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Patents and Drug Pricing

Why Weakening Patent Protection Is Not in the Public's Best Interest

Image: Getty Images/apomares

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The price of branded drugs in the United States has been and continues to be a hot topic. While various causes have been alleged, recent attention has focused heavily on the U.S. patent system. Lawmakers, the U.S. Patent and Trademark Office (USPTO), and even the former president have called for or sought to push through substantial changes to the patent system that weaken pharmaceutical patents. Blaming the patent system, however, overstates the impact patents have on drug prices. The correlation between the number of pharmaceutical patents associated with a product and competition is far from clear (as even the USPTO has found[1]), and by many metrics the patent system is working as intended. Yet many proposed "solutions" have treated patents as an easy fix without considering downstream ramifications.

This article discusses the importance of patents, the current frameworks in which generic and biosimilar manufacturers may rely on the innovator's (e.g., branded company's) research and development (R&D) to market their own products, recent governmental actions to weaken pharmaceutical patents, and why blaming patents for high drug prices oversimplifies a complex system and ignores the need to incentivize innovation. Finally, this article offers a few guiding principles for what change could look like.

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The Patent System Was Designed to Promote the Progress of Science and Useful Arts

The American patent system traces its lineage to the Constitution, and it serves a crucial role in establishing a balance between encouraging (and rewarding) innovations while also ensuring that the public benefits from the technological advances of others. Put simply, a patent provides its owner with a set of time-limited, exclusive rights to practice the inventions covered by the patent, thus encouraging innovators to disclose their inventions without the fear that others will steal them. After those expire, the public is free to use the patented innovation. This basic principle is true regardless of whether the patent covers a life-saving drug, a new golf club design, or a component in a mobile phone.

Patents in the pharmaceutical industry protect the substantial investment in pharmaceutical research, development, and regulatory approval necessary to bring a new drug to market. As the Congressional Budget Office found in 2021, the expected cost to develop a new drug was as much as $2 billion,[2] while other entities have estimated it takes more than 10 years of research and well over $2 billion to bring a new product to market.[3] Moreover, patents provide market certainty as to who owns which inventions, which protects investment in innovation. For example, it is estimated that nearly 90% of drugs entering clinical trials fail to make it to market. As such, branded pharmaceutical companies must earn enough revenue on their drugs during their exclusivity period to fund existing and future development projects, knowing that the majority of their innovations will not reach the market. Indeed, after patent protection expires and competitors enter the market, it is rare for the branded drug to be used to fill the prescription over an often cheaper alternative: According to a 2022 Food and Drug Administration (FDA) study, approximately "91% of all prescriptions in the United States are filled as generic drugs."[4]

Generic drug companies (or biosimilar companies) sell products at substantially reduced costs, but they also have reduced R&D costs because they rely on prior clinical trials. And the trade-off is allowing the brand drug an exclusivity period.[5] This is how the patent system in the pharmaceutical industry is *supposed to work*: provide a limited period of exclusivity to the newest innovations to reward past research and fund existing and future R&D, and then open the field to low-cost generics for all time. To take just one example, in 2011 Lipitor was a blockbuster drug that was the best-selling drug of all time, and its active ingredient (atorvastatin) remains the most prescribed drug today.[6] However, by 2011 its compound and enantiomer patents expired, so generics entered the market and the price rapidly decreased.[7] Today, drugs such as Ozempic receive the most patent-based criticism, but it is only a matter of time before those drugs end up in similar positions to Lipitor.

CONGRESS PASSED REGIMES FOR BOTH BRAND AND GENERIC/BIOSIMILAR COMPANIES THAT CAREFULLY BALANCE THE NEED TO ENCOURAGE INNOVATIONS (E.G., ALLOW THE BRAND TO EARN REVENUE ON ITS SUBSTANTIAL R&D AND REGULATORY COSTS AND FUND FUTURE RESEARCH) WITH THE NEED TO ENCOURAGE COMPETITION WITH GENERICS AND BIOSIMILARS TO ENSURE LONG-TERM AFFORDABILITY.

Both generic/biosimilar manufacturers and brand innovators serve important roles in the pharmaceutical industry and health care system. Congress passed regimes for both brand and generic/biosimilar companies that carefully balance the need to encourage innovations (e.g., allow the brand to earn revenue on its substantial R&D and regulatory costs and fund future research) with the need to encourage competition with generics and biosimilars to ensure long-term affordability. The Drug Price Competition and Patent Term Restoration Act (also known as the Hatch-Waxman Act) applies to small molecules, and the Biologics Price Competition and Innovation Act (BPCIA) applies to biologics (e.g., larger drugs that are derived from natural, biological sources such as animals

or microorganisms as opposed to synthesized in a laboratory).

The Hatch-Waxman Act was a compromise for both branded and generic drug companies.[8] Previously, generic drug companies had to conduct their own clinical trials, which was expensive and led to higher prices. The Hatch-Waxman Act allows a "generic to piggy-back on the pioneer's approval efforts," such as through relying on the branded company's clinical testing, which speeds up "the introduction of low-cost generic drugs to market, . . . thereby furthering drug competition," while maintaining incentives for innovation.[9]

The BPCIA was designed "to help provide patients with greater access to safe and effective biological products."[10] Following the BPCIA, there were two established pathways for the approval of a biologic product. While the first pathway is for the brand, the second is for a biosimilar manufacturer (similar to a generic manufacturer), which "may piggyback on the showing made by the manufacturer (sponsor) of a previously licensed biologic (reference product)" in seeking approval.[11] This second option provides a cheaper path to approval because it requires fewer studies. Like Hatch-Waxman, it also balanced the abbreviated pathway and incentives for innovation. And like the Hatch-Waxman Act, the BPCIA "facilitates litigation during the period preceding FDA approval so that the parties do not have to wait until commercial marketing to resolve their patent disputes."[12]

These legislative solutions have been successful. For example, the percentage of generic drugs filling prescriptions increased from 19% prior to the Hatch-Waxman Act to 91% today.

Recent Governmental Actions to "Weaken" Pharmaceutical Patents

Discussions on drug pricing are nothing new, but the past few years have seen governmental actors, including the former president, the USPTO, and Congress, place an intensified focus on the patent system and drug pricing. Below are several notable examples.

Actions Taken by the Former President

On July 9, 2021, President Biden issued an executive order on "Promoting Competition in the American Economy."[13] He called for the USPTO and FDA to work together and "help ensure that the patent system, while incentivizing innovation, does not also unjustifiably delay generic drug and biosimilar competition beyond that reasonably contemplated by applicable law."[14] The FDA quickly followed, writing a letter to the USPTO stating its view that

> [s]ome of the challenges that the public and the Administration face with respect to drug pricing . . . seem to stem from . . . brand use of the patent continuation process to create patent thickets, product hopping, and evergreening[] being used in ways that unduly extend market monopolies and keep drug prices high without any meaningful benefits for patients.[15]

Actions Taken by the USPTO

Once former Director Vidal took office, the USPTO responded to the FDA in July 2022, proposing various "solutions" including "applying greater scrutiny to continuation applications in large families" and "[r]evisit[ing] obviousness-type double patenting practice."[16] Then, the USPTO sent a series of requests for comment (RFCs) and notices of public rulemaking (NPRMs).

- An October 2022 RFC requested the public's comment on most of the proposed solutions and actions discussed in the USPTO's July 6, 2022, letter to the FDA and the June 8, 2022, letter from certain senators to the USPTO referenced below.[17] A November 2022 notice and RFC seeking feedback on USPTO-FDA initiatives also discussed those letters and the executive order.[18]
- An April 2024 NPRM for patent fees included several fee increases directed toward continuation practice, terminal disclaimers, and patent term extension (PTE).[19] These fee increases were often well above inflation-adjusted increases (e.g., over three times the inflation-adjusted fee for PTE). The NPRM's terminal disclaimer fee schedule also incentivized applicants to file a terminal disclaimer before receiving an obviousness-type double patenting (OTDP) rejection, and it further increased terminal disclaimer fees if the applicant attempted to overcome the rejection.[20]
- A May 2024 NPRM proposed requiring applicants filing terminal disclaimers to agree not to enforce any claim of a patent tied by terminal disclaimers to another patent that has had (1) any claim held invalid under 35 U.S.C. § 102 or § 103 (after appeals have been exhausted) or (2) a statutory disclaimer filed for any claim after a challenge under § 102 or § 103 was made on the disclaimed claims.[21] This NPRM would substantially change the judicially made doctrine of OTDP, potentially rendering patents unenforceable based on references that are not statutory prior art.[22]

At the same time, former Director Vidal began issuing director review decisions that limited discretionary denial of inter partes review (IPR) petitions, which allowed more IPR challenges and serial petitions to proceed and to reach a final decision,[23] potentially in response to a letter from Congress regarding "a disturbing rise in discretionary denials of IPR petitions."[24] That letter, relying only on general statistics regarding IPR discretionary denials, focused on the pharmaceutical industry and how the patent system has "allowed drug companies to engage in anti-competitive practices that drive up the cost of drugs and keep competitors from entering the market."[25]

Actions Taken in Congress

The legislative branch has also addressed pharmaceutical patents, including:

- The Committee on Oversight and Reform in the House of Representatives issued an extensive report on pharmaceutical pricing in December 2021 that heavily focused on the patent system as the reason for high prices.[26] And pharmaceutical companies and other organizations are frequently brought to testify before congressional committees.
- Members of Congress regularly propose legislation directed to changes in the patent system, but two recent bills of note addressed "patent thickets," continuation practice, and terminal disclaimers in the pharmaceutical industry specifically.[27]

"A bill to address patent thickets" (the Welch-Arrington bill) would place substantial one-sided limits on patent holders in generic or biosimilar litigation: Only a single patent per group sharing any terminal disclaimer relationship could be asserted, with no exceptions.[28] The Affordable Prescriptions for Patients Act of 2023, which passed the Senate in July 2024, aims to accomplish similar goals—reduce "patent thickets" by limiting the number of patents that can be asserted in a case.[29] It contains exceptions to account for countervailing actions from biosimilar companies such as not providing sufficient information on product features or making material changes after patents have been asserted.

- Members of Congress have also devoted significant attention to putting pressure on the USPTO through letters. As noted above, members of Congress have sent multiple letters regarding concerns with patents and pharmaceutical pricing. Most of these letters have expressly blamed the patent system for high drug prices. Perhaps most notably, on June 8, 2022, a group of senators sent a letter to former Director Vidal less than two months after she was sworn in, claiming that "patent thickets" were a major impediment to lower prices, and calling for a variety of potential actions that would be echoed by the USPTO proposed rulemakings discussed above.[30]

Actions Taken by Other Governmental Actors

Other governmental actors have also considered the patent system and drug pricing, primarily via the Bayh-Dole Act. In December 2023, the National Institute of Standards and Technology (NIST) published draft guidance on when to exercise "march-in rights" under Bayh-Dole and included as a factor "the reasonableness of the price and other terms at which the product is made available to end-users."[31] The FTC published comments supporting this proposed framework, describing an interpretation of "reasonable terms" in 35 U.S.C. § 201(f) as including price as part of its plain meaning.[32] This was contrary to prior regulations and understandings of the bill as it was passed.[33] Similarly, the NIH published a request for information in May 2024, proposing that prospective licensors of Bayh-Dole-related inventions prepare an "access plan" including, for example, market analyses and strategies to ensure sufficient access to licensed products.[34]

Blaming the Patent System for Drug Pricing Is an Overly Simplistic Rationale in a Complex Industry

These recent attempts to modify the patent system to, in effect, weaken pharmaceutical patents, underscores the focus on the patent system and drug pricing. But evidence shows that the patent system in the pharmaceutical space is functioning how it is supposed to: It allows the innovator to earn revenues on substantial R&D investments and to perform future research, while allowing public access to that innovation upon patent expiration.

