Subcomm. on Courts, Intellectual Prop. of the Comm. on the Judiciary, 103rd Cong. 9–11 (2013) (statement of Mark Chandler, Senior Vice President and General Counsel, Cisco Systems) (testifying that the problem of PAE lawsuits has now spread to customers); Id. at 35 (statement of Janet L. Dhillon, Executive Vice President, General Counsel and Corporate Secretary, JCPenney Company, Inc.) (testifying that four years ago JCPenny, a department store, never had to defend against a patent lawsuit, while in 2012 over 3600 patent lawsuits were filed against it); Chien & Reines, supra note 1 (stating that “customer suits have been, until recently, relatively uncommon”); Scott Shane, How to Neuter Patent Trolls, BUSINESSWEEK (March 26, 2013), http://www.businessweek.com/articles/2013-03-26/how-to-neuter-patent-trolls.


56 Complaint, Ass’n for Molecular Pathology v. USPTO, supra note 5, at ¶ 1-26.

addition, Myriad sent cease and desist letters to physicians and laboratories that offered or planned to offer testing. As a result, patients’ only option was to test through Myriad. Some patients were unable to test due to the high fees and lack of insurance coverage for genetic testing. In addition, patients could not undergo repeat testing with another entity to confirm accuracy or undergo more extensive testing. A group of patients joined forces with physicians, laboratories, medical centers and non-profit organizations seeking a declaratory judgment of patent invalidity. The case garnered significant media and academic attention and was eventually decided by the Supreme Court in June 2013.

In *Bowman v. Monsanto*, Monsanto, which owns patents on genetically engineered seeds that are resistant to herbicide, sued farmers who re-used the seeds. Monsanto’s genetically engineered seed, which is resistant to the herbicide, enables farmers to spray herbicide on crops in order to destroy weeds without destroying the crops. Yet, Monsanto’s genetically engineered seed has an additional quality: it self-replicates. Thus, farmers can purchase the seeds once and save some crops to re-plant in subsequent seasons. To prevent this, Monsanto required farmers who bought the patented seed to sign a contract agreeing not to use the seed for an additional season. According to the agreement, none of the crops grown could be re-planted. Monsanto sued or threatened to sue over 800 farmers who re-planted the self-replicating seeds. The Supreme Court decided the case on May 2013.

http://ghr.nlm.nih.gov/handbook/testing/costresults (stating that genetic testing costs between $100 to more than $2,000).

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59 See id. at 1315; Complaint, Ass’n for Molecular Pathology v. USPTO, supra note 5, at ¶ 1-26.

60 See Ass’n for Molecular Pathology, 689 F.3d at 1315; Complaint, Ass’n for Molecular Pathology v. USPTO, supra note 5, at ¶ 21-26.

61 See Complaint, Ass’n for Molecular Pathology v. USPTO, supra note 5, at ¶ 7-26.


63 Ass’n for Molecular Pathology v. Myriad Genetics, 133 S. Ct. 2107 (2013).


65 Id. at 1765.

66 Id.

67 Id. at 1764.

68 Organic Seed Growers & Trade Ass’n v. Monsanto Co., 718 F.3d 1350, 1353 (Fed. Cir. 2013) (stating that “[b]etween 1997 and 2010, Monsanto brought some 144 infringement
Finally, in *Organic Seed Growers v. Monsanto*, organic farmers, who did not use Monsanto’s genetically engineered seed, filed suit for declaratory judgment that Monsanto’s patents are invalid. The organic farmers sued because the wind may blow seeds from one field to another, causing Monsanto’s seeds to grow in their fields. Given Monsanto’s extensive history of lawsuits against farmers, they were concerned that Monsanto would sue them for inadvertently growing the patented seeds. To prevent this, the organic farmers decided to act proactively and file suit for a judgment declaring that Monsanto’s patents are invalid. The Federal Circuit decided the case on June 2013.

**B. PAES’ Litigation Against Customers**

PAEs are a relatively recent phenomenon in patent litigation. Yet, currently, PAE’s file the majority of patent lawsuits in the United States. PAEs are particularly common in the software industry. They do not manufacture or sell the patented technology. Instead, these companies purchase patents in order to enforce them. PAEs have a number of business strategies. A prominent group defined as the “bottom feeder trolls” threatens and sues large numbers of alleged infringers.
Unlike patent owners who are in the business of marketing their invention, PAEs do not have a business relationship they need cultivate with customers. Therefore, increasingly, these PAEs have been suing end users who are customers of a manufacturer or supplier of the alleged infringing technology. These PAEs target these customers for their use or adoption of existing technology.79

PAE suits against customers have become increasingly common.80 PAEs find customer lawsuits attractive, first, because of the large numbers of potential targets.81 Secondly, customers, who are not technological companies with know-how regarding the patent, are easy targets who prefer to settle instead of entering expensive litigation.82 Examples are plentiful. The following are a few illustrative reports of PAEs’ enforcement actions against end users.

One PAE, Innovatio, acquired patent rights to wireless Internet technology, which it claims is necessary to implement the standards for wireless local area networking technology (Wi-Fi).83 Wi-Fi technology is ubiquitously used. To enforce its patent rights, Innovatio has sent more than 8,000 infringement letters to businesses that use Wi-Fi technology.84 In addition, Innovatio has initiated 23 lawsuits in 4 states.85 Innovatio’s enforcement measures targeted many end users, which are not technological companies. Some like bakeries, restaurants and cafes, offer wireless technology to their customers, while other businesses use it for their internal business operations.86

Another PAE, ArrivalStar, owns patent rights that allegedly cover systems and methods that enable users to receive vehicle or shipment status and arrival information through cell phones, telephones and computers.87 It has filed hundreds of lawsuits, most of which ended in generally Bryant, supra note 78, at 691–92 (discussing the impact of the AIA joinder provision on the number of defendants in PAE lawsuits).


80 Chien & Reines, supra note 1.


82 See Magliocca, supra note 55, at 1813 (discussing the preference of those threatened by PAEs to settle); Randall R. Rader, Colleen V. Chien et al., Make Patent Trolls Pay in Court, N.Y. TIMES (June 4, 2013), http://www.nytimes.com/2013/06/05/opinion/make-patent-trolls-pay-in-court.html?_r=0 (describing the PAE business model, which is based on extracting financial settlements).


85 Id. at 908–09.

86 Id. at 907.

settlements, and has sent many more infringement letters. ArrivalStar has sued private sector transportation companies and large retailers such as Best Buy and Home Depot. But, in addition, one of ArrivalStar’s main targets has been public transit systems. They have sued public transit systems in many major cities, including, the Metropolitan Transportation Authority and New York City Transit Authority, the Massachusetts Bay Transportation Authority, the Maryland Transit Administration, the Greater Cleveland Regional Transit Authority and the Port Authority of New York and New Jersey. ArrivalStar alleged that its patents cover systems monitoring travel data. Specifically, they pointed to systems allowing users to contact the transit authority by SMS text message to request arrival times for vehicles monitored by the system; the system then texts back the arrival time of the train or bus to the user. Nearly all public transit systems preferred to avoid expensive litigation and have settled for $50,000–$75,000. In June 2013, the American Public Transportation Association, took a proactive step and filed suit for declaratory judgment of patent invalidity against ArrivalStar to protect its members from ArrivalStar’s enforcement measures.

Finally, Lodsys, LLC (“Lodsys”) has sent infringement letters and sued to enforce its software patents against non-technology companies, asserting that these companies infringe Lodsys’ patents by incorporating its patented technology into their company websites. Specifically, Lodsys
claimed that these companies infringed its patents through use of live interactive chat with consumers and consumer survey functions on their company websites. Lodsys sued many non-technology companies including Adidas America (“Adidas”), Best Buy Solutions, Inc., Best Western International, CVS Caremark Corporation and Vitamin Shoppe. The defendant companies purchased the alleged patented technology from technology companies that produced the alleged infringing technology. Oracle, for example, reported that within a year-and-a-half period, Lodsys sent infringement letters to dozens of its customers, some of its customers, such as Walgreens, were eventually sued.

C. END USERS AND PAY-FOR-DELAY AGREEMENTS IN THE PHARMACEUTICAL INDUSTRY

In the pharmaceutical industry competitors’ and users’ interests increasingly diverge. This occurs when generic manufacturers and patent owners reach settlements that are not in the best interests of patients who seek access to cheaper drugs. And importantly, although the FTC (representing consumer interests) has played an important role regarding these settlements, patients and drugstores have also sued independently to challenge these agreements.

38/lodsys-files-suit-against-new-york-times-five-others/ (describing Lodsys’ patent enforcement actions against technology companies and retailers).


98 See e.g., Federal Trade Comm’n v. Actavis, 133 S. Ct. 2223, 2237 (2013).

99 For examples of lawsuits by patients, see, Ark. Carpenters Health & Welfare Fund v. Bayer AG, 544 F.3d 1323, 1327 (Fed. Cir. 2008) (individual drug purchasers and several advocacy groups challenging an agreement between patentee and generic drug manufacturer regarding the drug Cipro); Louisiana Wholesale Drug Co. v. Hoechst Marion Roussel, Inc. 332 F.3d 896, 899 (6th Cir. 2003) (individual drug purchasers of Cardizem CD challenging an agreement between a patentee and generic drug manufacturer); In re Tamifluofen Citrate Antitrust Litig., 277 F. Supp. 2d 121 (E.D.N.Y. 2003), aff’d, Joblove v. Barr Labs, Inc., 429 F.3d 370 (2d. Cir. 2005) (individual drug purchasers, medical benefits organizations and consumer advocacy groups challenging an agreement between a patentee and generic drug manufacturer regarding the drug tamifluofen citrate); In re Buspirone Patent & Antitrust Litig., 210 F.R.D. 43, 46 (S.D.N.Y. 2002) (individual drug purchasers suing with others to challenge an agreement between a patentee and generic drug manufacturer regarding the drug buspirone).

100 For examples of lawsuits by drugstores, Valley Drug Co. v. Geneva Pharm., Inc., 350 F.3d 1181, 1183–84 (11th Cir. 2003) (wholesalers selling the drug terazosin hydrochloride
A pharmaceutical company seeking to market a new drug to the public needs to obtain approval from the Food and Drug Administration ("FDA"), by submitting a New Drug Application ("NDA"). The submission of an NDA is extremely expensive and time-consuming. The Hatch-Waxman Act allows generic drug manufacturers to file an Abbreviated New Drug Application ("ANDA"), which relies on the information in an NDA previously filed for a patented drug. A generic manufacturer filing an ANDA needs to certify that the drug does not infringe a patent. One way to certify non-infringement is through a process known as "Paragraph IV Certification." Under the Paragraph IV Certification process, the generic manufacturer certifies that the patent either is invalid or will not be infringed by the proposed generic product. The patent owner then has forty-five days to file an infringement suit in court, and if such a suit is filed, the FDA may not approve the generic for thirty months or until the suit is resolved, whichever occurs first. The result is often a lengthy and expensive litigation that patent owners prefer to settle. One type of settlement that has received significant attention is called a "reverse payment agreement" or "pay-for-delay agreement." While a primary goal of the Hatch-Waxman Act was to increase the availability of low cost drugs to patients, "pay-for-delay" agreements undermine this objective. Under the Hatch-Waxman scheme the first

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challenging an agreement between a patentee and generic drug manufacturer); In re Sexlaxin, 2013 U.S. Dist. LEXIS 70968 *8-*9 (E.D. Tenn. 2013) (drugstores suing with others to challenge an agreement between a patentee and generic drug manufacturer regarding the drug Metaxalone); In re Neurontin Antitrust Litig. 2009 U.S. Dist. LEXIS 77475 at *1 (D.N.J. 2009) (Rite-Aid, CVS and other direct purchasers of the drug Neurontin challenging an agreement between a patentee and generic drug manufacturer). On the divergence between the public interest and competitors’ interests, see also, Rochelle Cooper Dreyfuss & Lawrence S. Pope, Dethroning Lear? Incentives to Innovate After MedImmune, 24 BERKELEY TECH. L. J. 969, 972 (2009).


Id. § 355(j)(2)(A)(vii).


Id. § 355(j)(5)(B)(iii).


Id.

A generic company that files Paragraph IV certification receives 180 days exclusivity, but, once this period is over and multiple generic companies enter the market, the drug price typically drops significantly. Pay-for-delay agreements prevent the public from enjoying the benefits of competition. In such agreements, the generic manufacturer typically agrees to delay entering the market in return for monetary compensation. Yet, while these agreements serve the interests of both the patentee and the competitors, consumer interests in obtaining cheaper access to essential drugs are trampled.

Pay-for-delay agreements are becoming increasingly common. The FTC assessed that in 2012, 40 settlements between patent owners and generic manufacturers involved pay-for-delay agreements. In 2013, the Supreme Court granted certiorari in two cases involving such agreements. In Federal Trade Commission v. Actavis, the FTC represented end-users’ interests to challenge pay-for-delay agreements involving a drug called AndroGel, which increases testosterone levels for men. And, in re K-Dur Antitrust Litigation, end-users: wholesalers, such as Walgreens and CVS Pharmacy that sell the drug K-Dur, which treats low blood levels of Potassium, challenged the settlement agreement. The Supreme Court decided the cases on June 2013, and did not find that such agreements are presumptively invalid, thus, the conflict between end user and competitor interests remains.

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supra note 103 at 1568–73 (explaining that pay-for-delay agreements prevent early competition and deny consumers the benefit of low drug prices).


118 Actavis, 133 S. Ct. at 2237 (declining to find that pay-for-delay agreements are presumptively invalid); Merck & Co. v. La. Wholesale Drug Co., 133 S. Ct. 2849 (2013) (vacating and remanding in light of the decision in Actavis).
End users’ roles in challenging pay-for-delay agreements differ in two respects from end users’ roles in other forms of patent litigation. First, in other cases, end users’ interests are usually aligned with those of competitors. For example, in PAE litigation the manufacturer and its end user customers seek to defeat the patentee’s infringement claims. Conversely, in pay-for-delay cases, the generic manufacturer competitor and the patent owner brand name together resist the end user’s challenge of the settlement agreement. Yet it is the different alignment of the parties’ interests that underscores the importance of assessing the new role of the end user. This realignment of parties’ interests highlights that the end user cannot rely on the protection of the competitor. The needs of end users are particularly evident when they cannot rely on their traditional protectors.

Secondly, the litigation concerning pay-for-delay agreements is, in a sense, a hybrid creature of patent and antitrust litigation. Pay-for-delay agreements are an inadvertent result of the Hatch-Waxman Act’s Paragraph IV Certification process. The Hatch-Waxman Act is a patent legislation designed to encourage early entry of generic versions of patented drugs into the market. At the same time, petitioners challenging these agreements, including end users, challenge them utilizing antitrust claims. Unlike patent law, antitrust law is more flexible regarding consumers’ standing to sue. The relaxed standing standards explain the prevalence of end users, such as patients and drugstores, as plaintiffs in these lawsuits. At the same time, it underscores that when end users can avail themselves of procedural tools that enable them to participate in patent disputes, they will take advantage of them and become players.

II. FROM A COMPETITOR MODEL TO A HYBRID COMPETITOR-USER MODEL

End users may be businesses or individuals and may take different roles in patent litigation. This Article defines end users broadly to encompass users who use the patented technology for personal consumption or in business. But, end users are not in the business of making or directly selling the technology. This Part differentiates end users from small technological competitors, by highlighting three characteristics: (i) end users are not technologically sophisticated; (ii) they tend to enter the patent conflict later in the life of the patent; and (iii) they are often one-time players. It then turns to describe the shift from the traditional model that

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120 See generally Herbert Hovenkamp, Anticompetitive Patent Settlements and the Supreme Court’s Actavis Decision, 15 Minn. J. L. Sci. & Tech. 3 (2014) (discussing the Supreme Court’s Actavis decision and its application of antitrust principles to the pay for delay agreements resulting from the Hatch-Waxman Act).

focuses on the patentee and the competitor to a model that includes end users as players in patent litigation. Finally, this Part analyzes the reasons for the rise of the end user in patent litigation, pointing to a combination of technological change and a transformation in litigation practices. It highlights the integration of technology into daily life and into businesses that were not previously highly technology-reliant, the development of new technologies that change the means of production and the advent of PAEs who do not have a customer relationship and whose business model depends on suing thousands of users.

A. IDENTIFYING THE END USER

End users may be plaintiffs taking proactive measures to invalidate a patent by seeking declaratory judgment, or by challenging pay-for-delay agreements to obtain access to drugs. End users may be defendants sued for infringing a patent, or they may be threatened by litigation through cease and desist letters and choose to settle out of court. In some of these cases, end users may, in fact, be infringers. And in other cases, end users may be alleged infringers of patents that are, in fact, invalid. End users may use a technology for personal consumption or in business. Yet, despite these variations, they all differ from the traditional competitor in that they are not in the business of making or directly selling the technology at stake. They are strictly users. Even if they incorporate the patented technology within a product or service they offer their customers they do not make or

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123 See e.g., Ark. Carpenters Health & Welfare Fund v. Bayer AG, 544 F.3d 1323, 1327 (Fed. Cir. 2008) (patients challenging an agreement between a patentee and generic drug manufacturer regarding the drug Cipro); In re Neurontin Antitrust Litig. 1009 U.S. Dist. LEXIS 77475 *1 (D.N.J. 2009) (drug stores, such as Rite-Aid and CVS, challenging an agreement between a patentee and generic drug manufacturer regarding the drug Neurontin).

124 See e.g., Bowman v. Monsanto Co., 133 S. Ct. 1761, 1764–65 (2013); Complaint, Lodsys, LLC v. Adidas Am. Inc., supra note 95, at 1–2.


126 See e.g., Bowman, 133 S. Ct. at 1769 (holding that the farmers infringed Monsanto’s patent because the patent exhaustion doctrine does not apply to their actions).

127 See e.g., Myriad Genetics, Inc., 133 S. Ct. at 2111 (where the court invalidated certain breast cancer gene patent claims that were enforced against end users). In addition, many suits against end users are filed by PAEs who tend to enforce weaker patents. See Merges, supra note 50, at 1603–04 (discussing allegations that PAEs file suits based on weak patents).
sell the technology itself, and therefore are usually not knowledgeable about it. At times, they may be even unaware of its existence.

End users also differ in the equities of their cases. Some end users may advertently risk infringing a patent. For example, the farmers in *Bowman v. Monsanto* knew that re-planting Monsanto’s patented seeds violated the contracts they signed with Monsanto and that Monsanto claimed that re-planting the seeds amounts to patent infringement. At the same time, podcasters who purchased podcasting technology from those they believed were the legitimate owners of the technology were extremely surprised to find themselves sued by a PAE for patent infringement. Our sympathies are more likely to lie with the innocent podcasters than with the savvy farmers. Yet, regardless of the equities of the cases and where our sympathies lie, all end users share certain characteristics that place them at a procedural disadvantage in the patent litigation arena.

End users are often, although not always, small companies or individuals. Small entities are not new to the patent conflict zone. However, traditionally these small entities were small technological companies that usually had a sophisticated understanding of the patented technology and the relevant prior art. Often such a company has, in fact, developed a technology that another company seeks to patent. In these cases the small technological entity may challenge the patent application in the PTO or may later contest the validity of the patent in court. In other cases, a patentee may sue a small technological company that is selling the technology it developed. Regardless of these differences, small technological entities are in the business of making and selling, not just...

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using the technology. They, therefore, share a technological sophistication that facilitates challenging a patent application or the validity of a patent. In addition, in many instances, they become involved in the patent conflict early in the life of a patent when they realize a potential competitor has filed a patent application or has received a patent and is entering the market.

End users differ from the traditional small technological companies in three respects. First, end users lack technological sophistication. Their lack of technological sophistication puts them at a significant disadvantage in patent conflicts. While small companies that develop a technology have in-house engineers who are acquainted with the technology and any related innovations, end users rarely have this know-how. End users are often individuals, such as patients, who lack any knowledge regarding the drug or test they seek to use. And even when individual end users, like farmers, use the patented technology in business, they are usually not technologically-savvy about the composition of the technology itself. The same applies to larger companies, such as Starbucks, which use allegedly patented wireless technology in their business.

Technological sophistication is crucial in patent conflicts. Patent cases are decided based on the resolution of two main issues: patent validity and infringement. Parties can challenge patent applications and issued patents’ validity on grounds of subject matter, novelty, non-obviousness, utility and disclosure. All challenges to patent validity require intricate understanding of the technology at issue. But, particularly, challenges based on novelty, statutory bar and non-obviousness, require an understanding not only of the technology at issue, but also of the prior art –

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132 Although at times, small technological companies may use technologies they did not develop as a component in their own technology, in these cases they would be using the technology as end users. I am focusing here on technological companies that are involved in a patent conflict involving a technology they have developed.

133 See Love & Yoon, supra note 1, at 1629 (discussing the in-house knowledge that technological competitors can rely on).

134 See e.g., Ark. Carpenters Health & Welfare Fund v. Bayer AG, 544 F.3d 1323, 1327 (Fed. Cir. 2008) (where patients challenged an agreement between patentee and generic drug manufacturer regarding the drug Cipro); Complaint, Ass’n for Molecular Pathology v. USPTO, supra note 5, at ¶ 1-26 (where patients challenged the validity of Myriad’s BRCA1/BRCA2 patents).

135 See Bowman v. Monsanto Co., 133 S. Ct. 1761, 1764–65 (2013) (where farmers re-used Monsanto’s patented genetically engineered seeds).


138 For example, to challenge a patent under the disclosure requirement the challenger needs to comprehend the way in which the technology operates and compare it to the description in the patent. See id. §112 (providing the disclosure requirement).
other related technologies in use, patents, patent applications and publications. 139 In-house engineers and developers usually have the knowledge and understanding of both the technology they developed and the universe of relevant technologies and publications. 140 Infringement arguments also depend on technological expertise, and competitors’ in-house employees tend to have in-depth understanding of the technology that facilitates making non-infringement arguments. 141 Patent litigation is notoriously expensive even for technological companies who can rely on in-house experts. 142 Although all parties to the litigation often rely on outside experts – patent owners and competitors can do so to a lesser extent. 143 The absence of in-house technological knowledge, requiring the reliance on outside experts, makes patent litigation costs particularly prohibitive for end users, making settlement without resolving the merits of the claims all the more lucrative. 144

Secondly, end users are unique in the stage in which they enter the patent conflict. End users do not manufacture the technology – they utilize it. They usually become embroiled in the patent conflict relatively late in the life of the patent. While competitors who manufacture and sell the technology and are well acquainted with the market may already challenge the patent during the application process or as it enters the market, end users enter the picture later. As users, their first contact with the patented

140 See Love & Yoon, supra note 1, at 1629 (discussing the in-house knowledge that technological competitors can rely on).
141 See id. (discussing manufacturers in PAEs lawsuits).
142 See infra Part IV(B).
143 Technical experts may be testifying or non-testifying experts. Non-testifying experts often play an important role. They are instrumental in educating attorneys regarding the technology and assist in preparing validity or infringement arguments. In house experts may serve as either testifying or non-testifying experts. See Bindu Donovan, Effective Selection and Retention of Testifying Experts for Patent Infringement Litigation, 19(4) IP LITIGATOR (2013) at http://www.sidley.com/files/Publication/40030074-fe05-4901-8e2a-ebd22a2f95de/Presentation/PublicationAttachment/52b81ea8-4cc3-453a-82e9-ece657f5cbd1/IPLIT_070813_Donovan.pdf. Law firm publications often recommend resorting to in house counsels as experts. See, for example, Mark L. Levine & Alan Littman, Managing Patent Litigation Results at Reasonable Cost, at http://www.bartlitbeck.com/about-news-118.html (recommending evaluating the patent and accused product as early as possible by relying on employees within the company). See also Edward G. Poplawski, Selection and Use of Experts in Patent Cases, 9 FED. CIR. B.J. 145, 151-52 (1999-2000) (discussing the strengths of weaknesses of the inventor and employees or independent contractors of the parties as experts); Alex Reese, Employee and Inventor Witnesses in Patent Trials: The Blurry Line Between Expert and Law Testimony, 16 STAN. TECH. L. REV. 423, 424-25 (2013) (explaining that parties often choose in-house witnesses such as employees or company founders rather than outside experts because of the added expense of relying on paid experts and the possibility that a paid expert my not completely agree with the litigant’s position).
technology is when it enters the market, and often only when it achieves widespread adoption. Patented technologies frequently attain widespread adoption late in the life of the patent.\textsuperscript{145} The stage in which end users enter the conflict affects their opportunities to challenge the patent. Specifically, they are precluded from challenging the patent in the PTO during the application stage or soon thereafter.