First, branded drugs (and other drugs without generic competition) represent only a small share of the number of prescriptions filled. As previously noted, not only is it estimated that about 91% of filled prescriptions are filled with generics or biosimilars, but there are approved, marketed generic drugs for each of the top 20 most prescribed drugs.[35] Thus, the patent system, with respect to the drug industry, is working as intended. This large share of prescriptions filled by generics coupled with the fact that the top prescribed drugs all face generic competition demonstrate the opportunity for generic drugs to drive down prices. And the limited patent term allows companies to earn revenues on investments in R&D costs, and to continue investment in new R&D for the *next* generation of medicines. Indeed, taking aim at the top revenue grossing drugs (and their patents) (1) ignores that these drugs only account for a small portion of the total number of prescriptions filled in the United States, (2) ignores that these drugs received patents because of their novel and nonobvious advances over then-existing drugs, and (3) disregards how patents encourage innovation in the first place, thereby facilitating treatment advances.

EVIDENCE SHOWS THAT THE PATENT SYSTEM IN THE PHARMACEUTICAL SPACE IS FUNCTIONING HOW IT IS SUPPOSED TO: IT ALLOWS THE INNOVATOR TO EARN REVENUES ON SUBSTANTIAL R&D INVESTMENTS AND TO PERFORM FUTURE RESEARCH, WHILE ALLOWING PUBLIC ACCESS TO THAT INNOVATION UPON PATENT EXPIRATION.

Second, the connection between the number of patents covering a drug and time to generic entry is far from clear. Certain groups commonly cited by Congress (e.g., I-MAK and UC Hastings Database[36]) have produced various studies arguing that the "patent system is not working as intended and the public is paying the price,"[37] and that the pharmaceutical industry has been unfairly "extend[ing] the life of their drug patents and monopoly periods by obtaining additional protections, often based on minor modifications."[38] These studies appear to have had an outsized effect on governmental actors' views toward the patent system. However, in the years since these studies first came out, the conclusions drawn and methodologies used have been called into question by scholars,[39] Congress, and most recently the USPTO itself.[40]

Pursuant to Senator Tillis's letter raising concerns with the lack of scrutiny on these studies, the USPTO conducted "an independent assessment and analysis of certain sources and data that are being relied upon by those advocating for patent-based solutions to drug pricing."[41] The study provides an approach for researchers to study the time from approval of a new drug application (NDA) to the first launch of a generic drug.[42] After analyzing 25 NDAs and related generic competition, the study concluded that pharmaceutical market exclusivity from the time of NDA approval to the launch of a first generic competitor is "influenced by a complex interplay of patent law and FDA statutes and regulations," and how in some cases, "the timing of the entry of generic products is not fully reflected by a computation of patents and exclusivities and competition could be affected by other factors."[43] Notably, the USPTO study expressly *rejected* methodologies used by I-MAK and UC Hastings Database, pointing out, for example, that their analyses include factors that are "not a meaningful metric."[44] The study's conclusions are consistent with other studies assessing time to generic entry, which have found, for example, average generic entry times of about 13 years, and that "patent thickets" have little effect on extending patent life.[45]

Third, R&D spending in the pharmaceutical industry has generally trended upward,[46] which shows that companies are reinvesting revenues to fund new treatments as intended by the system. Indeed, the Congressional Budget Office showed in 2021 that the percentage of pharmaceutical companies' net revenues that go into R&D activities is significantly higher than in other industries.[47]

Moreover, as one would expect, when pharmaceutical patents expire and generic products enter the market, the price of a given drug comes down, which in turn further promotes patient access. Using the prior example of Lipitor, the out-of-pocket cost for patients dropped from about $40 to ultimately under $5.[48]

Fourth, many industries obtain multiple patents covering one product, not just the pharmaceutical industry. For example, although the term "patent thicket" is frequently used in reference to the pharmaceutical industry, many industries have multiple patents around a single product. For example, LG Electronics lists over 500 patents as associated with its "Broadcasting (ATSC DTV Standard related)" feature, Titleist has dozens of patents covering one type of golf ball, and Nike has at least 300 patents on a sneaker style.[49] Moreover, when looking at the companies with the most patents granted in a year, none of the top 10 is a pharmaceutical company, and generally pharmaceutical companies make up only a very small sliver of the companies listed.[50] And suggestions that pharmaceutical patents are "bad" or "weak" are unfounded: Pharmaceutical patents withstand invalidity challenges at a better rate than other technology areas, suggesting instead that the innovations (and subsequent patents) in the pharmaceutical industry are generally more novel and innovative when compared to other industries.[51]

Finally, the "solutions" to addressing concerns with pharmaceutical patents have generally gone too far without considering downstream consequences. Two prominent examples of this are the Welch-Arrington bill and the recent string of USPTO proposed rulemakings. As discussed above, the Welch-Arrington bill would allow only a single patent per group sharing any terminal disclaimer relationship to be asserted, with no exceptions. This bill does not consider potential countervailing actions from generics and biosimilars such as failure to engage in the BPCIA's "patent dance" or changes to the accused product or manufacturing process such that the initially asserted patent no longer reads on the product—even if another patent in the family does. And as discussed above, the recent USPTO proposal to revamp terminal disclaimers seeks to overhaul the judicially made doctrine of OTDP and its implications on terminally disclaimed patents, allowing challengers to render unenforceable every claim of multiple patents (regardless of scope) by proving the invalidity of a single claim. Even a group of former directors, deputy directors, and commissioners took the "unusual step" of submitting a letter to former Director Vidal, stating that "[t]hese proposed rules provide perverse incentives and threaten serious harm to America's innovation economy."[52]

Commonsense Action

The above critiques are not meant to dismiss the need for affordable medicines, nor to suggest that the patent system cannot be improved. Below, we propose some guiding principles for potential reform.

First, solutions specific to the pharmaceutical industry must consider countervailing actions from generics and biosimilars. Any solution should ensure that generic entry occurs when a patent is expired, invalid, or not infringed, and *not* due to loopholes in the law. Federal legislation or rules focused on actions by branded companies should also consider countervailing actions from generics and biosimilars aimed at preventing innovators from asserting valid and infringed patents, for example, by hiding certain product information.

Second, any solutions should also recognize that potential deficiencies of the patent system are not unique to the pharmaceutical industry. For example, although some senators expressed concern that USPTO discretionary denial of IPR petitions is preventing proper review of pharmaceutical patents, they cited only general statistics and did not identify any analysis of how frequently petitions against pharmaceutical patents specifically are discretionarily denied.[53] Critics have also complained about high numbers of weak patents for pharmaceutical companies, but companies from other industries have *more* patents issuing that are *more* likely to be invalidated in litigation or IPRs.[54] If problems connected to the patent system are industry-agnostic, then the solutions should be also industry-agnostic, and the effects should be considered across industries. For example, concerns about continuation practice and the perception that the USPTO grants too many

weak pharmaceutical patents as continuation applications should be addressed in a technology-agnostic way such that the same statutory patentability standards apply. As one example, the government can increase USPTO examiner training or provide examiners with additional resources and time to consider whether to grant a patent in all technologies. And any industry-specific patent changes must not upset the balance between innovation and access inherent in the Hatch-Waxman Act and BPCIA.

Third, any solutions should recognize that there is much more to drug prices—and prices of health care generally—than patents and patent exclusivity. Of course, it is to be expected that a product covered by a patent should be some degree more expensive than one without a patent—that is part of the quid pro quo of our patent system. But what that degree should be is not a question for the patent system to resolve. And as the USPTO 2024 report itself acknowledged, "pharmaceutical market exclusivity from the time of NDA approval to the launch of a first generic competitor is influenced by a complex interplay of patent law and FDA statutes and regulations."[55]

The patent system is not a feasible means to address pricing in any sector. Instead, the patent system serves to balance other important interests, such as rewarding and incentivizing innovation while ensuring long-term access to such innovations. Indeed, Congress and the executive branch have a wide range of means for addressing affordability,[56] and targeting the patent system is much more likely to harm American innovation than it is to address drug pricing. ■

Endnotes

1. U.S. Pat. & Trademark Off., Drug Patent and Exclusivity Study 1 (2024) [hereinafter USPTO Study], https://www.uspto.gov/sites/default/files/documents/USPTO_Drug_Patent_and_Exclusivity_Study_Report.pdf.

2. *Research and Development in the Pharmaceutical Industry*, Cong. Budget Off. (Apr. 2021), https://www.cbo.gov/publication/57126 (estimated cost to develop drug ranges from less than $1 billion to more than $2 billion).

3. Joseph A. DiMasi et al., *Innovation in the Pharmaceutical Industry: New Estimates of R&D Costs*, 47 J. Health Econ. 20, 20, 25 (2016).

4. U.S. Food & Drug Admin., Office of Generic Drugs 2022 Annual Report 1 (2023), https://www.fda.gov/media/165435/download?attachment.

5. New drugs may have patent exclusivity as well as regulatory exclusivity. 21 U.S.C. §§ 355(a), 355(j)(5)(F), 355(a), 360. This article focuses on patent exclusivity.

6. *Lipitor Became World's Top-Selling Drug Despite Uncertain Beginning*, Denver Post (Dec. 28, 2011), https://www.denverpost.com/2011/12/28/lipitor-became-worlds-top-selling-drug-despite-uncertain-beginning/; Matej Mikulic, *Leading 20 U.S. Pharma Products by Total Prescriptions in 2022*, Statista (Oct. 7, 2024), https://www.statista.com/statistics/233986/top-us-pharma-products-by-prescriptions/ (atorvastatin has been prescribed more than 100 million times).

7. *See* Matej Mikulic, *Atorvastatin Out-of-Pocket Cost in the U.S. from 2004 to 2022*, Statista (Nov. 5, 2024), https://www.statista.com/statistics/825214/atorvastatin-out-of-pocket-cost/.

8. 130 Cong. Rec. 23,627, 23,764 (Aug. 10, 1984) (statement of Sen. Orrin Hatch).

9. FTC v. Actavis, Inc., 570 U.S. 136, 142–43 (2013).

10. *Biological Product Innovation and Competition*, U.S. Food & Drug Admin. (Apr. 10, 2024), https://www.fda.gov/drugs/biosimilars/biological-product-innovation-and-competition.