Finally, end users are typically one-time players. Manufacturers have high stakes in the resolution of the conflict since the patented technology is often central to their business.\textsuperscript{146} End users, however, are not in the business of manufacturing or selling the alleged infringing technology. Instead, they are surprised to find themselves involved in a patent dispute. In most cases, the patented technology is ancillary to their business or may be substituted by other technologies on the market.\textsuperscript{147} As one-time players, they not have an incentive for a long-term resolution. Therefore, independent of the merits of the case, most end users will take the least costly option – settlement or withdrawal from use of the technology.\textsuperscript{148}

\textbf{B. The Traditional Competitor Model}

Patent law pays little attention to the end user. The utilitarian model driving patent law seeks to find a balance between incentivizing the inventor to promote innovation and preserving access for the public to enhance public welfare.\textsuperscript{149} Yet, patent law, in effect, places the competitor as the guard of the public interest, assuming that in all cases the interests of the public and the competitor converge. The patent owner gets a twenty-year monopoly and typically a technologically-savvy competitor can challenge a patent application in the PTO or argue that the patent is invalid in court. Patent law presumes that the competitor’s business interest will

\begin{itemize}
  \item \textsuperscript{145} See ROGERS, supra note 24, at 219–66 (discussing rates of adoption of new technologies and the factors affecting these rates). For discussions of the problem of patenting early in the technological cycle before the technology is ready for commercialization, see generally, Cortopia, \textit{supra} note 24; Sichelman \textit{supra} note 24.
  \item \textsuperscript{147} Though in some cases where the technology cannot be substituted and its expense is high, end users may be players with a long-term interest. For example, a group of Fabry disease (a genetic disease) patients asked the National Institute of Health (“NIH”) to use its march-in power to address a patented drug shortage. In this case, the patients had no replacement and had a long-term interest in the production of the drug. See William O’Brien, \textit{March-in Rights Under the Bayh-Dole Act: The NIH’s Paper Tiger?}, 43 SETON HALL L. REV. 1403, 1405–06 (2013).
  \item \textsuperscript{148} See Yoon, \textit{supra} note 144.
\end{itemize}
motivate him to challenge invalid patents, thereby increasing public access to technology.

Patent law doctrines, such as patent misuse and compulsory licensing, which regulate the patented innovation post market-entry and are particularly relevant to user access, highlight patent law’s neglect of the end user. In both these doctrines, patent law focuses on the actions of the patent owner and competitors to facilitate access through competition and price reduction. In the case of compulsory licenses, the behavior of the patentee instigates the issuance of compulsory licenses. A compulsory license may be issued where the patentee engages in anti-competitive behavior, does not use the patent, refuses to license to a dependent patent or acts in a way that harms the public interest. The law then turns to the patentee’s competitor to resolve the dissemination and access problem. By compelling the patentee to license to competitors, the law seeks to accomplish increased production of the invention, which will lower price and result in increased dissemination and access. Although the goal is promoting user access, patent law provides the user no active role.

Similarly, the patent misuse doctrine is triggered when the patentee takes unfair advantage of his patent rights. For example, when the patentee engages in discriminatory licensing (in which the patentee charges some licensees more than others). Patent misuse can be raised as a defense in patent infringement cases. In these cases, the law focuses on the acts of the patent owner who has taken unfair advantage of the patent, and resolves the problem by turning to the competitors, absolving them from liability for patent infringement. By defining the patentee’s behavior as patent misuse and preventing the patentee from enforcing the patent, courts strengthen the market power of competitors, assuming that competition will lower prices and increase public access. Again, although their interests are clearly at stake, patent law does not provide users an active role.

151 Id. at 11. While compulsory licenses are quite rare in the United States, the United States, through its treaty obligations and a combination of statutory obligations, may, and at times does, issue some version of a compulsory license in all categories, excluding the purpose of the exploitation of a dependent patent. Id.
153 Bernstein. *Incentivizing the Ordinary User*, supra note 150, at 13. See also Carl Moy, MOY’S WALKER ON PATENT, §18.1 (4th ed. 2011). Although courts and the legislature have greatly constricted the patent misuse defense through the years, certain actions by the patent owners are still considered misuse. See Hovenkamp, Janis, Lemley & Leslie, IP and Antitrust: An Analysis of Antitrust Principles Applied to Intellectual Property Law § 3.2 (2nd ed. 2010) (describing the historical demise of patent misuse).
154 See, e.g., Laitram Corp. v. King Crab, Inc., 244 F. Supp. 9, 16–17 (D. Alaska 1965) (finding discriminatory licensing rates of shrimp peeling machinery to constitute patent misuse).
156 Id.
C. REASONS FOR THE CHANGE TOWARD A HYBRID COMPETITOR-USER MODEL

A third player – the end user, now joins the patentee and its competitors in the patent litigation landscape. The proliferation of some, although not all cases involving end users, can be explained as a result of changes in technology and patent litigation practices. Two technological trends contributed toward making the user a player in patent litigation: the integration of technology into previously non-technological functions of daily life and changes in the means of production that transformed users into producers. These technological trends took place at the same time as the exponential growth in PAE lawsuits that popularized threats and legal action against users who are customers.

i. Technological Changes

First, in the last decade technology has further integrated into everyday lives, becoming part of businesses and daily functions that previously did not require use of technology. 157 For example, we traditionally did not view cafes as businesses that rely much on technology. Yet, many cafes now offer wireless services to their customers. Innovatio, a PAE, sued Starbucks Cafes for offering their customers wireless communications allegedly containing Innovatio’s patented technology. 158 Similarly, Adidas America, which manufactures sportswear, can no longer rely solely on its physical stores for sales. Like many other non-technology companies, it relies on sales through its website. Lodsys, another PAE, sued Adidas for alleged use of its patented technology in its website’s customer surveys and chat rooms. 159

Second, new genres of technologies are changing the means of production, making users into producers of technologies. Consequently, patentees are increasingly targeting users as defendants in patent litigation. This transformation is similar to the changes in the means of production of creative works that took place over a decade ago. As content became digitized on the Internet, users could easily make copies of copyrighted works and create their own versions. 160 As the means of production of

157 See e.g., GERARD GOGGIN, CELL PHONE CULTURE 107–204 (2006) (describing how cell phone technology is integrated into many aspects of life).
copyrighted works changed, copyright owners began targeting users as defendants in copyright litigation.161

One way in which the modes of production are changing is the advent of self-replicating technologies.162 Certain technologies can replicate themselves thereby making users into inadvertent producers of technology.163 In Bowman v. Monsanto, Monsanto’s genetically engineered seed could self-replicate. Farmers could purchase seeds once and save some of the crops to re-plant in subsequent seasons.164 The patent exhaustion doctrine grants users of a patented article the right to use or sell the article. However, it does not extend to users who make the invention.165 Therefore, users of self-replicating technologies are exposed to litigation threats and hauled into court.

Another transformation in the means of production that is likely to enlarge the role of the user is the introduction of the 3D printer. 3D printers can replicate three-dimensional products and have gone beyond being merely an expensive curiosity.166 UPS has started providing these printers in its stores for people to come and use and Staples sells them for around $1300.167 3D printers transform the access to the means of production by allowing consumers the opportunity to make items at home.168 This new capability makes it more likely that an individual or a small business will make an infringing item that will expose them to patent liability.169

ii. Changes in Patent Litigation Practices

PAEs have become an integral part of the patent litigation scene.170 In 2012, PAEs brought the majority of all patent lawsuits in the country.171

161 Hughes, supra note 10 (discussing the music industry’s lawsuits against individuals who downloaded music on the Internet).
162 See generally Self-Replicating Technologies, supra note 69 at 230 (2013) (discussing Monsanto’s self-replicating seeds in the context of other self-replicating technologies, such as nanorobots or organic computers).
163 See id. at 242 (stating that self replicating technologies: “... don’t merely teach competitors how to practice a new invention, they supply such competitors with a factory as well”).
165 Id. at 1766.
167 Desai & Magliocca, supra note 12, at 10. See also Doherty, supra note 11, at 357 (describing the market adoption of 3D printers).
168 See Desai & Magliocca, supra note 12, at 7, 12.
169 Id. at 4. Doherty, supra note 11, at 359–60.
170 See Litigation Over Time, PATENT FREEDOM (Feb. 7, 2014), https://www.patentfreedom.com/about-npes/litigations (showing the dramatic increase in PAE lawsuits from 2004 onward).
Unlike the traditional patentee plaintiff, the PAE, is a non-practicing entity. It accrues revenues by purchasing patents and demanding licensing fees from those making and using technology allegedly covered under its patent. The PAE model differs from the traditional patent litigation model and this distinction accounts for vast numbers of users being hauled into the heart of the patent conflict zone.

One important difference between the traditional model and the PAE model is that many PAEs base their business model on casting a broad net to demand licensing fees from thousands of alleged infringers. They demand licensing fees through sending infringement letters to hundreds or thousands of users. Often PAEs make money by accumulating low settlement fees from many users. And although most cases end in settlements, some proceed to litigation. In court, PAEs tend to pursue a large number of alleged infringers instead of focusing on one manufacturer or supplier.

The second important characteristic of this PAE model is that it does not discriminate between potential defendants, targeting major manufacturers/suppliers and users alike. Importantly, PAEs do not commercialize the invention. They do not compete in the marketplace and do not have customers. While the traditional patentee plaintiff may often refrain from suing competitors’ customers because they may one day

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172 See Michael Risch, Patent Troll Myths, 42 SETON HALL L. REV. 457, 458 (2012) (pointing to the general belief that PAEs are patent plaintiffs who do not produce a product or sell a service); Colleen V. Chien, Of Trolls, Davids, Goliaths, and Kings: Narrative and Evidence in the Litigation of High-Tech Patents, 87 N. CAROLINA L. REV. 1572, 1578 (2008-2009) (defining PAEs as a “corporate patent enforcement entity that neither practices nor seeks to practice its inventions.”).

173 See Chien & Reines, supra note 1, at 8–9 (explaining that the economics of these suits favors large pools of potential targets).

174 See Lemley & Douglas, supra note 76, at 2126 (describing this as one PAE business model).

175 PAEs join as many alleged infringers as possible in one lawsuit and file multiple lawsuits. After the AIA limited the number of defendants that can be joined, the number of lawsuits filed by PAEs’ has grown. Bryant, supra note 78, at 691–92 (2012) (describing PAE’s strategy of joining multiple unrelated defendants and the impact of the AIA joinder provision on the number of defendants in PAE lawsuits).

176 See Lemley & Melamed, supra note 76 at 2126–2129 (describing three troll business models).
become its own customers, the PAE is not similarly restrained. Thus, PAEs are suing users who are customers on a large scale.  

III. THE AIA AND THE END USER

Advocates of the AIA, hailed the patent statutory reform arguing it promotes the interests of small businesses. They claimed that the America Invents Act will “protect small business patent holders from harassment by infringers,” 178 “reduce fees for small business patent applicants,” 179 and “eliminate interference proceedings, which are often costly to small businesses.” 180 The media frequently echoed these sentiments. 181

Yet, the promoters envisioned a small entity, which differs significantly from the end user. This Part shows that the AIA envisaged a technologically-savvy business competitor of the patentee or the patent applicant, who is well acquainted with the technology at issue and the relevant prior art, and often becomes involved in the patent conflict early in the life of the patent. As we have seen, the end user is a different creature.

As part of the AIA’s overhaul of the Patent Act, the AIA created three new PTO procedures to replace the inter partes reexamination procedure: post-grant review, inter partes review and the covered business method patents review. It also overhauled a third procedure: the third party submission procedure. In addition, the AIA broadened the prior user rights defense. While advocates of the AIA argue that these changes benefit small

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177 Chien & Reines, supra note 1, at 8–10 (discussing PAE lawsuits against multiple customers).
180 Press Release, Senator Patrick Leahy, supra note 178.
entities, this Part shows that regardless of whether the AIA, in fact, benefits small competitors, its amendments largely do not aid the end user. The end user is far less likely to be able to take advantage of the PTO procedures or of the prior user rights defense than the patentee’s competitors who can do so relying on their technological expertise and early acquaintance with the technology.

A. THE AIA’S OVERHAUL OF PTO PROCEDURES

Supporters of the AIA argued that small entities would benefit from the creation of new PTO procedures that will serve as an efficient and less-costly alternative to litigation. Patent litigation is exorbitantly expensive.182 These costs dissuade many, especially small companies, from pursuing litigation.183 The pre-AIA PTO alternative to litigation – the inter partes reexamination proceeding – failed to serve as an effective option.184 The process was lengthy, at least three years.185 Challengers could challenge the patent only on Section 102 (novelty and statutory bar) and Section 103 (non-obviousness) grounds.186 They could not fully participate in the process because they were allowed only a single response to a patentee’s filings.187 And, while challengers were limited in their ability to participate, they were bound by strong estoppel provisions. First, challengers were estopped from challenging the validity of any fact determined during reexamination. Second, challengers were estopped from challenging the validity of any ground that was raised or could have been raised during reexamination.188 Consequently, challengers rarely used inter partes reexamination.189

183 See Carrier, supra note 182, at 110.
186 Carrier, supra note 182, at 113–14.
187 Id. at 114.
188 Id.
189 Id.
The AIA replaced inter partes reexamination with three new proceedings: post-grant review, inter partes review and covered business method patents review. In addition, it amended the third party submission process to facilitate interested parties’ ability to challenge patent applications. Promoters of these new procedures argued that small companies, for whom the cost of litigation and the long discovery process often renders litigation infeasible, would particularly benefit from these options.190 Others argued that these changes would not benefit small entities.191 Regardless, the small entities envisioned by both promoters and opponents are competitors who, unlike the end users are technologically-savvy. The goal of these procedures was to bring more information to the system, by taking advantage of the knowledge of competitors who are best acquainted with the prior art and can best challenge the patent applicant’s affidavits and declarations.192 This Section shows that while competitors are likely to be aware of the patent application and become involved during the application stage, end users are less likely to benefit from these procedures because they lack the technological know-how, and are unlikely to be implicated in the patent conflict at the time periods during which the patent can be most effectively challenged.

i. Third party submission

Critics of the patent system often point to the PTO’s inability to properly examine the growing number of patent applications as a main cause for the outpouring of low quality patents. Over-burdened PTO examiners who may not be very familiar with the technology at issue are often unable to locate all the relevant prior art.193 To address this, Congress

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190 See Patent Quality Improvement: Post-Grant Opposition: Hearing Before the Subcomm. on Courts, the Internet, & Intellectual Prop. of the H. Comm. on the Judiciary, 108th Cong. 9 (2004) [hereinafter Patent Quality Improvement Hearing] (statement of Michael Kirk, Executive Director, American Intellectual Property Law Association) (“I think that the fact that we can provide an attractive procedure that would determine the validity of claims of issued patents more efficiently, more effectively, quicker, than District Court litigation, which, as I noted, runs into the millions of dollars, is going to help large and small companies but especially the small company and the independent inventor.”). See also Changes to Implement the Preissuance Submissions by Third Parties Provision of the Leahy-Smith America Invents Act, Federal Register, 77 Fed. Reg. 42150, 42164 (July 17, 2012) (to be codified at 37 C.F.R. pts. 1, 41) (stating that the anonymity added to the third party submission procedure will encourage small entities to submit without fear of retaliation from a large competitor); Carrier, supra note 182, at 118 (focusing on the post-grant proceeding).


192 See Carrier, supra note 182, at 116 (discussing the advantages of the post-grant proceeding).

created the procedure of third party submission. The goal was to assist the PTO in obtaining the relevant prior art to assess whether a patent meets the requirements of Sections 102 and 103 of the Patent Act. Through the third party submission procedure, the PTO could rely on the expertise of the public to provide the examiner with relevant prior art documents.194

The AIA’s goal in reforming the third party submission procedure was to enhance the public’s access to the procedure.195 Congress made changes to facilitate the procedure generally and, specifically, to facilitate the access of small entities. First, the period of time during which a third party could submit prior art was extended. Under the AIA, a third party can submit a patent, patent application or other printed application, as long as it is submitted before the earlier of 1) the date of notice of allowance, or 2) the later of: six months from the publication of the application or the date of the first rejection by an examiner.196 Second, prior to the AIA, third parties could submit prior art documents, but could not explain their relevance. Under the AIA, the third party submission should be accompanied by a description of relevance.197

Congress incorporated two additional changes targeted specifically to improve access for small entities. First, under the AIA, parties can participate anonymously in the third party submission procedure. Anonymity was not available under the previous law. The promoters of the law hoped that this will encourage small entities to submit without fear of retaliation if they have a valuable relationship with a larger applicant.198 Secondly, the AIA instituted lower fees for small entities.199

194 See Baumeister, supra note 19, at 383–84 (the public would provide the PTO with public documents that in an ideal world the examiner could find on his own). See also David J. Kappos, Investing in America’s Future Through Innovation: How the Debate Over the Smart Phone Patent Wars (Re)Raises Issues at the Foundation of Long-Term Incentive Systems, 16 STAN. TECH. L. REV. 485, 493–94 (2013) (discussing this purpose in the context of software patents).

195 The procedure was infrequently used. In 2007, for every 500 patent applications published, the PTO received only one third party submission. William Alsup, Memo to Congress: A District Judge’s Proposal for Patent Reform: Revisiting the Clear and Convincing Standard and Calibrating Deference to the Strength of the Examination, 24 BERKELEY TECH. L.J. 1647, 1653 (2009).

196 35 U.S.C. § 122(e) (2013). This amends the previous law, which limited the time period to two months after publication or mailing of notice of allowance, whichever was earlier. Changes to Implement the Preissuance Submissions by Third Parties Provision of the Leahy-Smith America Invents Act, Federal Register, 77 Fed. Reg. 42150, 42150 (July 17, 2012) (to be codified at 37 C.F.R. pts. 1, 41).


198 Changes to Implement the Preissuance Submissions by Third Parties Provision of the Leahy-Smith America Invents Act, Federal Register, 77 Fed. Reg. at 42150, 42164.

Changes facilitating small entities’ access to third party submission may be helpful for small entities who are business competitors. They are knowledgeable about the technology at issue and can locate relevant documents of prior art to submit. End users, however, are unlikely to possess this knowledge without relying on expensive outside sources. But most importantly, third party submission occurs very early in the life of the patent, even before the notice of allowance. At that point, business competitors may realize that a patent application has been submitted and want to prevent the issuance of a patent. Users, however, are unlikely to be aware of the patent application and the relevance of the technology because in most cases the invention has not yet reached the market. Therefore, end users are unlikely to avail themselves of the third party submission procedure, despite the AIA induced changes.

ii. Post-Grant Review

The AIA instituted the post-grant review to replace the ineffective inter partes examination as a cheap and more efficient forum than litigation to challenge a patent after its issuance. To reduce costs and increase efficiency, the AIA charged the newly formed Patent Trial and Appeal Board (PTAB), to perform post-grant reviews and issue a final determination within a year, with a possibility of a six-month extension. In addition, the AIA imposed restrictions on post-grant review discovery to limit its scope and its cost as compared to patent litigation.

A petitioner can file a post-grant review petition only within a narrow time window – from the time a patent is granted or a reissue patent is issued to nine months after that date. The nine-month window requires petitioners to act fast to take advantage of the broad grounds available to

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200 For discussions of the problem of patenting early in the technological cycle before the technology is ready for commercialization, see generally, Sichleman, supra note 24; Cortopia, supra note 24.
201 See De Corte & Tridico et al., supra note 19, at 126. See also Susan J. Marsnik, Will the America Invents Act Post-Grant Review Improve the Quality of Patents? A Comparison with the European Patent Office Opposition, in THE CHANGING FACE OF AMERICAN PATENT LAW AND ITS IMPACT ON BUSINESS 183, 186 (Daniel R. Cahoy & Lynda J. Oswald, eds. 2013) (stating that “for years, scholars, practitioners, and government bodies have advocated instituting post issuance administrative trial proceedings at the PTO to determine validity more efficiently than litigation.”).
203 See 35 U.S.C. § 326(a)(5) (limiting discovery to evidence directly related to factual assertions advanced by either party); Rules of Practice for Trials Before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions, 77 Fed. Reg. 48, 673 (Feb. 9, 2012) (prescribing that certain initial disclosures are mandatory without need for authorization from the PTAB); De Corte & Tridico et al., supra note 19, at 127–29 (explaining that discovery in post-grant proceedings is much more limited than in U.S. patent litigation).
challenge a patent under the post-grant review. A post-grant review petitioner can request cancellation of patent claims on any ground under sections 101, 102, 103 and 112. These include prior art anticipation (novelty and statutory bar), obviousness, lack of utility, lack of patent subject matter and failure to meet the requirements of definiteness, written description and enablement.

Although, many commentators and legislators believed that the post-grant review would benefit small entities, the small entities that may, in fact, benefit from the post-grant review procedure are again, business competitors and not end users. First, as explored, end users are likely to become involved in a patent conflict only later in the life of the patent, long after the narrow post-grant window closes. Second although post-grant review is designed to be less costly than litigation, estimates show that filing fees combined with attorneys fees are likely to bring the cost to around half a million dollars. This cost is likely to be even higher for end users who cannot rely on in-house expertise. Finally, end users who are often one time players, are likely to prefer not to pursue conflict at the cost of half a million dollars or more in legal fees.

iii. Inter Partes Review

The AIA designed the inter partes review procedure as an additional cheaper and more effective alternative to litigation. As with the post-grant review, the AIA limited the duration of the proceeding. Inter partes review should be completed within one year though it can be extended by an additional six months. The scope of discovery is also more limited than discovery in federal court patent litigation.

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205 De Corte & Tridico et al., supra note 19, at 122.
206 See 35 U.S.C. § 321(b); Id. at 121.
207 See e.g., Patent Quality Improvement Hearing, supra note 190 (statement of Michael Kirk, Executive Director, American Intellectual Property Law Association). See also Carrier, supra note 182, at 118.
208 Patent office fees are currently, a filing fee of $12,000, plus a fee of $250 for each claim over 20, and a post-institution fee of $18,000 plus a fee of $500 for each claim over 15. United States Patent and Trademark Office Fee Schedule, United States Patent & Trademark Office (January 16, 2014), http://www.uspto.gov/web/offices/ac/qs/ope/fee010114. The PTO estimated the costs of attorney fees for the procedure based on the number of potential motions, oppositions and replies and the AIPLA mean private firm attorney fee of $371. See Marsnik, supra note 201 at 22-24.
210 Id. § 316(a)(11)(2013). See also Garmin Int'l, Inc. et al. v. Cuozzo Speed Techs., IPR2012-00001 (P.T.A.B. Mar. 5, 2013) (clarifying the scope of routine and additional discovery in inter partes review proceeding); Andrei Lancu & Ben Haber et al., Challenging Validity of Issued Patents Before the PTO: Inter Partes Reexam Now or Inter Partes Review Later?,
Inter partes review, in essence, continues where the post-grant review leaves off. Parties may challenge patent claims under inter partes review once the window to challenge them under the post-grant review closes.\(^\text{212}\) However, under inter partes review, unlike post-grant review, parties may challenge the validity of the patent only under sections 102 and 103 (prior art and obviousness) and only on the basis of patents and prior patent applications.\(^\text{213}\) Thus, nine months after the grant of the patent, a party can no longer challenge it in the PTO based on many of the grounds available during post-grant review. These include challenges based on lack of utility, lack of patent subject matter and failure to meet the requirements of definiteness, written description and enablement. Additionally, parties can no longer challenge the novelty and non-obviousness of the patent based on use and publications.

Inter partes review, on the one hand, appears more suitable for end users because parties may challenge the patent at a later point in time after its issuance. Parties can challenge the patent in an inter partes review from nine months after its issuance potentially to the time it expires. During this period, end users are more likely to be utilizing the patented technology, and therefore, find themselves implicated in a patent dispute. At the same time, the scope of inter partes review is extremely narrow. Thus, by the time the end user can actually avail himself of a PTO proceeding his options are quite limited. Furthermore, the end user remains, in many cases, a one-time player who would prefer to settle or switch technologies than incur even the costs of a PTO proceeding, which as discussed, are particularly onerous for the end user.

iv. Covered Business Methods Patents Review

The AIA also designed a new eight-year transitory covered business review process that went into effect on September 16, 2012 and is to be applicable only to petitions filed on or by September 16, 2020.\(^\text{214}\) Congress intended this proceeding, like the other PTO proceedings, to provide a less

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\(^{212}\)See § 311(e) (allowing a petition for post-grant review to be filed after the later of (1) the date that is 9 months after the grant of a patent or issuance of a reissue patent; or (2) if a post-grant review was instituted, the date of the termination of that review); Jeffrey P. Kushan, *The Fruits of the Convoluted Road to Patent Reform: The New Invalidity Proceedings of the Patent and Trademark Office*, 30 Yale L. & Pol’y Rev. 385, 405 (2012) (describing the timing relationship between post-grant review and inter partes review).

\(^{213}\)See § 311(b) (limiting the grounds for challenging a patent’s validity in inter partes review); Corte & Tridico et al., *supra* note 19, at 121 (explaining that the grounds for challenging a patent are much narrower under inter partes review than under post-grant review).

costly alternative to litigation. The AIA and PTO final rules reflect that the procedure is to apply to a broad definition of business methods for financial products, including “a method or corresponding apparatus for performing data processing or other operations used in the practice administration, or management of a financial product or service.” The legislative history indicates that this procedure is not intended to be limited to patents covering specific financial products or services but also ancillary activities related to financial services or products. Some interpretations of the scope of the covered business method review assert that it applies also to patents that involve “every day-business-applications.” And multiple bills are seeking to expand its scope further. Finally, preliminary evidence from the first 100 covered business method patents petitions shows that the PTO has broadly interpreted the scope of patents that can be reviewed under the procedure.