11. Sandoz Inc. v. Amgen Inc., 582 U.S. 1, 7 (2017).

12. *Id.*; *see also* 35 U.S.C. § 271(e)(2)(C)(i), (ii).

13. Promoting Competition in the American Economy, Exec. Order No. 14,036, 86 Fed. Reg. 36987, 36997 (July 9, 2021).

14. *Id.*

15. Letter from Janet Woodcock, Acting Comm'r of Food & Drugs, to Andrew Hirshfeld, Acting USPTO Dir. 4–5 (Sept. 10, 2021), https://www.uspto.gov/sites/default/files/documents/EO14036-FDALettertoPTO.pdf.

16. Letter from Katherine K. Vidal, USPTO Dir., to Robert M. Califf, Comm'r of Food & Drugs 6 (July 6, 2022), https://www.uspto.gov/sites/default/files/documents/PTO-FDA-nextsteps-7-6-2022.pdf. The heads of the USPTO and FDA jointly published an article the same day further outlining their plans. Kathi Vidal & Robert M. Califf, *The Biden Administration Is Acting to Promote Competition and Lower Drug Prices for All Americans*, U.S. Pat. & Trademark Off. (July 6, 2022), https://www.uspto.gov/blog/the-biden-administration-is-acting. As of December 13, 2024, Vidal is no longer the director of the USPTO.

17. Request for Comments on USPTO Initiatives to Ensure the Robustness and Reliability of Patent Rights, 87 Fed. Reg. 60130 (Oct. 4, 2022).

18. Joint USPTO-FDA Collaboration Initiatives; Notice of Public Listening Session and Request for Comments, 87 Fed. Reg. 67019 (Nov. 7, 2022).

19. Setting and Adjusting Patent Fees During Fiscal Year 2025, 89 Fed. Reg. 23226 (Apr. 3, 2024).

20. *Id.* at 23248–49. Following public feedback, the USPTO moderated certain fees, including, for example, not implementing the tiered fee structure for terminal disclaimers and reducing the PTE fee increase. Setting and Adjusting Patent Fees During Fiscal Year 2025, 89 Fed. Reg. 91898 (Nov. 20, 2024).

21. Terminal Disclaimer Practice to Obviate Nonstatutory Double Patenting, 89 Fed. Reg. 40439 (May 10, 2024). The USPTO eventually withdrew this proposed rule, citing "resource constraints," but left the door open for future rulemaking or other reform. Terminal Disclaimer Practice to Obviate Nonstatutory Double Patenting; Withdrawal, 89 Fed. Reg. 96152 (Dec. 4, 2024).

22. *See* 35 U.S.C. § 102(b)(2)(C). As an example of its breadth, if patent X had a terminal disclaimer over patent Y, which itself had a terminal disclaimer over patent Z, the invalidation under § 102 or § 103 of any single claim in patent Z would render all claims of patent X unenforceable. 89 Fed. Reg. at 40443.

23. *See, e.g.*, Ford Motor Co. v. Neo Wireless LLC, No. IPR2023-00763, Paper 28, at 11 (P.T.A.B. Mar. 22, 2024) (Vidal).

24. Letter from Sens. Patrick Leahy, Ron Wyden, Debbie Stabenow, Elizabeth Warren & Richard Blumenthal & Congs. Bobby L. Rush, Darrell Issa, Anna G. Eshoo, Tom Tiffany, Pramila Jayapal & Victoria Spartz to Acting USPTO Director Andrew Hirshfeld (Sept. 16, 2021), https://www.law.berkeley.edu/wp-content/uploads/2021/11/Letter-to-PTO-Re-Discretionary-Denials-and-Drug-Pricing-Signed.pdf.

25. *Id.*

26. H. Comm. on Oversight & Reform, Drug Pricing Investigation: Majority Staff Report (2021), https://oversightdemocrats.house.gov/sites/evo-subsites/democrats-oversight.house.gov/files/DRUG%20PRICING%20REPORT%20WITH%20APPENDIX%20v3.pdf.

27. A third bill, titled Stopping Pharma's Ripoffs and Drug Savings for All Act, H.R. 6436, 118th Cong. (2023), would require patent holders in generic or biosimilar litigation to demonstrate "distinct inventions" or else disclaim PTE of one patent over another.

28. S. 3583, 118th Cong. (2024).

29. S. 150, 118th Cong. (2023).

30. Letter from Sens. Patrick Leahy, Richard Blumenthal, Amy Klobuchar, John Cornyn, Susan M. Collins & Mike Braun to Kathi Vidal, USPTO Dir. 1 (June 8, 2022), https://fingfx.thomsonreuters.com/gfx/legaldocs/gdpzyeojjvw/IP%20PATENTTHICKETS%20letter.pdf.

31. Request for Information Regarding the Draft Interagency Guidance Framework for Considering the Exercise of March-In Rights, 88 Fed. Reg. 85593 (Dec. 8, 2023).

32. U.S. Fed. Trade Comm'n, Comment on Draft Interagency Guidance Framework for Considering the Exercise of March-In Rights 9 (Feb. 6, 2024), https://www.ftc.gov/system/files/ftc_gov/pdf/2024.02.06March-InRightsComment.pdf.

33. *See, e.g.*, 37 C.F.R. pts. 401, 404; *Our Laws Help Patients Get New Drugs Sooner*, Wash. Post (Apr. 10, 2002), https://www.washingtonpost.com/archive/opinions/2002/04/11/our-law-helps-patients-get-new-drugs-sooner/d814d22a-6e63-4f06-8da3-d9698552fa24/ (Senators Bayh and Dole stating that "Bayh-Dole did not intend that government set prices on resulting products").

34. National Institutes of Health (NIH) Office of Science Policy (OSP): Request for Information on Draft NIH Intramural Research Program Policy: Promoting Equity Through Access Planning, 89 Fed. Reg. 45003 (May 22, 2024).

35. *See Approved Drug Products with Therapeutic Equivalence Evaluations*, U.S. Food & Drug Admin. (Feb. 14, 2025), https://www.fda.gov/drugs/drug-approvals-and-databases/approved-drug-products-therapeutic-equivalence-evaluations-orange-book (each of the drugs in Statista's "Leading 20 U.S. Pharma Products by Total Prescriptions in 2022," *supra* note 6, have an approved generic product); *Top 100 Most Commonly Prescribed Generic Prescription Drugs*, HealthPartners, https://www.healthpartners.com/content/dam/brand-identity/pdfs/plan/top100-rxlist-wi.pdf (last visited Feb. 23, 2025) (including prices for average cost per 30-day supply).

36. UC Hastings Database is shorthand for the Evergreen Drug Patent Database.

37. I-MAK, Overpatented, Overpriced: Curbing Patent Abuse: Tackling the Root of the Drug Pricing Crisis (2022), https://www.i-mak.org/wp-content/uploads/2023/01/Overpatented-Overpriced-2023-01-24.pdf.

38. *Evergreen Drug Patent Search*, UC Hastings, https://sites.uclawsf.edu/evergreensearch/ (last visited Feb. 23, 2025).

39. Numerous legal scholars have criticized the reliability of I-MAK and UC Hastings Database. *See, e.g.*, Adam Mossoff, *Unreliable Data Have Infected the Policy Debates Over Drug Patents*, Hudson Inst. 2–3 (Jan. 2022), https://s3.amazonaws.com/media.hudson.org/Mossoff_Unreliable%20Data%20Have%20Infected%20the%20Policy%20Debates%20Over%20Drug%20Patents.pdf; Erika Lietzan & Kristina Acri née Lybecker, *Solutions Still Searching for a Problem: A Call for Relevant Data to Support "Evergreening" Allegations*, 33 Fordham Intell. Prop., Media & Ent. L.J. 788, 788–89 (2023); Emily Michiko Morris & Joshua Kresh, *Pharmaceutical "Nominal Patent Life" Versus "Effective Patent Life," Revisited*, Ctr. for Intell. Prop. x Innovation Pol'y (May 20, 2024), https://cip2.gmu.edu/2024/05/20/pharmaceutical-nominal-patent-life-versus-effective-patent-life-revisited/.

40. *See* USPTO Study, *supra* note 1.

41. *Id.* at 1.

42. *Id.* ("The purpose of the study is to provide a baseline approach that researchers and policy makers can use in future analysis for examining the number of years from the time a New Drug Application (NDA) is first approved until the first launch of a generic.").

43. *Id.* at 59.

44. *Id.* at 13.

45. *See, e.g.*, Henry Grabowski et al., *Updated Trends in US Brand-Name and Generic Drug Entry*, 19 J. Med. Econ. 836 (2016); Morris & Kresh, *supra* note 39.

46. *See Research and Development in the Pharmaceutical Industry*, *supra* note 2 (reporting pharmaceutical industry's ratio of net revenue to R&D spending "has been trending upward since 2012" and exceeded 25% percent in 2018 and 2019).

47. *Id.* at fig. 1.

48. *See* Mikulic, *supra* note 7.

49. *Patents*, LG, https://www.lg.com/us/patent (last visited Feb. 23, 2025); *Titleist Patent Marking*, Titleist, https://www.titleist.com/patents (last visited Feb. 23, 2025); Alison Noon, *Puma Must Face Nike's Flyknit Patent Infringement Claims*, Law360 (Oct. 10, 2018), https://www.law360.com/articles/1091010/puma-must-face-nike-s-flyknit-patent-infringement-claims.

50. *See, e.g.*, Intell. Prop. Owners Ass'n, Top 300 Organizations Granted U.S. Patents in 2024 (2025), https://ipo.org/wp-content/uploads/2025/01/2024-Top-300-Patent-Owners-List.pdf.

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52. Letter from Drew Hirschfeld, Andrei Iancu, David Kappos, Laura Peter & Russell Slifer to Katherine K. Vidal, USPTO Dir. 1 (May 28, 2024), https://ipwatchdog.com/wp-content/uploads/2024/05/Hirshfeld-Iancu-Kappos-Peter-Slifer-Letter-on-Docket-PTO-P-2024-0003.pdf. This letter also referenced the April 2024 NPRM proposing greatly increased fees, stating that the USPTO "is evidently attempting to significantly deter, if not eliminate, continuations practice." *Id.* at 2.

53. Letter from Sens. Leahy et al., *supra* note 24.

54. *See supra* note 49 and accompanying text.

55. USPTO Study, *supra* note 1, at 59. Even if a new drug is not covered by a patent, a generic product may not be available due to regulatory exclusivity.

56. While beyond the scope of this article, other countries (with less expensive drugs than the United States) utilize different distribution means than in the United States. And in the United States, Congress has considerable legislative power beyond patents to create change.

Third-Party Financing Puts Fiduciary Duty to Investors Over Duty of Loyalty to Clients

Image: Getty Images/benjaminec

Paul Taylor

For decades, I was a counsel who advised the House Judiciary Committee on legislation, including proposals to help limit the abuse of the civil litigation system by lawyers more interested in leveraging unfair procedures to coerce settlements than in achieving justice for their clients. Those reform proposals were often met with the same refrain by opponents, who insisted that the legislation wasn't necessary because only a very small number of lawyers were interested solely in making a profit, and the vast majority of lawyers acted primarily in their clients' best interests.

Be that as it may, today, there is an entire industry whose business model is dedicated solely to the exploitation of the U.S. legal system for profit: third-party litigation financers whose fiduciary duty is to their investors, not to the lawyer's client whose case is being funded. Supporters of third-party litigation financing frequently argue that it is often the only means for allowing a plaintiff to file a case in the first place. However, this does not appear to be the case, particularly in patent litigation. While third-party litigation financing is framed as a way for Davids to fight Goliaths, the reality appears to be that litigation financing is frequently a means for Goliaths to use—or even create—Davids as a shield to hide behind.

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The Weight of Profits on the Scales of Justice

The first third-party litigation financing arrangements condoned by the U.S. Supreme Court were between the NAACP and civil rights claimants. These agreements were permitted only because the NAACP provided the funding and did not take away control of the litigation from the clients. As the Supreme Court noted in *National Ass'n for the Advancement of Colored People v. Button*, in the NAACP's arrangement with the civil rights plaintiffs,

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> no monetary stakes are involved, and so there is no danger that the attorney will desert or subvert the paramount interests of his client to enrich himself or an outside sponsor. And the aims and interests of NAACP have not been shown to conflict with those of its members and nonmember . . . litigants.[1]

Modern litigation financing agreements are quite different and include constraints on a plaintiff's discretion, indicating a conflict of interest between the litigant and the funder.

The terms of litigation funding agreements are rarely disclosed, but sometimes they come out during litigation. Years ago, while working for the House Judiciary Committee, I handled legislation aimed in part at requiring greater disclosure of third-party litigation financing contracts. The committee report associated with that legislation noted a third-party litigation funding agreement in a class action lawsuit, *Gbarabe v. Chevron Corp.*, which referred to a "Project Plan" for the litigation developed by the funder that included restrictions on the ability of the class action lawyer to deviate from it.[2] In that case, Judge Susan Illston of the Northern District of California ordered the disclosure of the third-party litigation funding agreement because the "funding agreement is relevant to the adequacy [of representation] determination and should be produced to [the] defendant."[3]

LAWYERS' CLIENTS, NOT LITIGATION FUNDERS, ARE SUPPOSED TO RETAIN THE AUTONOMY TO DECIDE HOW THEIR OWN CASES ARE HANDLED.

We can see more clearly the stakes involved for adequate representation in more recent revelations. In 2023, *The Wall Street Journal* reported on a lawsuit alleging price fixing brought by the food distribution company Sysco against its beef and pork suppliers.[4] It was revealed that Sysco got $140 million for its lawsuit from the litigation funding company Burford Capital. During the course of the lawsuit, Sysco grew weary of the litigation and decided it wanted to settle with the defendants, but Burford objected.[5] As it turns out, the financing agreement between Sysco and Burford stipulated that Sysco "shall not accept a settlement offer without [the funder's] prior written consent, which shall not be unreasonably withheld."[6] The funder maintained that Sysco was settling for too little. Burford's chief investment officer even wrote an email stating, "We are going to have to sue [Sysco] it seems. They are about to breach our contract."[7]

Lawyers' clients, not litigation funders, are supposed to retain the autonomy to decide how their own cases are handled on behalf of their clients. As legal ethicist and former Yale Law School Dean Anthony Kronman has written of the passion for making money, "like any other passion this one can distort deliberation too—for example, by encouraging a concentration on short-term, easily monetizable considerations to the exclusion of more-ambiguous long-term ones that may have greater importance."[8] That's what happened in this case, where a funding agreement created conflicts of interest that violate core principles of legal ethics, to the detriment of the client.

A *Bloomberg Law* article makes clear:

> In litigation funding, law firms that take money from Fortress [a litigation funder] have their bank accounts tracked weekly and their cases monitored closely. One litigation funder said he passed on taking money from Fortress because "they choke you to death." . . . Jack Neumark, a Fortress managing partner and co-CIO, said[:] "We see where funds go. If you do something you're not supposed to do, we're gonna be upset." . . . One consistent principle is that if Fortress agrees to provide capital to a funder, it will be hands on.[9]

The third-party litigation funder in the Sysco case was also apparently linking a settlement number in that case to future settlement numbers in wholly separate cases with totally different clients. A magistrate judge subsequently observed in the Sysco case:

> Burford is trying to prevent these settlements because the Sysco settlements, if they go through, will set benchmarks for other settlements with other defendants. Burford apparently hopes that if those benchmarks can be set at high enough levels, Burford will realize a financial gain on not just its financing contract with Sysco but with other, as-yet-undisclosed financing agreements that seem to be in place in these cases.[10]

Legal ethicist Geoffrey Hazard has written:

> [W]hen parties require involvement from lawyers, it is typically because the parties' understandings and aims are in conflict and beset by confusion. It is the lawyer's job to facilitate the resolution of these conflicts, by either negotiating an agreement between the parties or counseling their clients about dealing with the unresolved situation.[11]

That is, the purpose of litigation is to resolve disputes in which parties on both sides have conflicting aims. But as Kronman has written, "it is hard to see how a lawyer can give intelligent counsel even of a purely instrumental sort until his client's aims have been clarified."[12]

As the Sysco case illustrates, third-party litigation financing, when it imposes limits on clients' autonomy, creates conflicting

aims among the very entities supporting the lawsuit, such that there is no longer the sort of clarity of position on one side of the dispute that is necessary for resolving it. Hazard continues, "Legal advice, involved in all lawyer tasks, aims foremost at optimizing a client's position."[13] As the Sysco case demonstrates, third-party litigation financing can cut against a client's position, making resolution of disputes with the opposing party impossible, and thwarting the whole purpose of our civil litigation system. When attorneys enter into litigation funding agreements with third parties that impose restrictions on their independent judgment, they create contractual duties with funders subject to fiduciary duties that conflict with their own duty of loyalty to their clients.

A more extreme example was recently observed during a patent dispute. In November 2023, Chief Judge Colm Connolly of the District of Delaware issued an opinion that referred people associated with the patent litigation funding firm IP Edge to their state disciplinary bars, the Texas Supreme Court's Unauthorized Practice of Law Committee, the U.S. Patent and Trademark Office (USPTO), and the Department of Justice for their conduct.[14] That conduct consisted of directing several people, including a food truck owner and a surgical assistant, to agree to assume LLC liabilities associated with patent litigation in his federal court without disclosing the interests of IP Edge, which stood to gain 90% of the gross lawsuit recovery from the patents in question.

That was followed by the release of text messages, internal documents, and private communications demonstrating, as Judge Connolly described it, an "obvious disparity in the sophistication of the LLC plaintiffs as opposed to . . . IP Edge."[15] In one exchange between one of the LLC owners and an IP Edge employee, the small business owner explained that she didn't feel comfortable testifying in federal court (because she was unfamiliar with the patent and the shell company structure the litigation funders set her up with), texting that "I have nightmares almost every night thinking about it and so stressed."[16] While the patent owners were promised only 5%–10% of the proceeds of the patent infringement suit, they accepted all the liability, including potential sanctions should they refuse to testify. Keep in mind that this scheme was only revealed after Judge Connelly had issued a transparency order, and so, as explained below, these kinds of litigation funding arrangements may be much more common than we know.

In another dispute between the third-party litigation funder Longford Capital Fund III and the company Arigna, it was revealed that the funder was insisting that lawyers and investors receive over half of whatever settlement proceeds resulted from the litigation.[17] And in another case involving safety earplugs used in the military, the judge noted that the third-party litigation funding agreements included "exorbitant fees and rates of interest," leading the judge to order the disclosure of any funding agreements to help ensure that plaintiffs were "not exploited by predatory lending practices."[18]

Imbalances in Patent Law Let Trolls and Their Funders Put Their Thumbs on the Scales

Third-party litigation funders are particularly attracted to patent litigation in America. First, the cost of defending a patent litigation suit can be significantly higher than asserting one. Given that America lacks a "loser pays rule" (a rule that provides that if a person files a lawsuit against someone and loses, they'll have to compensate the prevailing party for the money that party spent defending themselves), defendants ultimately bear these costs in all but the most frivolous suits. Moreover, patent trolls produce no products themselves, so discovery requests on infringement will relate only to the defendants' products. Thus, discovery costs are disproportionately large for defendants compared to patent trolls, further incentivizing defendants to settle nuisance cases. Second, certain evidentiary presumptions in patent litigation favor the plaintiff, which puts further pressure on defendants to settle. Finally, patent damages determinations, especially in complex high-technology cases, are made by nonexpert juries that can be unpredictable and result in extremely high damages awards. As a result, our justice system can be gamed to coerce money from noninfringing defendants.

Disproportionate Litigation Costs

In the United States, attorneys who file lawsuits can, by simply filing a complaint at their discretion, immediately subject defendants to the threat of a default judgment (a judgment for the plaintiff entered after the defendant fails to timely answer or otherwise appear). That threat of a default judgment, which is enforced by the government, forces defendants to spend money and resources toward their defense in order to avoid the default judgment. That dynamic results in a situation in which a defendant will be made to pay any amount to the plaintiff in settlement, provided the settlement demanded is less than the defendant's costs of defense and the plaintiff's attorney costs for filing the case (which are minimal).[19]

As legal and economic professors have described the situation under current law:

> [T]he plaintiff may choose to file a claim at some (presumably small) cost. If the defendant does not then settle with the plaintiff and does not, at a cost, defend himself, the plaintiff will prevail by default judgment . . . . Given the model and the assumption that each party acts in his financial interest and realizes the other will do the same, it is easy to see how nuisance suits can arise. By filing a claim, any plaintiff, and thus the plaintiff with a weak case, places the defendant in a position where he will be held liable for the full judgment demanded unless he defends himself. Hence, the defendant should be willing to pay a positive amount in settlement to the plaintiff with a weak case . . . .[20]

Eran Zur, the intellectual property lead for litigation funder Fortress,[21] wrote the following in an article he authored entitled "Why Investment-Friendly Patents Spell Trouble for Trolls":

> [C]ourts can get valuation wrong—at times awarding damages beyond the scope of the government-granted patent claims. In the technology sector, these oversized awards stem from the sheer complexity of interoperable components and systems sold as part of functional units, if not integrated devices. And because technology invention tends to be incremental, to the extent an individual patent owner can be awarded damages on the price of the *entire end product* as opposed to their specific

> patent claim, a litigation incentive arises. . . . A further complication arises from the substantial legal costs to defend a patent infringement suit (recently estimated by PWC [PricewaterhouseCoopers] at approximately $4 million). . . . [A] price floor becomes set by the extreme expense of litigation defense, marked at just under nuisance value . . . .[22]

This problem is particularly pronounced in patent litigation by litigation funders' reliance on nonpracticing entities (NPEs), so-called "patent trolls"—companies that don't make any products themselves, but instead seek out and buy up old, low-quality patents that likely shouldn't have been granted in the first place. These companies do not have actual business operations, which means not only that they have a low risk of facing a reciprocal infringement suit but also that they have relatively low discovery costs.