Petitioner may request a covered business method review from the time the post grant review window closes until the patent expires. Generally, a petitioner can raise most grounds for challenging a patent under this proceeding. Specifically, petitioner challenging a patent filed under the first to file regime can challenge the patented business method under any ground, while those filing a petition to challenge a patent filed under the first to invent regime are more limited in the scope of their challenges to certain challenges under section 102 and 103.

Unlike the other AIA PTO proceedings, only a person who is sued or charged with infringement may petition for a covered business method review of the patent. The PTO explains that charged with infringement

218 See Kettle, supra note 215 at 209.
220 Id at 275-79.
222 See Kettle, supra note 215 at 212-13 (2012); Joe Matal, supra note 217 at 626-27.
means that a petitioner would have standing to bring a declaratory judgment action in federal court.\footnote{224}{See Leahy-Smith America Invents Act, Pub. L. No. 112-29 §18 (a)(1)(B), 125 Stat. 284, 331 (2011) (codified in scattered provisions of 35 U.S.C.); 37 C.F.R. § 42.302(a)(2012).}

Since covered business method review lasts until the patent expires, end users can take advantage of this process because the procedure will still be available at the time that they find themselves involved in the patent dispute. However, the covered business method review is limited in significant ways, making it only a partial solution for the end user. First, an end user who has not been sued or sent a cease or desist letter cannot file a petition. Unlike competitors, there are usually large numbers of end users who are similarly situated. Once a patentee starts suing end users, others may fear they will be sued next or may want to take action to gain access to a patented technology that is crucial for them. Yet, they would be precluded from taking preemptive action by filing for a covered business method review. Second, the procedure is temporary in nature and will sunset in six years. Therefore, it does not provide a long-term solution. Third, although broadly defined this procedure does not apply to all categories of patents. At its broadest interpretation it may apply to patents on business method applications or to ancillary activities related to financial services or products. Even at its broadest construction, it does not apply to many of the lawsuits involving end users particularly those involving drugs and medical tests.

B. **THE AIA’S EXPANSION OF THE PRIOR USER RIGHTS DEFENSE**

The prior user rights defense to patent infringement is afforded to a party that was commercially using an invention later patented by another. A party who successfully asserts a prior user rights defense may continue to use the patented invention without paying licensing fees within certain restrictions.\footnote{225}{See KAPPOS & REA, supra note 28, at 5.} Prior to the adoption of the AIA, the Patent Act provided a limited defense that applied only to business method patents.\footnote{226}{American Inventor Protection Act of 1999, 35 U.S.C. § 273 (a)(3), (b)(1) (2013) (repealed and replaced by the Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 5, 125 Stat. 284, 297–99 (2011)).} In addition, a party could raise the prior user rights defense only if that party was the inventor who reduced the invention to practice.\footnote{227}{Id. § 273 (b)(1).}

The AIA’s expanded prior use defense now applies to all inventions and is not limited solely to business method patents.\footnote{228}{35 U.S.C. § 273(a) (2013).} The AIA protects third parties that can demonstrate that they were using the invention for at least one year prior to the filing date of a patent application or disclosure to
And importantly, the AIA does not contain a requirement that a party claiming the prior use defense needs to be the inventor who reduced the invention to practice. Instead, it applies to any person who commercially used the subject matter of the invention.

Some argued that prior user rights would benefit small businesses while others disagreed. Yet, the parties to the debate only envisioned the small inventor or technology competitor. End users were not at the core of that debate. And, while the AIA’s expansion of the prior user rights defense opens the door to some end users to avail themselves of the defense, it is unlikely to be frequently used by end users.

The elimination of the reduction to practice requirement would facilitate end users ability to take advantage of the prior user rights defense. To take advantage of the prior user rights defense the end user needs to use the invention in commerce at least one year prior to the filing of the application or disclosure to the public. Some end users, in fact, use technologies in commerce, such as cafes offering wireless technology to their customers or mass transit systems offering train-tracking information to their passengers. And, end users may license or purchase a technology that is later patented by another. However, in most cases, end users do not have access to a technology early in its life cycle. Thus, while the AIA does facilitate the ability of end user to claim prior user rights, it is unlikely that end users would utilize this defense extensively.

IV. LEGAL FEES SHIFTING AS A TOOL IN END USER LITIGATION

Recent patent reform under the AIA failed to consider the growing role of the end user. Irrespective of whether end users claims are substantively justified, they currently lack the procedural tools to pursue their claims in patent litigation. This Part argues that a fee shifting regime

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229 Id. § 273(a)(2).
230 See id. § 273(a)(1) (providing that: “[a] person shall be entitled to the defense . . . if (1) such person, acting in good faith, commercially used the subject matter in the United States, either in connection with an internal commercial use or an actual arm’s length sale or other arm’s length commercial transfer of a useful end result of such commercial use.”). See also KAPPOS & REA, supra note 28, at 18 (stating that the AIA does not require the party asserting prior use rights to be the actual inventor).
231 See Keith Kupferschmid, Prior User Rights: The Inventor’s Lottery Ticket, 21 AIPLA Q.J. 213, 234 (1993) (noting benefits for small entities whose licensees could take advantage of prior user rights); KAPPOS & REA, supra note 28, at 39 (noting that the prior user rights defense could be important for small inventors who do not have the resources to get to the PTO first in a first-to-file system). But see Edward L. MacCordy, The Threat of Proposed Patent Law Changes to the Research University, 20 J.C. & U.L. 295, 303 (1994) (arguing that it would be impossible to tell whether a potential infringer has prior user rights without expensive litigation that small businesses and independent inventors cannot afford).
232 Beyond the unsuitability of the defense to the circumstances of the end user, it appears that even in countries where the defense was extensively available, neither competitors nor end users tended to use it. See KAPPOS & REA, supra note 28, at 38.
that considers the end user status, and increases the likelihood that a court would compensate prevailing end users for their expenses, could be an important tool in leveling the playfield for end users in a broad array of cases. Fee shifting is by no means the only procedural tool important for leveling the playfield. Granting end users standing to sue in declaratory judgment cases would be an important tool. In addition, some end users who are customers of manufacturers of the allegedly patented technology could resolve the problem through contractual indemnification obligations by the manufacturers. And another option for customer end users is a stay of the lawsuit against them, while the manufacturer and patentee are litigating the case, through the expansion of the customer suit exception. Yet, this Article focuses on fee shifting because it is the one procedural tool that is applicable to all end user cases. And while the availability of fee shifting will motivate only some end users to litigate their meritorious claims, all categories of end users can potentially benefit from this remedy.

This Part begins by presenting an overview of the American Rule regarding fee shifting, the different variations of exceptions to the Rule, the current fee shifting regime under patent law, the costs of patent litigation and the rationales for and against fee shifting in litigation. It then turns to examine current legislative and Supreme Court activity regarding fee shifting in patent litigation. It argues that the case for fee shifting is particularly strong where end users are implicated for several reasons. First, there is significant inequality between the parties that make end users more likely to settle and avoid litigation even when their defenses are meritorious. Second, lawsuits for declaratory judgment of patent invalidity benefit many parties not before the court, creating a collective action problem that makes these suits rare. Third, PAEs threatened and sued thousands of users, in many cases, enforcing weak or invalid patents. Fee shifting is likely to reduce the number of meritless lawsuits against end users and serve as a punitive measure against abusive litigation practices. This Part argues that, although end users would benefit from any change that facilitates fee shifting, particularly pro-alleged infringer fee shifting, general changes to fee shifting standards that do not directly consider the end user status are less effective because they do not carry a direct message. A direct message is more likely to reduce the end user’s concerns regarding high litigation costs.

A. THE AMERICAN RULE AND THE PATENT SYSTEM

The American Rule governing legal fees differs from the rules prevalent in most other jurisdictions. The traditional American Rule does not allow successful litigants to recover legal fees from the defeated

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233 I address the issue of end users’ standing to sue for declaratory judgment of patent invalidity in a separate article. See Bernstein, End Users and Standing to Sue, supra note 31.

234 See generally Love & Yoon, supra note 1.
party, while the rule prevailing in England and many other countries permits the prevailing party to collect reasonable attorney fees from the losing party. Yet, Congress has circumvented the default rule by allowing fee shifting under selected statutes in certain cases, such as civil right cases, fair housing cases and consumer protection cases. In addition, certain states created exceptions to the American Rule. For instance, state courts in Alaska follow a loser pays rule.

The deviations from the American Rule follow different forms. Many federal statutes allow attorney fees to prevailing parties. Some authorize both plaintiffs and defendants to recover fees, while others allow only plaintiffs to recover fees. In addition, some statutes allow

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235 See Arcamabel v. Wiseman, 3 U.S. (3 Dall.) 306, 1 L. Ed. 613 (1796) (stating that “[t]he general practice of the United States is in opposition to [the indemnity rule] and even if that practice were not strictly correct in principle, it is entitled to the respect of the court, till it is changed or modified by statute”); Fleischman Distilling Corp. v. Maier Brewing Co., 386 U.S. 714, 717 (1967) (describing the differences between the English Rule and the American Rule).

236 See Cubita & Lichtman et al., supra note 34, at 188 (stating that the United States is the only common law jurisdiction in which each party must bear the total expense of compensating his attorney).


240 Alaska R. Civ. P. 82. See also Olson & Bernstein, supra note 51, at 1180–86 (describing the evolution of the Alaskan fee shifting rule).

241 See Cubita & Lichtman et al., supra note 34, at 286–89 (describing federal statutes that authorize awards of attorney’s fees to “prevailing parties”); Silver, supra note 34 (stating that “[f]ee shifting is common in federal cases” and that by enacting over 150 statutes entitling parties who prevail to claim fee awards, Congress greatly restricted the American Rule). See e.g., The Civil Rights Attorney’s Fees Awards Act of 1976 § Pub. L. No. 94-559, 90 Stat. 2641 (codified at 42 U.S.C.A. §1988 (2013)) (“. . . the court, in its discretion, may allow the prevailing party, other than the United States, a reasonable attorney’s fee as part of the costs . . . “); The Fair Housing Act of 1968 § 3612 (“. . . the administrative law judge or the court, as the case may be, in its discretion, may allow the prevailing party, other than the United States, a reasonable attorney’s fee and costs . . . “); The Freedom of Information Act, Pub. L. No. 104-231, 110 Stat. 3048 (codified as amended at 5 U.S.C. § 552(a)(4)(E) (2013)) (“The court may assess against the United States reasonable attorney fees and other litigation costs reasonably incurred in any case under this section in which the complainant has substantially prevailed.”).

242 Silver, supra note 34, at 872–73. See e.g., The Civil Rights Attorney’s Fees Awards Act of 1976 § 1988 (“. . . the court, in its discretion, may allow the prevailing party, other than the United States, a reasonable attorney’s fee as part of the costs...“); Christiansburg Garment Co. v. EEOC, 434 U.S. 412, 421 (1978) (holding that a court may award attorney fees to a prevailing defendant (employer) in an employment discrimination suit under Title VII if it finds that plaintiff’s action was frivolous, unreasonable or without foundation even though not brought in bad faith).

243 Silver, supra note 34, at 873. See e.g., The Truth in Lending Act §1640(a)(3) (providing that creditors could be liable to successful plaintiffs for the costs of the action, together with a reasonable attorney’s fee); The Fair Credit Reporting Act, §616(3), 15 U.S.C. §1681(m)(C) (2013) (liability to the prevailing consumer could include attorney fees in case of any filing in bad faith or harassment).
judges to grant fee awards, while other statutes require judges to give fee awards. Under the Patent Act, courts have the discretion to grant attorney fees to the prevailing party, whether plaintiff or defendant, in exceptional circumstances. The Federal Circuit standard for granting attorney fees to prevailing defendants was quite high. However, the Supreme Court in its 2014 decision, in Octane Fitness, lowered the standard. It held that the Patent Act’s “exceptional” case standard requires that the case stand out from others with respect to the substantive strength of a party’s litigating position or the unreasonable manner in which the case was litigated. It explained that the district court should decide whether a case is “exceptional” based on the totality of circumstances. The Supreme Court rejected the federal circuit standard as too rigid. Specifically, it held that fee shifting is not limited to cases involving misconduct that usually extends to independently sanctionable conduct. It also held that the prevailing party no longer has to prove both that the litigation is objectively baseless and that the plaintiff brought it in subjective bad faith. Instead, it could be sufficient to show subjective bad faith. Under this new standard articulated by the Supreme Court in Octane Fitness, courts are likely to award fee shifting more frequently in patent cases.