Moreover, because the United States does not include default fee-shifting in patent litigation, defendants in patent litigation face asymmetric transaction costs. While some may argue that Federal Rule of Civil Procedure 11 might allow some relief to parties who are victims of frivolous patent lawsuits under 35 U.S.C. § 285, Rule 11 only applies in exceptional cases and goes largely unenforced, because the victims of frivolous lawsuits have little incentive to pursue additional litigation to have the case declared frivolous when there is no guarantee of compensation in the end, even when the judge agrees the case is without merit.

Evidentiary Imbalance

Patent cases are harder to defend than other common types of civil litigation. Typically, the burden in civil litigation falls on the plaintiff to muster evidence and prove its case by the preponderance of the evidence. However, that is not the case in patent litigation. Once a patent is granted by the USPTO (including patents that were not properly granted under the relevant rules), it is legally deemed to be "presumed valid," and "the burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity."[23] The U.S. Court of Appeals for the Federal Circuit, which hears patent suit appeals, has interpreted this provision to require a party defending against an infringement charge to do so by "clear and convincing evidence" that a patent was improperly granted,[24] which is a much higher standard than the usual preponderance of the evidence.

That evidentiary imbalance incentivizes jurors without technical backgrounds to find for patent troll plaintiffs following the route of least resistance. Think about it. Today, a typical patent trial, involving a host of complex issues, will only last a couple of weeks, and much of the trial will have to involve educating the jury about the relevant technology, the patented invention, the product or method that is accused of infringement, and any prior art that allegedly invalidates the patent. Confused jurors in patent infringement lawsuits will find it much easier to find for the patent troll, simply because doing so requires meeting a much lower evidentiary standard, especially when the jury's verdict must be unanimous. If jurors are confused about a technical patent issue, they'll find it difficult to reach any decision, but since they would have to reach much further to get to "clear and convincing evidence" (allowing the defendant to prevail), they'll tend to "tap out" at the much lower "preponderance of the evidence" standard (and decide in favor of the patent troll). Under those circumstances, it's easy to see why even innocent innovators have to settle lawsuits—and in doing so, settle for an injustice.[25]

Unpredictable and Unreasonable Risk of Damages

As William Lee and Mark Lemley write, patent trolls' "damages demands frequently have little or no relationship to the actual value of the patents"; and in 2022, patent trolls "filed eighty-eight percent of all high-tech patent cases and sixty percent of patent cases overall; and twenty-nine percent of NPEs were backed by third-party funding."[26] Further, patent trolls "have been permitted to seek billions of dollars in damages for patents whose value is nowhere near that in the real world. And operating product companies face the risk of being forced to pay excessive damages capturing the value of technology the patentee did not invent."[27] The higher risk of unfounded damages awards in patent litigation further increases the pressures on defendants to settle.

Foreign Third-Party Funders Can Be Motivated by Strategic Advantage and Profit

Even worse, patent trolls and their funders can take the form of foreign adversaries, who can fund patent litigation not for profits' sake alone but as a means of siphoning resources away from American industries, including defense industries, for strategic advantage. A 2023 report by the House Select Committee on the Strategic Competition Between the United States and the Chinese Communist Party recommended that Congress "[d]etermine, and then establish, what guardrails are needed to address the possibility of foreign adversary entities obtaining sensitive IP through funding third-party litigation in the United States."[28] The Foreign Agents Registration Act (FARA) unit chief at the Department of Justice specifically mentioned the risks of "undisclosed and undiscoverable" third-party litigation funding in U.S. litigation, including the risks of foreign entities doing business in the United States seeking to create a competitive advantage over their U.S. competitors by tying up U.S. companies in lengthy and expensive courts cases, and the risks that foreign funders of U.S. litigation may gain access to proprietary and sensitive commercial information through litigation discovery.[29]

As *Bloomberg Law* has reported, "A Chinese firm is financing four intellectual property lawsuits in US courts . . . . PurpleVine IP, a Shenzhen, China-based company that touts itself as a provider of one-stop patent solutions, is paying the cost of the lawsuits against Samsung Electronics Co. and a subsidiary . . . ."[30] Thanks to Judge Connolly's disclosure order, early in that case it was revealed that two former in-house lawyers had stolen privileged and confidential analyses of the patents that were sent to both PurpleVine and its associated law firm, and PurpleVine had used that information in deciding to fund the case.[31]

Right now, China and other countries can use third-party litigation financing to disrupt American industries important to our economy and national defense and use any coerced money settlements to fund other anti-American plans of their own. We just don't know the extent of such activity, because there is no uniform rule requiring the disclosure of third-party litigation financing contracts when money damages are at issue. As former Secretary of Defense Donald Rumsfeld said, "there are known

unknowns—that is to say, we know there are some things we do not know"[32]—and the issue of third-party litigation financing by foreign enemies is a known unknown of a most dangerous kind.

As the Federal Trade Commission reported under the Obama administration, patent trolls "can deter innovation by raising costs and risks without making a technological contribution."[33] Researchers have also found that "[patent troll] litigation has a real negative impact on innovation at targeted firms: firms substantially reduce their innovative activity after settling with [patent trolls]."[34] Other researchers examined how patent troll litigation affected the field of health care information technology in light of litigation over medical imaging software patents, and concluded:

> No new variations of existing products or new models of imaging software were released by the affected vendors during the period of litigation. An explanation for this lack of innovation is that the vendors did not want to run the risk of being found guilty of "willful infringement" in the patent suit and being liable for treble damages. Therefore, one explanation of the slow-down in sales is that the product release and attendant sales cycle was halted as a result of litigation. This emphasizes that even if patent-assertion entities [patent trolls] do not prevail in the courtroom, their actions can have significantly negative consequences for incremental innovation while litigation is ongoing.[35]

Coming to Terms with the Need to Disclose Terms of Funding

We can go a long way toward solving the problem of the "known unknowns" of third-party litigation financing with the simplest policy imaginable: transparency. Judge Connolly, through his own disclosure orders, has shown just how potent transparency can be. A few years ago, the chief judge, who handles a lot of patent cases, began to get the impression that the lawyers in cases before him often seemed unable to give him straight answers to questions, as though they needed to check with someone else first. Consequently, he issued standing orders in April 2022 mandating the disclosure of any third-party litigation financing contracts that applied to any party in his courtroom.[36] As he explained in a November 2022 memorandum, this was an attempt to address potential "abuse of our courts," and he had concerns about the "lack of transparency as to who the real parties before the Court are, about who is making decisions in these types of litigation."[37]

Judge Connolly's simple disclosure requirement has already had dramatic results, as a third-party litigation financing company sought to dismiss its own cases, which it had funded over many years in Judge Connelly's court, simply because it didn't want to reveal its financing arrangements. As reported on Law.com:

> The Fortress Investment-backed company spent 3 1/2 years litigating patent infringement claims against Intel in Delaware, but elected to walk away as Chief Judge Colm Connolly insisted on more disclosure into its ownership structure. . . . [VLSI] agreed with Intel on Tuesday to a stipulated dismissal of its Delaware claims, rather than submit to further inquiry from Connolly into VLSI's ownership structure.[38]

Let that sink in for a moment. Judge Connelly's simple act of requiring that these arrangements be made public caused the funders of the lawsuit to dismiss the cases they had been funding for years.

But Judge Connolly is just one judge, and his disclosure rule only applies in Delaware. In the meantime, patent troll litigation in the United States is "up by 24% in the first quarter of 2024, with the bulk of those cases filed in the Eastern District of Texas after developments in . . . the District of Delaware . . . reduced their appeal for such plaintiffs."[39] The good news is that Congress can help dispel this perfect storm by simply exposing third-party litigation funding agreements to the light of day. Representative Darrell Issa's proposed Litigation Transparency Act of 2025, for example, would mandate disclosure of third-party litigation financing agreements for money damages in civil lawsuits.[40]

Funding Contracts as Blinders for Lawyers

When lawyers fund their own cases, they do so with one eye on their ability to cover their costs and make a profit, and the other eye on achieving what their clients view as a just result. But today, funding contracts are acting as blinders for lawyers, obscuring the desires of clients. Lawyers are entering into agreements with third parties to fund their lawsuits under a fiduciary duty to maximize not justice as understood by their clients, but adequate profits as understood by outside investors, using contracts that condition funding on the lawyer and their client's losing some degree of control over the case.

Lawyers aren't supposed to sign away their clients' autonomy in cases to some third party whose financial interests may diverge at one point or another with how the client wants to handle their case. As Kronman writes, for a lawyer to properly deliberate on their client's behalf:

> [A] lawyer must be able to lose himself in that other person's situation . . . . This demands that he temporarily suspend his own interests, for only by doing so can he clear an affective space in which his client's interests may be entertained with real feeling. But the more preoccupied a lawyer is with money, . . . the more difficult he will find it to suspend his self-interest in this way.[41]

Yet that's the situation in which lawyers increasingly find themselves when they make agreements with third-party funders. To what extent this is happening, and under what conditions, is largely unknown, but that could change if Congress or the federal courts required the disclosure of third-party litigation financing agreements. ■

Endnotes

1. 371 U.S. 415, 443 (1963).
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3. *Id.* at 28 (quoting Gbarabe v. Chevron Corp., No. 14-cv-00173-SI (N.D. Cal. Aug. 5, 2016)).
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6. Sysco Corp.'s Objection to Magistrate Judge Order Denying

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8. Anthony T. Kronman, The Lost Lawyer: Failing Ideals of the Legal Profession 299 (1993).

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10. *In re* Pork Antitrust Litig., No. 18-cv-1776, 2024 U.S. Dist. LEXIS 22979, at *34 (D. Minn. Feb. 9, 2024), ECF No. 2104.

11. Geoffrey C. Hazard Jr., *The Morality of Law Practice*, 66 Hastings L.J. 359, 362 (2015).

12. Kronman, *supra* note 8, at 129.

13. Hazard, *supra* note 11, at 363.

14. Nimitz Techs. LLC v. CNET Media, Inc., No. 21-1247-CFC, 2023 U.S. Dist. LEXIS 210684, 2023 WL 8187441 (D. Del. Nov. 27, 2023).

15. *Id.*, 2023 WL 8187441, at *33; *see also* Michael Shapiro & Emily R. Siegel, *Judge's Litigation Funding Probe Reveals IP Edge's Human Toll*, Bloomberg L. (Dec. 4, 2023), https://news.bloomberglaw.com/ip-law/judges-litigation-funding-probe-reveals-ip-edges-human-toll.

16. *Nimitz Techs.*, 2023 WL 8187441, at *25.

17. *See* Arigna Tech. Ltd. v. Longford Cap. Fund III, LP, No. 1:23-01441-GBW, 2024 WL 2848224, at *2 (D. Del. June 5, 2024), ECF No. 56.