B. THE COSTS OF PATENT LITIGATION

Patent litigation is notoriously expensive. In 2013, the American Intellectual Property Law Association (the “AIPLA”) reported that when less than one million dollars was at stake the mean for the total cost of the litigation was $968,000 (median cost was $700,000). The AIPLA also reported that when one to ten million dollars were at stake, the mean for the total cost of litigation was $2,100,000 (median was $2,000,000). In addition, when ten million to twenty-five million dollars were at stake the mean for the total cost of litigation was $3,354,000 (median was $1,229,000).
Finally, the AIPLA reported that when more than twenty-five million was at stake for the total cost of litigation, was $5,911,000 (median was $5,500,000). Furthermore, in addition to direct litigation costs, studies show that there are indirect costs to defendant’s business such as diversion of resources, delays in new products and loss of market share. These figures are particularly striking considering that only about 80% of patent cases settle. While 5 percent go to trial, 8 percent of cases are terminated on the merits through a motion for summary judgment, and the rest are disposed of through some form of non-merit disposition.

Fees to litigate a patent dispute are many times higher than those for other civil actions. To compare, civil litigation costs are generally much lower with median litigation costs of $15,000 for plaintiffs and $20,000 for defendants. And although some reports show somewhat higher fees for certain categories of civil litigation, such as $43,000 median overall costs for automobile cases, $54,000 for premises liability, $66,000 for real property cases, $88,000 for employment cases, $91,000 for contract cases and $122,000 for malpractice cases, these figures are still well below the costs of patent litigation.

Certain characteristics that are unique to patent litigation contribute to its escalated costs. In general, the number of patent cases that go to trial is still relatively high compared to civil cases. Patent cases also take a longer period of time to resolve. The average time in high volume patent venues is longer than two years. But of particular importance, unlike some other forms of litigation, patent infringement actions are rarely...

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254 Id. at I-130. The mean cost by the end of discovery was $2,192,000 (median cost was $2,000,000). Id.
255 Id. at I-132. The mean cost by the end of discovery was $3,571,000 (median cost was $3,000,000). Id. at I-131.
259 See Emery G. Lee & Thomas E. Willging, Defining the Problem of Cost in Federal Civil Litigation, 60 DUKE L.J. 765, 770 (2010). Older data also shows that other forms of civil litigation costs are much lower than patent litigation costs, see, David M. Trubej & Austin Sarat et al., The Cost of Ordinary Litigation, 31 UCLA L. REV. 72, 80 (1983) (showing that the cost to litigate an average civil suit rarely exceeds $10,000).
261 See Bessen & Meurer, supra note 256, at 3 (mentioning that the trial rate is double the average of federal civil litigation).
262 Schwartz, The Rise of Contingent Fee Representation, supra note 258, at 348.
dismissed at the pleading stage. Courts hearing patent disputes conduct a special hearing, called a Markman hearing, to interpret claims. Claims define the scope of the patent and are critical for the resolution of the case. Once the court determines the scope of the patent, the likely outcome of the case becomes much clearer.\textsuperscript{263} Courts experienced with patent litigation often schedule Markman hearings before trial but after significant discovery. This resolves the issue of claim construction in the context of the litigated products or processes.\textsuperscript{264} At the same time, this means that the parties incur significant expenses even if the suit is resolved before trial. Costs of patent litigation include attorney fees, expert witness fees, travel costs and document management and production costs.\textsuperscript{265} And, another important reason that litigation is particularly expensive is that it often requires different experts to cover the industry, the particular technologies at issue, as well as experts to cover the damages issue.\textsuperscript{266}

For reasons we have seen, while patent litigation is a particularly expensive form of litigation, it is all the more onerous for end users. And, although not all end users are necessarily small entities, many are, and studies show that litigation costs, whether direct or indirect, are particularly burdensome for small companies.\textsuperscript{268} Furthermore, unlike technological competitors, end users do not usually have patent litigation


\textsuperscript{264} Kovalick, \textit{supra} note 263 (discussing the significance of resolving claim construction).


\textsuperscript{267} Love & Yoon, argue that the costs of defense are relatively similar for both parties. See Love & Yoon, \textit{supra} note 1, at 1627–28. They rely on a study by Emery G. Lee & Thomas E. Willging, which finds that the monetary stakes in civil suits are highly correlated with the amount at stake, and on the AIPLA report, which reports mean litigation costs for the amount at stake. See generally Lee & Willging, \textit{supra} note 259; AIPLA, \textit{REPORT OF THE ECONOMIC SURVEY} I-555–56 (2011). Yet, while Love & Young’s findings indicate that monetary stakes in litigation represent the primary cost driver, they show that litigation stakes account for only 60% of the variation in attorney costs, the remaining 40% are not affected by litigation stakes but by other factors. Lee & Willging, \textit{supra} note 259, at 772. Furthermore, their study focused on all civil litigation, patent cases were just a small sample of the cases included. The exorbitant cost of patent litigation including its special characteristics of Markman hearings and the need for technical expertise could provide a somewhat different set of results. See id. at 769–70 (discussing categories of cases included in the study); Lee & Willging, \textit{supra} note 259, at 8 (mentioning intellectual property cases). Finally, even though the AIPLA statistics focus on the amount at stake the report contains no discussion regarding whether other factors, such as the identity of the parties, were considered. See generally AIPLA, \textit{REPORT OF THE ECONOMIC SURVEY} (2013).

\textsuperscript{268} See Bessen & Meurer, \textit{supra} note 256, at 15 (focusing on PAE litigation).
insurance that can reduce their litigation costs.\footnote{See Rajwani, supra note 265 (mentioning patent litigation insurance as one of the top ten ways to reduce patent litigation costs).} End users are unlikely to seek patent insurance coverage in the first place because most are not technological companies and do not anticipate being swept into patent litigation.

\section*{C. The Fee Shifting Debate Generally}

The prevalence of fee shifting as exceptions to the American Rule has inspired a rich debate regarding the rationales for and against it. The main argument in support of the American Rule is that universal fee shifting could deter parties with novel and uncertain claims from litigation because they will fear that they will end up paying for their opponent’s attorney fees as well as their own.\footnote{Fleischmann Distilling Corp. Maier Brewing Co. 386 U.S. 714, 718 (1967); Jane P. Mallor, Punitive Attorneys’ Fees for Abuses of the Judicial System, 61 N.C.L. REV. 613, 617 (1983).} In addition, commentators raised several concerns in support of the American Rule. First, they pointed out that lawyers’ fees may become exorbitant if they could be shifted to the opponent.\footnote{See Mallor supra note 270.} Second, they argued that the extra time needed for hearings on attorney fees would constitute a serious burden on the already congested judicial system.\footnote{See id.} Finally, they highlighted that lawyers may be unable to engage in effective independent advocacy when the judge before whom they argue determines their fees.\footnote{See id.}

At the same time, commentators and legislators have put forth six main rationales for fee shifting. All are relevant to fee shifting in patent litigation, while four of these rationales, are particularly relevant for end user patent litigation, namely: inequality in party strength, attorney general litigation, economic incentives and the punitive function.

First, commentators raise a fairness argument to justify fee shifting. The loser who is in the wrong should pay for the winner’s costs. Whether the winner is a defendant who was dragged into litigation or a plaintiff who had a valid claim, their litigation expenses were a result of the loser’s wrongful actions and they should be compensated.\footnote{Rowe, supra note 49, at 653; Olson & Bernstein, supra note 51, at 1162 (stating that a “defendant who has been dragged into litigation . . . deserves compensation for having had to repulse an invalid claim . . . a plaintiff with a valid claim deserves [damages recognizing the legal fees] paid in defeating a recalcitrant defendant”).} Second, commentators noted that unless fee shifting occurs, the winning litigant will not be made financially whole. The winning litigant will be compensated only for his injuries, but may have incurred significant expenses during the trial that he has not recouped.\footnote{See e.g., Rowe, supra note 49, at 653.} Third, some noted that fee shifting can serve a punitive function—it can deter and punish
misconduct, which is motivated by the knowledge that high litigation expenses often deters people from suing or coerces them into settling.276

Fourth, the private attorney general theory justifies a fee award on the basis of public usefulness.277 Litigation sometimes produces benefits beyond those reaped by the successful party. This type of litigation advances the public interest or at least a private interest broader than that represented by the actual parties. Without fee shifting the cost to a private party may exceed any gains it may receive. Thus, potential plaintiffs may refrain from bringing socially beneficial lawsuits.278

Fifth, fee shifting can equalize the strength of the parties when there is a large disparity in strength.279 One side in litigation may have superior resources, which creates an inequality in power. This does not necessarily mean that a party does not have sufficient resources to hire a lawyer or that a party is poor. It means that the costs of hiring a lawyer may exceed the expected gain and, therefore, that party may find it uneconomical to proceed to litigation even if it has a meritorious argument.280 Legislatures have considered the relative strengths of the parties, incorporating fee shifting provisions in suits against the government or suits brought by small or individual private parties.281 The Equal Access to Justice Act, for example, was enacted to correct the power imbalance when the federal government opposes an individual of moderate wealth or a small to moderate entity. It provides for fee shifting for certain private parties who prevail in non-tort civil actions and administrative proceedings against the federal government, if the government cannot show that its position was substantially justified or that there were other circumstances that make the award unjust.282 The legislative history of the Civil Rights Attorney’s Fees Awards Act of 1976 also indicates that the

276 See Cubita & Lichtman et al., supra note 34, at 288; Rowe, supra note 49, at 653.

277 Rowe, supra note 49, at 653. See also Zemans, supra note 51, at 196–97 (discussing plaintiffs suing under the Civil Rights Act as fee shifting under the private attorney general rationale). Although the Supreme Court in Bush V. Gore limited the allowed ratio between actual harm awards and punitive damages awards, courts do not treat attorney fee awards as punitive damages awards even when they are issued specifically where a party acted in bad faith. See BMW of North America Inc. v. Gore, 517 U.S. 559, 580—86 (1996) (discussing the appropriate ratio between actual harm and punitive damages awards); Mark A. Behrens & Cary Silverman et al., Calculating Punitive Damages Ratios With Extracompensatory Attorney Fees and Judgment Interest: A Violation of the United States Supreme Court’s Due Process Jurisprudence? 48 WAKE FOREST L. REV. 1295, 1302-04 (2013) (discussing courts’ exclusion of attorney fees in bad faith cases when calculating the ratio between actual harm damages awards and punitive damages awards).

278 Rowe, supra note 49, at 662–63.

279 Kesan, supra note 42, at 175.

280 See Rowe, supra note 49, at 663–64; Silver, supra note 34, at 875.

281 See Cubita & Lichtman et al., supra note 34, at 287; Rowe, supra note 49, at 653. But cf. Zemans, supra note 51, at 202–03, 207 (discussing arguments that the access to justice rationale can support both the American rule and fee shifting, and noting that there is not enough empirical data).

purpose of the Act was to enable private citizens with few resources to hire a lawyer knowing that they could recover the costs of their lawsuit.283 And a final example, employees who usually have fewer resources than employers can recover attorney fees in minimum wage, maximum hours and discrimination litigation.284

Finally, the most debated rationale concerns the economic incentives effect. Fee shifting can encourage plaintiffs to pursue meritorious small claims and discourage plaintiffs from pursuing weak claims. It can also expedite litigation and prevent abuse of discovery processes.285 A fee shifting system can prevent parties from settling when they have meritorious arguments just to avoid the costs of litigation.286 There appears to be a broader consensus that a fee shifting system would reduce the number of nuisance suits and enable plaintiffs to bring some highly meritorious small lawsuits.287 However, researchers disagree as to whether fee shifting would increase or decrease the rate of settlement.288

D. THE FEE SHIFTING DEBATE AND PATENT END USER LITIGATION

Overall, the fee shifting rationales strongly support fee shifting in patent litigation involving end users. Although the fairness argument may be weaker in patent litigation, the inequality of power, attorney general, economic incentives and punitive function rationales make a compelling case for fee shifting where end users are parties in patent litigation, whether as defendants or as plaintiffs in suits for declaratory judgment for patent invalidity.

The fairness rationale, under which the loser who is in the wrong should pay for the winner’s costs, is weaker when the outcome of the litigation is unpredictable.289 It is harder to penalize the loser for dragging the winner into court when at the outset or even throughout litigation, that party appeared to have had a good chance of prevailing. Patent cases are considered particularly unpredictable compared to other forms of litigation.

First, knowing the relevant facts before litigation begins is challenging in

286 Rowe, supra note 49, at 665–66.
287 Gryphon, supra note 51, at 581–83. Although Gryphon notes that critics of fee shifting warn that even if fee shifting reduces the number of lawsuits filed, the cost of litigation may increase because each party no longer necessarily bears its own costs. Id. at 589. But cf. Mark S. Stein, The English Rule with Client-to-Lawyer Risk Shifting: A Speculative Appraisal, 71 CHI.-KENT L. REV. 603, 611–18 (1995) (arguing that while a loser pays rule would reduce frivolous claims, it would also discourage valid claims).
289 Rowe, supra note 49, at 653 (describing the fairness rationale); Olson & Bernstein, supra note 51, at 1162 (describing the fairness rationale).
patent cases. To evaluate the validity of a patent one needs to know the entire universe of relevant prior art. Defendants are likely to work hard to locate any sources of prior art for trial. Therefore, it is hard to predict the likelihood that a patent will be found invalid before extensive discovery.\textsuperscript{290} Second, significant uncertainty surrounds the court’s interpretation of the patent claims that define the scope of the patent.\textsuperscript{291} Even after the district court construes the claim, the appellate court reverses the claim construction at a rate of 30-40 percent.\textsuperscript{292} Thus, from a fairness perspective the argument for shifting is less compelling in patent cases.

At the same time, the other rationales point the other way. First, fee shifting is particularly important when there is an imbalance of power between the parties.\textsuperscript{293} This applies when one party is an individual or a small entity of limited resources. And, some end users, such as patients or small business are, in fact entities of limited resources. But, fee shifting to reduce the power imbalance between parties applies also anytime the costs of hiring a lawyer may exceed the expected gain and, therefore, that party may prefer to settle or not sue even if it has a strong case.\textsuperscript{294} End users, who are not in the business of manufacturing or selling a competing technology, tend to be one-time players. Thus, even if they have the resources they may find it uneconomical to invest in patent litigation. Instead they would rather refrain from using the technology altogether or settle to pay a royalty, even if they believe they have a meritorious claim. In addition, end users are in a weakened position due to their lack of in-house technological expertise. Finally, plaintiffs enforcing their patents can take advantage of the growing market for contingent fee patent litigation.\textsuperscript{295} Since end users cannot avail themselves of this option the disparity between the parties’ financial prowess grows. The availability of fee shifting could help minimize the disparity between the strength of the parties and may also have an indirect effect of encouraging lawyers to

\textsuperscript{290} Schwartz, The Rise of Contingent Fee Representation, supra note 258, at 349.

\textsuperscript{291} Id.


\textsuperscript{293} Kesan, supra note 42, at 175.

\textsuperscript{294} See Rowe, supra note 49, at 663–64; Silver, supra note 34, at 875.

\textsuperscript{295} See generally Schwartz, The Rise of Contingent Fee Representation, supra note 258 (describing the rise of contingent fee representation for plaintiffs in patent litigation).
undertake contingent representation of defendants including end users, which would further balance the playfield.

Second, under the private attorney general theory, fee shifting can encourage plaintiffs to undertake litigation that advances a public interest or at least a private interest broader than that represented by the actual parties.\(^\text{296}\) End users can be parties to patent litigation either as defendants accused of patent infringement or as plaintiffs, usually alleged infringers or potentially alleged infringers, initiating litigation by seeking a declaratory judgment of patent invalidity. Currently, there are significant disincentives for bringing declaratory judgments. These include the expense of the litigation, lack of financial rewards for invalidating patents and the risk of triggering countersuits of infringement.\(^\text{297}\) In addition, suits for declaratory judgments can be beneficial to many parties who are not immediately before the court. In *Blonder-Tongue*, the Supreme Court held that a patentee is estopped from enforcing a patent that has been held invalid against other entities, who were not parties to the original litigation.\(^\text{298}\) Therefore, a declaratory judgment ruling benefits other accused infringers creating a collective action problem and resulting in fewer challenges than are socially optimal.\(^\text{299}\) For example, the lawsuit against Myriad for declaratory judgment to invalidate Myriad’s breast cancer gene patents could potentially benefit patients who were not among plaintiffs, by reducing prices and increasing patients’ access to breast cancer genetic testing.\(^\text{300}\) Similarly, a lawsuit to invalidate a patent held by a PAE, whether brought by a competitor or an end user, could potentially prevent subsequent lawsuits by that PAE against other competitors and users.\(^\text{301}\)

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297 La Belle, *supra* note 46, at 44.
298 *Blonder-Tongue Lab. V. Univ. of Ill. Found.*, 402 U.S. 313, 350 (1971) (holding that a patent infringer can use issue-preclusion to foreclose an infringement suit where the patent claim in question had already been declared invalid in an earlier suit).
300 Ass’n Molecular Pathology v. Myriad Genetics, Inc., 133 S. Ct. 2107, 2111 (2013) (where the court invalidated certain breast cancer patent claims that were enforced against end users). *But see*, John Conley, *Undeterred by the Supreme Court, Myriad Starts Suing*, GENOMICS LAW REPORT (July 16, 2013), http://www.genomicslawreport.com/index.php/2013/07/16/undeterred-by-the-supreme-court-myriad-starts-suing (reporting on lawsuits filed by Myriad against companies offering cheaper breast cancer genetic testing following the Supreme Court’s decision).
These disincentives make suits for declaratory judgment relatively rare in patent litigation.\(^\text{302}\)

Plaintiffs seeking declaratory judgments of patent invalidity are also unlikely to use another litigation vehicle that enables the representation of a broader public interest – the class action. Although, class actions can resolve the litigation cost problem and provide access to judicial relief for small claims, it has an important strategic drawback for alleged infringers.\(^\text{303}\) While under *Blonder-Tongue* a finding of patent invalidity prevents the patentee from enforcing the patent against other alleged infringers, a finding of patent validity does not prevent another alleged infringer from challenging the patent in another proceeding.\(^\text{304}\) Since absent class members are bound by a finding of validity, there is a disincentive for class action, due to the risk that the court will find the patent valid and all class members, whether in court or not will be bound by this holding.\(^\text{305}\)

The disincentives for individual action for declaratory relief and the absence of class actions have prompted public interest organizations, such as the American Civil Liberties Union (ACLU) and the Public Patent Foundation to undertake these lawsuits.\(^\text{306}\) Yet, public interest organizations can take on only a limited number of lawsuits, while a move to a fee shifting regime will increase the likelihood that individual defendants take up declaratory judgment cases, which benefits go beyond the immediate case. End users may also be particularly suitable to bring declaratory judgment actions that benefit the public interest because unlike competitors, they are not injured by the public good nature of the patent invalidity result. The *Blonder-Tongue* rule, which estops a patentee from enforcing a patent that has been held invalid against other entities,\(^\text{307}\) also creates a disincentive for competitors to invalidate a patent and encourages them to settle. Competitors prefer not to litigate and invalidate a patent because when a patent is invalidated a public good is created that benefits other competitors who are now also free to use the technology.\(^\text{308}\) End users, unlike competitors, are not affected by business competition considerations.

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\(^{302}\) *See* Moore, *supra* note 48, at 921 (finding that only about 14 percent of the patent cases filed annually were declaratory judgment actions).

\(^{303}\) ALBA CONTE & HERBERT B. NEWBERG, NEWBERG ON CLASS ACTIONS §1:6, 26–28 (4th ed. 2002) (describing the advantages of class action); Id. at §19:1, at 223 (stating that class actions in intellectual property usually involve defendant classes of alleged infringers).

\(^{304}\) *See* id. at § 19:4, at 229.

\(^{305}\) *See* id. at § 1:3, at 19 (stating that absent class members are bound by the court’s decision).

\(^{306}\) *La Belle*, *supra* note 46, at 45 (reporting a surge in public interest group participation in patent litigation).

\(^{307}\) *Blonder-Tongue* Lab. V. Univ. of Ill. Found., 402 U.S. 313, 350 (1971) (holding that a patent infringer can use issue-preclusion to foreclose an infringement suit where the patent claim in question had already been declared invalid in an earlier suit).

Third, commentators generally agree that fee shifting is likely to reduce the filing of low merit claims and prevent abuse of discovery processes. There is disagreement, however, as to whether fee shifting will increase or decrease the likelihood of settlements. PAEs initiate many of the lawsuits against end users. They often sue customers of technological companies that manufacture and sell the allegedly infringing technology. A main concern regarding PAEs lawsuits against users is that users are likely to settle even when they have meritorious claims. Yet, commentators, as noted, disagree whether fee shifting is likely to reduce the likelihood that a party will settle when it has a meritorious argument. At the same time, many commentators and legislators believe that PAEs lawsuits enforce weak patents and needlessly harass users. Fee shifting could reduce the number of lawsuits brought by PAEs against end users because the risk would be higher for PAEs if they could end up paying the litigation expenses of thousands of defendants. The economic incentives rationale then provides additional support for fee shifting in end user cases because of the prevalence of PAEs’ lawsuits.

Finally, the pervasiveness of PAEs lawsuits against users also makes the punitive function of fee shifting relevant. Fee shifting can deter and punish misconduct in litigation that is motivated by the knowledge that high litigation costs deter people into settling. Critics of PAE litigation highlighted their abusive litigation practices and impact on innovation, underscoring the need to deter PAE conduct. Fee shifting as a punitive

309 See Gryphon, supra note 51, at 581–83; Olson & Bernstein, supra note 51, at 1162; Rowe, supra note 49, at 653, 665–66; Zemans, supra note 51, at 192–93.
310 See Chien & Reines, supra note 1, at 8–10 (discussing PAE lawsuits of multiple customers).
311 See Magliocca, supra note 55, at 1813 (discussing the preference of those threatened by PAEs to settle).
312 Allison et al., supra note 50, at 694 (finding PAE suits were much less likely than non-PAE suits to result in ruling for patentee); Merges, supra note 50, at 1603–04 (discussing allegations that PAEs file suits on weak patents); Susan Decker, Google Wins $1 Case from Patent Harassing Customers, BLOOMBERG (Jan. 24, 2014), http://www.bloomberg.com/news/2014-01-24/google-wins-1-case-from-patent-owner-harassing-customers.html. But see Risch, supra note 172, at 478–84 (debating whether PAEs patents are in fact of weaker quality).
314 See e.g., Protecting Small Businesses and Promoting Innovation by Limiting Patent Troll Abuse, Hearing Before the Comm. on the Judiciary, 103rd Cong. 3–10 [hereinafter Protecting Small Businesses Hearing] (statement of John Dwyer, President and Chief Executive Officer New England Federal Credit Union, Williston, Vermont) (describing abusive use of cease and desist letters by PAEs and suggesting several solutions); Randall R. Rader, Colleen V. Chien et al., Make Patent Trolls Pay in Court, N.Y. TIMES, June 4,
measure appears then to be relevant at least to the subset of end user cases involving PAEs.

E. DESIGNING FEE SHIFTING TO ADDRESS END USERS’ INTERESTS IN PATENT LITIGATION

i. Current Legislative and Judicial Activity

Presently, fee shifting in patent litigation is receiving significant attention. The Supreme Court decided two patent fee shifting cases in 2014, while Congress is considering multiple bills espousing different versions of fee shifting in patent litigation. The PAE crisis drives the attention given to fee shifting in patent litigation. Yet, while some proposed solutions target PAEs directly others offer a broader fee shifting approach.

The Supreme Court’s decisions in Octane Fitness and Highmark and some of the bills brought before Congress focus on facilitating fee shifting generally without targeting PAEs specifically. Section 285 of the Patent Act provides that: “[t]he Court in exceptional cases may award reasonable attorney fees to prevailing party.” In Octane Fitness, the court lowered the standard for awarding fee shifting under Section 285 for all alleged infringers. Similarly, the Innovation Act, which has emerged as the leading bill in Congress, amends Section 285 to provide for fee shifting without considering the identity of the parties. The Innovation Act


315 See Chen, supra note 313, at 359 (pointing to recent legislation activity and court decisions supporting fee shifting); Randall R. Rader, Colleen V. Chien et al., Make Patent Trolls Pay in Court, N.Y. TIMES (June 4, 2013), http://www.nytimes.com/2013/06/05/opinion/make-patent-trolls-pay-in-court.html?r=0 (describing abusive patent litigation and proposing fee shifting as a solution).


318 See e.g., Protecting Small Businesses Hearing, supra note 314, at 4–7 (statement of Dana Rao, Vice President and Associate General Counsel of Intellectual Property and Litigation Adobe Systems Incorporated) (proposing fee shifting as a solution to PAE abusive litigation).