18. Case Management Order No. 61, at 1–2, *In re* 3M Combat Arms Earplug Prods. Liab. Litig., No. 3:19-md-02885-MCR-HTC (N.D. Fla. Aug. 29, 2023), ECF No. 3815.

19. The Federal Rules of Civil Procedure place no limits on the ability or authority of a lawyer to file a complaint. *See* Fed. R. Civ. P. 3 (civil action is commenced by filing a complaint with the court). The court clerk then sends a summons to the plaintiff or their attorney, who then serves the summons and a copy of the complaint on the defendant. *See* Fed. R. Civ. P. 4. The summons carries with it the threat of a default judgment if the defendant does not respond.

20. D. Rosenberg & S. Shavell, *A Model in Which Suits Are Brought for Their Nuisance Value*, 5 Int'l Rev. L. & Econ. 3, 3 (1985). As another commentator has pointed out: "By allowing discretion into procedural rules, the state grants decisional power to attorneys. These grants of discretion substitute the attorney's decisions for those of a judge or other state officer or body." James W. Harper, *Attorneys as State Actors: A State Action Model and Argument for Holding SLAPP-Plaintiffs' Attorneys Liable Under 42 U.S.C. § 1983*, 21 Hastings Const. L.Q. 405, 423–24 (1994).

21. Siegel, *supra* note 9.

22. Eran Zur & John A. Squires, *Why Investment-Friendly Patents Spell Trouble for Trolls*, Knowledge at Wharton (Sept. 24, 2015), https://knowledge.wharton.upenn.edu/article/why-investment-friendly-patents-spell-trouble-for-trolls/.

23. 35 U.S.C. § 282.

24. Pfizer, Inc. v. Apotex, Inc., 480 F.3d 1348, 1359 (Fed. Cir. 2007).

25. *See generally* Paul Taylor, *Disclosing High Roller Bankrolling in the Patent Litigation Casino: The Need to Regulate Third Party Litigation Financing*, 103 J. Pat. & Trademark Off. Soc'y 21 (2023).

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LS Cloud Storage Techs., LLC v. Amazon.com, Inc.

United States District Court for the Western District of Texas, Austin Division

December 19, 2023, Decided; December 19, 2023, Filed

1:22-CV-1167-RP

Reporter
2023 U.S. Dist. LEXIS 244846 *; 2023 WL 11991453

LS CLOUD STORAGE TECHNOLOGIES, LLC, Plaintiff, v. AMAZON.COM, INC., AMAZON WEB SERVICES, INC., and AMAZON.COM SERVICES, INC., Defendants.

Prior History: LS Cloud Storage Techs., LLC v. Amazon.Com, Inc., 2023 U.S. Dist. LEXIS 32725, 2023 WL 2290291 (W.D. Tex., Feb. 27, 2023)

Core Terms

litigated, attorney's fees, sanctions, amend, motion to dismiss, infringement, deadlines, docketing

Counsel: [*1] For Amazon.com Services Inc., Amazon.com Inc., Defendants: Austin Michael Schnell, Morrison & Foerster LLP, Austin, TX.

For AMAZON WEB SERVICES INC., Defendant: Brian Christopher Nash, LEAD ATTORNEY, Austin Michael Schnell, Morrison & Foerster LLP, Austin, TX.

For Amazon.com Inc., Amazon.com Services Inc., Defendants: Brian Christopher Nash, LEAD ATTORNEY, Morrison & Foerster LLP, Austin, TX.

For LS Cloud Storage Technologies LLC, Plaintiff: William P. Ramey III, Ramey LLP, Houston, TX.

Judges: ROBERT PITMAN, UNITED STATES DISTRICT JUDGE.

Opinion by: ROBERT PITMAN

Opinion

ORDER

Before the Court is Defendants Amazon.com, Inc., Amazon Web Services, Inc., and Amazon.com Services, Inc.'s (collectively, "Amazon") motion for attorney's fees, (Dkt. 40). Plaintiff LS Cloud Storage Technologies, LLC ("Plaintiff") filed a response to the motion, (Dkt. 44), and Amazon filed a reply, (Dkt. 45). Having considered the parties' briefs, the record, and the relevant law, the Court finds that the motion should be denied.

I. BACKGROUND

Plaintiff filed its complaint on March 25, 2022, in the Waco Division of the U.S. District Court for the Western District of Texas. (Compl., Dkt. 1).[1] Plaintiff alleged that Amazon infringes U.S. Patent Nos. 6,549,988 and 10,154,092 [*2]

[1] The case was transferred to the Austin Division on October 31, 2022.

(the "'988 patent" and "'092 patent"), which are both patents that purport to use specific pathways and interfaces to improve data storage. (*Id.* at 1-4). On June 16, 2022, Amazon moved to dismiss Plaintiff's complaint on the basis that it failed to identify direct infringement for each claim under the Federal Circuit's standard in *Bot M8*. (Mot. Dismiss, Dkt. 10 (citing *Bot M8 LLC v. Sony Corp. of Am.*, 4 F.4th 1342 (Fed. Cir. 2021))). Plaintiff, in response, tacitly acknowledged this deficiency and sought to remedy the complaint by adding an updated claim chart. (Pl.'s Resp., Dkt. 13). The Court granted Amazon's motion to dismiss, noting that although Plaintiff's updated claim chart might survive a Rule 12 motion, an attachment to a response to a motion to dismiss was an improper way to amend a complaint. (Order, Dkt. 33). Instead, the Court gave Plaintiff until March 13, 2023, to properly file an amended complaint with its updated claim chart. (*Id.*).

On March 16, seeing no amended complaint from Plaintiff, the Court dismissed Plaintiff's claims with prejudice and entered final judgment. (Dkt. 34). A week later, on March 22, Plaintiff filed a motion for reconsideration and to amend its complaint. (Mot., Dkt. 35). Six days later, Plaintiff filed a motion to amend the judgment, invoking [*3] many of the same arguments as their motion for reconsideration. (Mot., Dkt. 37). Amazon responded, arguing that the Court should strike the filing as duplicative. (Defs.' Resp., Dkt. 38). The Court denied the motion on September 21, 2023, noting that Plaintiff had failed to show good cause or excusable neglect that would justify reopening the case. (Order, Dkt. 39).

On October 5, 2023, Amazon filed the instant motion for attorney's fees. (Mot., Dkt. 40). Amazon asks for fees against Plaintiff under the Patent Act and fees against Plaintiff's law firm, Ramey LLP, under Rule 11. (*Id.*). Amazon that Plaintiff's suit represents an exceptional case because its litigation positions were unreasonable, it litigated the case in an unreasonable manner, and that shifting fees would deter other frivolous lawsuits. (*Id.*). Plaintiff filed its response a day late on November 3, 2023. (Dkt. 44).

II. LEGAL STANDARD

The Patent Act provides that "a court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285. "An 'exceptional' case is simply one that stands 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." [*4] *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 554, 134 S. Ct. 1749, 188 L. Ed. 2d 816 (2014). Courts should consider a "non-exclusive list of factors" including "frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence." *Id.* at 554 n.6 (quoting *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534, 114 S. Ct. 1023, 127 L. Ed. 2d 455 (1994)). "'[T]hereis no precise rule or formula for making these determinations,' but instead equitable discretion should be exercised 'in light of the considerations [the Supreme Court has] identified.'" *Id.* at 554.

If the Court determines that fees are warranted, the calculation of reasonable fees and expenses is done through a lodestar analysis "by multiplying the reasonable number of hours expended in defending the suit by the reasonable hourly rates for the participating lawyers." *Skidmore Energy, Inc. v. KPMG*, 455 F.3d 564, 568 (5th Cir. 2006). Once the lodestar calculation is performed, the Court may adjust that number upward or downward depending on the twelve factors set forth in *Johnson v. Georgia Highway Express, Inc.*, 488 F.2d 714 (5th Cir. 1974).[2]

[2] The twelve *Johnson* factors include: (1) time and labor required; (2) novelty and difficulty of the issues; (3) required skill; (4) whether other employment is precluded; (5) the customary fee; (6) whether the fee is fixed or contingent; (7) time limitations; (8) the amount involved and the results obtained; (9) the attorney's experience, reputation, and ability; (10) the undesirability of the case; (11) the nature and length of the professional relationship with the client; and (12) awards in similar cases. *Johnson*, 488 F.2d at 717-19. The U.S. Supreme Court has barred the use of the sixth factor. *See Walker v. U.S. Dept. of Housing & Urban Dev.*, 99 F.3d 761, 772 (5th Cir. 1996) (citing *City of Burlington v. Dague*, 505 U.S. 557, 567, 112 S. Ct. 2638, 120 L. Ed. 2d 449 (1992)).

III. DISCUSSION

An award of fees under 35 U.S.C. § 285 is an exercise of equitable discretion. *Octane Fitness*, 572 U.S. at 554. In this case, the Court has already penalized Plaintiff: first by dismissing Plaintiff's claims with prejudice and then by denying reconsideration and an opportunity to replead. As a matter of equitable discretion, [*5] the Court finds that its previous dismissal of Plaintiff's claims with prejudice was a sufficient sanction and will therefore deny Amazon's motion for attorney's fees.

First, while Plaintiff's claims failed at the 12(b)(6) stage, its litigation position was not so unreasonable as to warrant sanctions. *See id.* (noting that courts should examine the substantive strength of a party's litigating position and the manner in which it is litigated). Plaintiff filed its complaint on March 25, 2022, and the Court granted Amazon's motion to dismiss on February 27, 2023. (Order, Dkt. 33). However, the Court's order indicated little about the strength of Plaintiff's claims overall. Rather, the order focused on whether Plaintiff had satisfied all of the technical pleading requirements as set forth in a recent Federal Circuit decision: *Bot M8 LLC*, 4 F.4th at 1352. Analyzing Plaintiff's complaint under *Bot M8* (and recent district court decisions applying *Bot M8*), the Court determined that Plaintiff's claim charts failed to identify which Amazon or Amazon Web Services ("AWS") devices plausibly infringed their asserted patents. (*Id.* at 5-7). Finding that Plaintiff's complaint lacked the requisite detail regarding AWD devices, the Court provided [*6] Plaintiff the opportunity to replead with greater specificity.

Setting aside Plaintiff's failure to timely replead, the Court's order did not hold that Plaintiff's litigating position was exceptionally weak. Rather, the Court's order focused on a specific pleading deficiency based on a recent Federal Circuit decision and even more recent district court precedent. (*Id.* (citing *Grecia Est. Holdings LLC v. Meta Platforms, Inc.*, F. Supp. 3d, No. 6:21-CV-0677-ADA, 605 F. Supp. 3d 905, 2022 WL 2019296, at *2 (W.D. Tex. June 6, 2022))). Had Plaintiff timely amended its complaint, it could have overcome the device mapping issue. Its failure to do so was a result of its litigation conduct, not its litigating position at the outset of the case.