320 See Octane Fitness v. Icon Health, No 12-1184, slip op. at 7-9 (U.S. Apr. 29, 2014). Similarly, in Highmark v. Allcare, although the case involved a PAE, the Court did not focus on the identity of the patentee but on the standard of review the Federal Circuit should apply to the grant of attorney fees by the district court. See Highmark Inc. v. Allcare Health Management System, Inc. No. 12-1163 slip op. at 4 (U.S. Apr. 29, 2014) (holding that an appellate court should review all respects of a district court’s § 285 determination for abuse of discretion).
contains an assumption that attorney fees will be awarded to the prevailing party, unless the court finds that the position and conduct of the nonprevailing party are substantially justified or that special circumstances make the award unjust.321

Other bills incorporate fee shifting measures that target PAEs, either directly or indirectly. Some bills focus directly on PAEs by allowing fee shifting to the prevailing party if the adverse party is a PAE.322 Other bills may not consider the party’s identity in the fee shifting analysis, but impose different requirements on PAEs. For example, another recent bill allows courts to impose bond posting only on the patentee and provides that whether the patentee is a PAE should be considered in the court’s bond posting decision.323

The Supreme Court’s decision in Octane Fitness and the Congressional bills aim to lower the standard for granting fee shifting in patent litigation.”324 Octane Fitness, which focused on the standard for awarding fee shifting for alleged infringers would particularly benefit end users. Yet, while the adopted and proposed changes are beneficial for end users, end users are still uniquely situated. The following discussion will focus on designing a fee shifting regime that will specifically address the unique characteristics of the end user. This discussion has been largely absent from the current debate.

ii. Considerations in Designing a Fee Shifting Regime

Regardless of the fee shifting regime selected, fee shifting will not motivate all end users who have meritorious non-infringement claims to proceed to litigation. Neither will the availability of fee shifting ensure that end users will regularly seek the invalidation of patent through suits for declaratory judgment. End users stakes are often small and they may rationally prefer not to engage in litigation. At the same time, the availability of fee shifting will encourage some end users to defend their meritorious claims and is likely to increase the number of declaratory judgment suits for patent invalidity. For example, some end users have long-term interests. Patients of chronic or genetic diseases that are reliant long-term on a specific drug would have an incentive to congregate and file a declaratory judgment suit.325 Fee shifting cannot by itself place end

322 The Shield Act defined a PAE as a party that failed to meet at least one of the following: 1) is the original inventor 2) has exploited the patent through production or sale; 3) is a university or technology transfer organization. See Shield Act, H.R. 845, 113th Cong. § 2(d) (2013).
323 See e.g., The Patent Integrity Act of 2013, S. 1612, 113th Cong. § 201 (2013).
325 In a related example, Fabry patients who had a long-term interest in a drug that was under-produced congregated to petition the NIH to use its march-in power to address the patented drug shortage. See O’Brien, supra note 147.
users on equal footing with other players, but it can contribute to leveling the playfield.

Fee shifting comes in different forms. It can be mandatory, discretionary, awarded to any prevailing party or awarded only to a prevailing plaintiff or prevailing defendant. The type of fee shifting employed depends on the rationale, whether it is for fairness, equalizing power between the parties, a particular incentive or a combination of several reasons. The following discussion considers three factors affecting the design of fee shifting and their impact on the end user.

a. Prevailing Party or Defendant

Fee shifting to address the needs of end users could apply to any prevailing party or only to defendants (whether parties sued for alleged infringement or parties taking preemptive measures by suing for declaratory judgment to declare patent invalidity). Currently, Section 285 of the Patent Act provides for fee shifting to any prevailing party. Allowing fee shifting to any prevailing party significantly enhances the risk that end users undertake if they pursue litigation because the court could find the end user liable for the other side’s expenses as well as his own. End users are already risk averse due to their unequal litigation position, and often prefer to settle or not pursue meritorious claims. A prevailing-party fee shifting regime further decreases the likelihood that end users will pursue litigation.

On the other hand, limiting fee shifting to defendants could prejudice small inventors trying to enforce their patent rights. Small inventors have lesser means. And although the availability of PTO proceedings and contingent representation gives small inventors additional tools that end users cannot avail themselves of, pro-defendant fee shifting may have a chilling effect on small inventors. These inventors may be less likely to enforce their patents if failure to win could make them liable for the opposing party’s costs. Concerns regarding the economic incentives for small inventors weigh against a pro-defendant fee shifting regime. At the same time, a prevailing-party fee shifting regime, particularly one that makes it more likely that fee shifting will occur than under the current regime, requires additional guarantees for end users to incentivize them to pursue meritorious patent claims.

b. Mandatory or Discretionary

326 See Kesan, supra note 42, at 171.
327 Id. at 169–176 (proposing a pro-defendant fee shifting regime).
329 For a discussion of the state of the individual inventor in patent litigation, see generally, Christopher A. Cotropia, The Individual Inventor Motif in the Age of the Patent Troll, 12 YALE L.J. & TECH. 52 (2009-2010).
Fee shifting can be mandatory or discretionary. Currently, Section 285 of the Patent Act provides for a discretionary fee shifting regime. A mandatory fee shifting regime under which the court must order fees for the prevailing party can increase certainty for end users in a pro-defendant shifting regime. Under a mandatory pro-defendant fee shifting regime an end user has a guarantee that should she prevail, her expenses will be compensated. However, since a pro-defendant regime fails to protect small inventors, it is necessary to evaluate the effects of a mandatory regime in which any prevailing party can be compensated. A regime in which an end user will be held liable for any prevailing patentee’s litigation fees holds great risk for an end user. The outcome of patent litigation is highly uncertain and is particularly unpredictable for the end user who lacks the technological expertise to evaluate the patent’s validity and patentee’s infringement arguments at the outset. A discretionary regime, on the other hand, enables a more granular investigation of the circumstances of the lawsuit and can consider the end user’s status. Although the end user will not have the guarantee of a mandatory regime if she prevails, neither will she incur the risk of mandatory fee shifting to the patentee. Furthermore, a discretionary inquiry that accounts for end users’ unique characteristics could encourage end users to pursue their claims in court.

c. General Application or Special Status

A fee shifting regime can expressly identify certain parties and accord them special status. Currently, Section 285 of the Patent Act does not grant any party a special status. At the same time, several bills identify PAEs for special treatment in fee shifting decisions. Defining the identity of a party has proven tricky in the context of PAEs. There are competing interpretations of who are the PAEs who abuse the patent system, hinder innovation, and therefore warrant special legal treatment. Yet, identifying the end user as a party who warrants preferential treatment in the context of fee shifting could carry several advantages. First, the express mention of the end user in the legal framework for fee shifting would carry a message that could reduce the end user’s perception of risk in pursuing litigation. Many end users receive cease and desist letters

330 See § 285 (providing that the court in exceptional cases may award reasonable attorney fees to the prevailing party).
and select to settle because they do not want to incur litigation costs. The availability of fee shifting may affect the calculus of at least some of these end users. Second, a fee shifting regime that focuses only on exposing PAEs to an increased likelihood of paying for the opposing party’s fees, fails to capture the full spectrum of end user cases. While some end user cases are indeed the result of PAEs action, others are not. Patentees, such as Myriad or Monsanto, who were involved in recent end user litigation, would not be considered a PAE under any definition.

This Article defined the end user as an entity who is not in the business of making or selling the accused technology. It is not a technology company that directly competes with the patentee. Instead, the end user utilizes the technology in its business or personal life. End user’s use of the technology in business can include incorporating the accused technology as a component of a product. The end user is distinguished from the technological competitor in that he lacks the technological expertise regarding the technology, since he is not in the business of making and selling the technology itself.

There are two options for incorporating end user status in fee shifting analysis. End user status could mandate fee shifting if the end user prevails, or it could be a factor that weighs toward fee shifting. Incorporating end user status as a factor retains important flexibility especially in grayer cases. Defining who is an end user is likely to encounter some of the same challenges encountered in defining PAEs. Moreover, some end users may be particularly innovative and change the design of a patented product, making them look more like technological competitors. Thus, hinging fee shifting completely on the status of the end user may be hard to apply in certain cases. On the other hand, using the end user status as a factor in fee shifting analysis could retain the expressive advantages, while leaving courts more leeway in cases in which end user status is murky. Furthermore, using end user status as a factor, instead of the decisive element mandating fee shifting, enables maintaining the discretionary nature of fee shifting.

iii. Application: The Many Shades of End Users

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This proposal advocates retaining some of the current framework of the patent system’s fee shifting regime. Specifically, it supports allowing any prevailing party, whether patentee or defendant, to be eligible for fee shifting. It also advocates retaining the discretionary nature of fee shifting. It does, however, propose to include end user status as a factor that weighs in favor of fee shifting when an end user is the prevailing party. The Supreme Court’s decision in Octane Fitness to lower Section 285’s “extraordinary circumstances standard,” for alleged infringers benefits end users. Some of the legislative proposals would have a similar benefit for end users. Yet, the incorporation of end user status as a factor that weighs toward fee shifting, whether legislatively or judicially, would be particularly effective by sending a clear signal to end users that pursuing litigation would be less risky.

While this Article defines end users broadly and lumps many types of end users together in order to highlight the breadth of the transformation in patent law practice, it proposes a granular investigation of the specific end user party during the fee shifting determination. Courts deciding whether to order fee shifting for a prevailing party that qualifies as an end user can consider the characteristics of the specific user in deciding whether to grant fee shifting. Even prevailing end users can differ significantly from each other and a court can assess whether the specific user in question displays the classic characteristic of an end user. The following discussion highlights some prototypical end user examples and illustrates how they can affect the fee shifting result.

One example is the case of the user innovator. Although most end users are not technologically sophisticated, a minority may be. Some end users are, in fact, innovators. These end users have sophisticated understanding of the technology and often create improvements of patented devices or processes. These user innovators may look less like the typical end user in that they have a technologically sophisticated understanding of the patented device and may also be early adopters who are aware of the technology earlier in the life of the patent. In fact, some of these user innovators may want to sell their improved innovation in which case they will begin looking even more like competitors. Where a user innovator is a party in the litigation the power inequality between the user and the patentee can be significantly reduced and, therefore, the argument for fee shifting would be weaker.

Another example involves users who incorporate a patented technology as into a central function of their business. These users may not know as much about the technology as the manufacturer, but they may still have significant technological sophistication regarding the technology. For

336 For discussions of users who are innovators, see generally, Von Hippel, supra note 334; Hunter & Lastowka, supra note 334; Fisher, supra note 334; Strandburg, supra note 334.
example, imagine that a patentee sued Starbucks for using its patented coffee machine in all Starbucks’ cafes. Unlike wireless technology that is not central to Starbucks business, a coffee machine is. And although Starbucks is not the manufacturer or seller, it may have significant technological knowledge regarding the operation of these patented coffee machines. The user who possesses technological sophistication because a patented device is central to its business may not resemble a competitor as much as the user innovator, but may still share fewer of the classical characteristics of the end user. In this case inequality between parties may also be reduced and the case for fee shifting would be weaker.

Finally, some end users represent a public interest or a broader private interest in a declaratory judgment action. For example, the patients and physicians suing Myriad sought broader access to breast cancer genetic testing.Invalidation of Myriad’s patent benefitted not only those who were parties to the litigation but also many others seeking more affordable breast cancer genetic tests, the ability to receive a second opinion or to test for additional mutations. Where end users file for declaratory judgment to invalidate a patent that affects a broader interest, the private attorney general justification weighs strongly toward fee shifting.

CONCLUSION

This Article set out to reveal a new phenomenon in patent litigation. It highlighted the growing role played by end users both at the center and in the shadows of patent litigation. The Article showed that end users have become litigants in some of the major patent cases. They are also plaintiffs suing to challenge pay-for-delay agreements between manufacturers of patented drugs and generic drug manufacturers. And, at the same time, PAEs are suing or threatening to sue thousands of end users for use of their allegedly patented technologies.

The Article defined end users broadly to include those using a patented technology for personal consumption or in business. End users, however, do not make or sell the technology directly. It emphasized that while the equities of end user cases may differ, all end users suffer from the same procedural disadvantages because they are uniquely situated compared to other players in the patent arena. The Article showed that end users differ from small technological competitors because they lack intricate understanding of the patented technology; they tend to become involved in the patent conflict relatively late in the life of the patent and they are typically one-time players.

The Article demonstrated that the AIA, which aimed to catch up with the changing patent landscape, failed to predict and is largely ill-equipped to address the growing role of end users. One set of AIA reforms set up and refurbished PTO procedures to provide an efficient and less expensive forum than litigation to resolve patent disputes. However, the Article showed that end users are unlikely to benefit from these
procedures, mainly because they usually get involved in patent conflicts after most of these procedures are no longer available. The Article also showed that another AIA reform – the prior user rights defense – is unlikely to benefit end users because they are unlikely to use the technology a year before the filing of the patent application, as required to utilize the defense.

The Article underscored that the AIA’s failure to account for the rise of the end users puts them at a procedural disadvantage. It showed that although Congress and the Supreme Court are currently assessing fee shifting in patent litigation, the Court’s decisions and Congressional debates ignore the special needs of end users. To account for the needs of the end users, the Article proposes maintaining patent law’s current fee shifting framework, while including the status of the end user as a special factor that would weigh toward granting fee shifting where the end user is a prevailing party.