Amazon contends that the dismissal of Plaintiff's complaint at the 12(b)(6) stage shows unreasonableness because 12(b)(6) motions are "viewed with disfavor and . . . rarely granted." (Mot., Dkt. 40, at 6 (quoting *Turner v. Pleasant*, 663 F.3d 770, 775 (5th Cir. 2011))). Certainly, some complaints dismissed at the 12(b)(6) stage are exceptionally unreasonable. However, dismissal at a 12(b)(6) stage does not create a presumption of unreasonableness. Rather, "[a] party's position on issues of law ultimately need not be correct for them to not stand out, or be found reasonable." *SFA Sys., LLC v. Newegg Inc.*, 793 F.3d 1344, 1348 (Fed. Cir. 2015) (cleaned up). The dismissal of Plaintiff's complaint on narrow technical grounds [*7] based on a new pleading standard does not show an exceptionally unreasonable position. Accordingly, this factor counsels against an award of fees.

Plaintiff's litigation conduct is more complex. There is no doubt that Plaintiff litigated this case in an exceptionally poor manner. First, Plaintiff failed to timely amend its complaint after the Court dismissed it without prejudice under *Bot M8*. (Order, Dkt. 33). The Court gave Plaintiff two weeks to file a motion for leave to amend, but Plaintiff missed its pleading deadline and instead filed a motion for reconsideration a week after the Court entered final judgment. (Dkts. 34, 35). Plaintiff then filed a duplicative motion to amend the judgment, which the Court ultimately struck. (Mot., Dkt. 37; Order, Dkt. 39). The substance of Plaintiff's motion improperly attempted to fault its counsel's paralegal or docketing team, blaming the error on the same glitch that counsel has used in previous litigation. As the Court noted, "At best, Plaintiff's counsel has been aware of his failures to timely file and monitor dockets for several years preceding this case and taken no sufficient action to address these issues. At worst, counsel has cited the same [*8] 'docketing issues' as an excuse to cover for his untimely filings." (Order, Dkt. 39, at 6-7). Plaintiff even failed to file the instant response on time, instead filing it a day late. (*See* Dkt. 44 (due no later than November 2 but entered at 9:42 a.m. on November 3)). Amazon also faults Plaintiff for other failures, including missed deadlines to serve infringement contentions and failing to timely confer on its motions to dismiss and motion to transfer. (Mot., Dkt. 40, at 8).

In sum, Plaintiff's counsel has persistently failed to meet deadlines set by the Court and to timely respond to opposing counsel regarding case management motions and requests. Because of these delays, Plaintiff has failed to conduct this litigation in a reasonable manner. Ordinarily, such conduct would warrant an award of attorney's

fees. However, the Court has already effectively sanctioned Plaintiff for these failings. Namely, the Court dismissed Plaintiff's complaint with prejudice and denied an opportunity to replead or reconsider that order. (Dkt. 34). Dismissal with prejudice is a heavy sanction. *See Brown v. Oil States Skagit Smatco*, 664 F.3d 71, 78 (5th Cir. 2011) ("[A] district court's dismissal of an action with prejudice is 'appropriate only if its deterrent value [*9] cannot be substantially achieved by use of less drastic sanctions.'"); *Rogers v. Kroger Co.*, 669 F.2d 317, 320 (5th Cir. 1982) (noting that dismissal with prejudice "is reserved for the most egregious of cases"). Because of Plaintiff's failure to timely amend, the Court dismissed its claims with prejudice, and because of Plaintiff's failure to identify excusable neglect, the Court declined to reconsider that dismissal. "[C]onsidering the totality of the circumstances," the Court declines to add on the additional sanction of attorney's fees on top of the harsh sanction of the complaint's dismissal with prejudice. *Octane Fitness*, 572 U.S. at 554.

Turning to Amazon's motion for Rule 11 sanctions, Amazon argues that fees are warranted because they would deter Plaintiff and its counsel, Ramey LLP, from litigating other frivolous or "nuisance" suits against Amazon. (Mot., Dkt. 40, at 11 (citing *Octane Fitness*, 572 U.S. at 554 n.6)). Amazon notes that Plaintiff's counsel has "sued Amazon six times in the past eighteen months, all in this District, and all on behalf of companies apparently organized for the sole purpose of asserting patents." (*Id.*). The motion also points to several cases from Texas district courts where Ramey LLP has been fined for late filings or neglecting its docket. (*Id.* at 13).

Although an award [*10] of fees would help deter Ramey LLP from neglecting its docket, that deterrence must still prove proportional to the party's misconduct. As in the context of attorney's fees under 35 U.S.C. § 285, the Court declines to award further sanctions through Rule 11 to remedy a problem that has been adequately addressed by dismissal with prejudice. While the Court will not issue monetary sanctions against Ramey LLP, it admonishes the firm to meet its docketing deadlines, timely respond to emails or calls from opposing counsel, and ensure that its suits are filed in good faith. In particular, Ramey LLP is warned that failures to meet docketing deadlines in cases before this Court will result filings being automatically stricken or the imposition of sanctions under Rule 11. Future filings that are unreasonably litigated will also result in an award of attorney's fees under the Patent Act. *See SFA Sys., LLC v. Newegg Inc.*, 793 F.3d 1344, 1350 (Fed. Cir. 2015) ("[A] pattern of litigation abuses characterized by the repeated filing of patent infringement actions for the sole purpose of forcing settlements, with no intention of testing the merits of one's claims, is relevant to a district court's exceptional case determination under § 285.").

IV. CONCLUSION

For the reasons given above, **IT IS ORDERED** that Amazon's [*11] motion for attorney's fees, (Dkt. 40), is **DENIED**.

SIGNED on December 19, 2023.

/s/ Robert Pitman

ROBERT PITMAN

UNITED STATES DISTRICT JUDGE

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Traxcell Techs., LLC v. Verizon Wireless Pers. Communs., LP

United States District Court for the Western District of Texas, Waco Division

January 31, 2022, Decided; January 31, 2022, Filed

NO. 6:20-CV-01175-ADA

Reporter
2022 U.S. Dist. LEXIS 17609 *; 2022 WL 299732

TRAXCELL TECHNOLOGIES, LLC, Plaintiff, v. VERIZON WIRELESS PERSONAL COMMUNICATIONS, LP and ERICSSON INC., Defendant.

Prior History: Traxcell Techs., LLC v. Verizon Wireless Pers. Communs., 2022 U.S. Dist. LEXIS 11088 (W.D. Tex., Jan. 20, 2022)

Core Terms

infringement, patent, computing, network, induced, contributory, customers, wireless, willful, motion to dismiss, pleaded, servers, Amend, third-parties, allegations, continues, coupled, argues, recite

Counsel: [*1] For TRAXCELL TECHNOLOGIES, LLC, Plaintiff: William P. Ramey, III, Ramey & Schwaller, LLP, Houston, TX.

For VERIZON WIRELESS PERSONAL COMMUNICATIONS, LP, Defendant: Allison M. Lucier, LEAD ATTORNEY, Holland & Knight LLP, Boston, MA; Jacob K. Baron, LEAD ATTORNEY, PRO HAC VICE, Holland & Knight LLP, Boston, MA; Kevin Anderson, LEAD ATTORNEY, PRO HAC VICE, Duane Morris LLP, Washington, DC; Deron R Dacus, The Dacus Firm, P.C., Tyler, TX; Gilbert Andrew Greene, Duane Morris LLP, Austin, TX.

For Ericsson, Inc., Defendant: Allison M. Lucier, LEAD ATTORNEY, Holland & Knight LLP, Boston, MA; Jacob K. Baron, LEAD ATTORNEY, PRO HAC VICE, Holland & Knight LLP, Boston, MA; Kevin Anderson, LEAD ATTORNEY, PRO HAC VICE, Duane Morris LLP, Washington, DC; Deron R Dacus, The Dacus Firm, P.C., Tyler, TX.

Judges: ALAN D ALBRIGHT, UNITED STATES DISTRICT JUDGE.

Opinion by: ALAN D ALBRIGHT

Opinion

MEMORANDUM OPINION AND ORDER

Before the Court is the Defendants' Partial Motion to Dismiss Traxcell's Third Amended Complaint of direct infringement, indirect infringement, contributory infringement, and willful infringement of U.S. Patent Nos. 10,743,135 ("'135 Patent") and 10,701,517 ("'517 Patent") pursuant to Federal Rule of Civ Procedure 12(b)(6). Dkt. No. 45. Plaintiff filed its opposition fifty days late. Dkt. No. 55. Generously, Defendants did [*2] not oppose a retroactive fifty-day extension, so the Court granted Plaintiff's motion for extension and now considers Plaintiff's opposition and Defendants' reply. Dkt. No. 56, 59 (noting history of late filings), 61. After careful consideration of the briefs and applicable law, Defendants' Motion is **GRANTED-IN-PART** and **DENIED-INPART**.

I. LEGAL STANDARDS

Rule 12(b)(6) requires that a complaint contain sufficient factual matter, if accepted as true, to "state a claim to relief that is plausible on its face." *Ashcroft v. Iqbal*, 556 U.S. 662, 678, 129 S. Ct. 1937, 173 L. Ed. 2d 868 (2009) (quoting *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570, 127 S. Ct. 1955, 167 L. Ed. 2d 929 (2007)). To meet this factual plausibility standard, the plaintiff must plead "factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged," based on "more than a sheer possibility that a defendant has acted unlawfully." *Id.* "Threadbare recitals of the elements of a cause of action, supported by mere conclusory statements, do not suffice." *Id.* However, in resolving a motion to dismiss for failure to state a claim, the question is "not whether [the plaintiff] will ultimately prevail, . . . but whether his complaint was sufficient to cross the federal court's threshold." *Skinner v. Switzer*, 562 U.S. 521, 530, 131 S. Ct. 1289, 179 L. Ed. 2d 233 (2011). "The court's task is to determine whether the plaintiff [*3] has stated a legally cognizable claim that is plausible, not to evaluate the plaintiff's likelihood of success." *Lone Star Fund V (U.S.), L.P. v. Barclays Bank PLC*, 594 F.3d 383, 387 (5th Cir. 2010) (citing *Iqbal*, 556 U.S. at 678).

To allege indirect infringement, the plaintiff must plead specific facts sufficient to show that the accused infringer had actual knowledge of the patents-in-suit or was willfully blind to the existence of the patents-in-suit. *Glob.-Tech Appliances, Inc. v. SEB S.A.*, 563 U.S. 754, 766, 769, 131 S. Ct. 2060, 179 L. Ed. 2d 1167 (2011) ("[I]nduced infringement under § 271(b) requires knowledge that the induced acts constitute patent infringement" or at least "willful blindness" to the likelihood of infringement.); *Commil USA, LLC v. Cisco Sys., Inc.*, 575 U.S. 632, 639, 135 S. Ct. 1920, 191 L. Ed. 2d 883 (2015) ("Like induced infringement, contributory infringement requires knowledge of the patent in suit and knowledge of patent infringement."). A showing of willful blindness requires that "(1) the defendant must subjectively believe that there is a high probability that a fact exists and (2) the defendant must take deliberate actions to avoid learning of that fact." *Global-Tech*, 563 U.S. at 769.

For inducement allegations, "a claim of induced infringement must contain facts plausibly showing that [the defendants] specifically intended their customers to infringe the [asserted] patent and knew that the customer's acts constituted infringement." *In re Bill of Lading Transmission & Processing Sys. Patent Litig.*, 681 F.3d 1323, 1339 (Fed. Cir. 2012)). This "demanding specific intent requirement for a finding [*4] of induced infringement" requires more than "unsubstantiated assertions." *Affinity Labs*, 2014 U.S. Dist. LEXIS 90379, 2014 WL 2892285, at *7. An inducement claim cannot "simply recite[] the legal conclusion that Defendants acted with specific intent." *Addiction & Detoxification Inst. L.L.C. v. Carpenter*, 620 F. App'x 934, 938 (Fed. Cir. 2015).

To establish contributory infringement, "the patent owner must demonstrate: 1) that there is direct infringement, 2) that the accused infringer had knowledge of the patent, 3) that the component has no substantial noninfringing uses, and 4) that the component is a material part of the invention." *Affinity Labs*, 2014 U.S. Dist. LEXIS 90379, 2014 WL 2892285 at *8. "Like induced infringement, contributory infringement requires knowledge of the patent in suit and knowledge of patent infringement." *Commil*, 575 U.S. at 639.

Similarly, to allege willful infringement, the plaintiff must plausibly allege the "subjective willfulness of a patent infringer, intentional or knowing." *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 579 U.S. 93, 105, 136 S. Ct. 1923, 195 L. Ed. 2d 278 (2016). This requires a plaintiff to allege facts plausibly showing that the accused infringer: "(1) knew of the patent-in-suit; (2) after acquiring that knowledge, it infringed the patent; and (3) in doing so, it knew, or should have known, that its conduct amounted to infringement of the patent." *Parity Networks, LLC v. Cisco Sys., Inc.*, No. 6:19-CV-00207-ADA, 2019 U.S. Dist. LEXIS 144094, 2019 WL 3940952, at *3 (W.D. Tex. July 26, 2019).

II. ANALYSIS

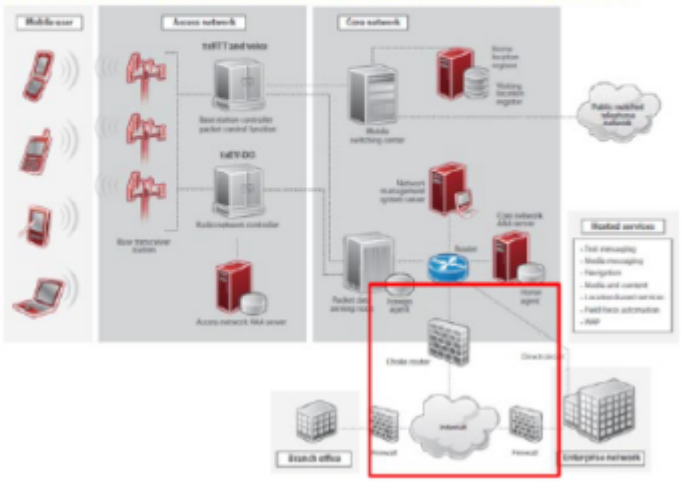
A. Direct Infringement is Dismissed in Part

Defendants contend that Plaintiff fails to plausibly and particularly plead [*5] infringement of "another one o[r] more computers," an element found in both the '517 Patent and the '135 Patent. Dkt. No. 45 at 4. The asserted patent claims recite "another one or more computers" in addition to a "system of computers." *Id.* The Third Amended Complaint identifies Ericsson's SON as the "system of computers." *Id.* Defendants then reproduce a highlighted version of Plaintiff's contention as to the "another one or more computers" limitation for the '517 Patent:

another one or more computers other than the system of computers, wherein at least one of the another one or more computers is coupled in communication with the system of computers,

Plaintiff contends that the wireless network can include another computer(s) (for example, third-parties, LBS providers, subsidiaries, etc.) other than the system of computers and another computer(s) is coupled in communication with the system of computers executing or loaded with Ericsson's SON solution (which includes SON Optimization Manager (SON OM), SON Policy Manager, SON Visualization, etc.).

The following exemplifies this limitation's existence in Accused Systems:



Id. at 6 (reproducing Dkt. No. 41 at 6-7, 13-14) (highlighting added by Defendants).

The Court finds that Plaintiff properly pleaded infringement of this element. From this contention, the Court finds the following facts and inferences are plausible: Defendants have one or more "subsidiaries," the subsidiaries have another one or more computer(s) included in the wireless network, and these computer(s) are coupled to the system of computers executing or loaded with Ericsson's SON solution.

The Court finds that Plaintiff's alternative theories of infringement fail as a matter of law. Specifically, the Third Amended Complaint shows that this element is met by "another computer(s)" of "third-parties, LBS[1] providers . . . etc." as well as the "Internet" generally, [*6] a "firewall," and a "choke router." Even if true, "another computer(s)" of "third-parties, LBS providers . . . etc." establishes split infringement by other parties, so Defendants cannot directly infringe the entire claim. Similarly, the Third Amended Complaint does not plead that Defendants own the Internet, the internet routers, or internet firewalls, so these elements do not establish infringement by the Defendants.

Defendants also reproduce a highlighted version of Plaintiff's contention as to the "another one or more computers" limitation for the '135 Patent:

[1] Location Based Service

wherein the wireless network further comprises another one or more computers other than the system of computers, wherein at least one of the another one or more	Plaintiff contends that another one or more computers {i.e., one or more computers, servers, computing devices, computing systems, etc. within or outside the Ericsson's Network or Ericsson's facility such as one or more computers, servers, computing devices, computing systems, etc. of third-parties, location based service (LBS) providers, Ericsson's subsidiaries or family of companies, vendors, partners, etc. is coupled in communication with the system of computers executing or loaded with Ericsson's SON solution {which includes SON [*7] Optimization Manager (SON OM), SON Policy Manager, SON Visualization, etc.

Dkt. No. 45 at 6 (citing Dkt. No. 41 at 27) (highlighting added by Defendants).

The Court finds that Plaintiff properly pleaded infringement of this element. From this contention, the Court finds the following facts and inferences are plausible: another one or more computers made up of servers, computing devices, and/or computing systems exist within Ericsson's Network or Ericsson's facility, or those of Ericsson's subsidiaries or Ericsson's family of companies, and these servers, computing devices, and/or computing systems are coupled in communication with the system of computers executing or loaded with Ericsson's SON solution.

The Court finds that Plaintiff's alternative theories of infringement fail as a matter of law. Specifically, the Third Amended Complaint shows that this element is met by "one or more computers, servers, computing devices, computing systems, etc. . . . outside the Ericsson's Network or Ericsson's facility such as one or more computers, servers, computing devices, computing systems etc. of third-parties, location based service (LBS) providers, [*8] . . . vendors, partners, etc." Even if true, "another computer(s)" belonging to "third-parties" such as "vendors, partners" that are "outside the Ericsson's network" establishes split infringement by other parties, so Defendants cannot directly infringe the entire claim.

Defendants argue that the allegations are insufficiently specific and fail to put them on notice of what aspect is infringing. Dkt. No. 45 at 8. The Plaintiff must "identify what aspect of the systems are infringing and whether specific components of Defendants systems are allegedly infringing. Merely identifying the entire system and directing the Court and the Defendants to the claims . . . to determine what aspect of the systems infringes is not enough." *Fenner Investments, Ltd. V. Cellco P'ship*, No. 6:11-CV-348, 2012 WL 12785031, at *2 (E.D. Tex. Mar. 27, 2012). In *Fenner*, the complaint lacked an infringement chart and merely alleged that one "network communication system" met a patent claim with multiple different components. Here, the above-pictured claim element of the '135 Patent above requires a wireless network comprising a separate computer, and in the case of the '517 Patent, that the separate computer is coupled to the systems of computers. Defendants properly pleaded this element by providing a claim chart for this element and pleading [*9] the existence of a wireless network comprising another such coupled computer owned by Defendants.

Defendants' final dispute is that "Traxcell does not and cannot identify 'another one or more computers' in communication with the Ericsson SON that shares location information with the Ericsson SON because no such 'another' computer exists. . . . Traxcell has no basis for asserting these claims" Dkt. No. 45 at 8. The Third Amended Complaint pleads that the "system of computers can provide access to an indication of location to another computer(s)." Dkt. No. 45 at 7. At the pleadings stage, the Court assumes that the pleaded facts are true and will resolve this disputed fact in favor of Plaintiff. Plaintiff pleaded the existence of this another computer and the claimed sharing of location information.

Therefore, the Court finds that Plaintiff has sufficiently pled at least one theory of direct infringement in its Complaint for both the '517 Patent and the '135 Patent. The Court **DENIES-IN-PART** Defendants' motion to dismiss the viable theories. The Court **GRANTS-IN-PART** Defendants' motion to dismiss the remaining theories of direct infringement, and by extension, indirect, induced, and willful infringement consistent [*10] with this Opinion.

B. Inducement Claims Dismissed with Leave to Amend

As for Defendants knowledge of the asserted patent, Plaintiff alleges that Defendant learned of the patents-in-suit through related patent prosecution and patent litigation. Dkt. No. 41 At 9-10. Defendants contends that the Third Amended Complaint fails to properly plead that Defendants intended for the customers to infringe. Dkt. No. 45 at 9-11. The Court agrees.

Plaintiff argues that it "alleged that Defendants actively encouraged or instructed others (e.g., its customers), and continues to do so, on how to use its products and services (. . .) such to cause infringement." Dkt. No. 55 at 7. Instructing others to perform an action "such to cause infringement" does not plead the intent required by law.[2] *Id.*

The Court **GRANTS** Defendants' motion to dismiss Plaintiff's inducement claims. However, given the difficulty in alleging these specific details without the benefit of fact discovery, in accordance with the Court's usual practice, the Court permits Plaintiffs to amend its Complaint after the start of fact discovery to specifically recite the omitted element and underlying facts, if Plaintiff has a basis to do so.

C. [*11] **Contributory Infringement Dismissed with Leave to Amend**

Traxcell's allegations for contributory infringement are boilerplate and largely the same for each patent. Specifically, with respect to Verizon, the Third Amended Complaint asserts only that:

> Verizon has and continues to contributorily infringe. Verizon has actively encouraged or instructed others (e.g., its customers and/or the customers of its related companies), and continues to do so, on how to use its products and services e.g., U.S. wireless networks, wireless-network components that use [claim limitation]) such as to cause infringement of one or more of [asserted claims of the] patent, literally or under the doctrine of equivalents.

Dkt. No. 41 at ¶¶ 15, 28, 42. Likewise, with respect to Ericsson, the Third Amended Complaint asserts only that:

> Ericsson has and continues to contributorily infringe. Ericsson has actively encouraged or instructed others (e.g., its customers and/or the customers of its related companies), and continues to do so, on how to use its products and services e.g., U.S. wireless networks, wireless-network components (including Ericsson wireless devices and network infrastructure components), including [*12] wireless devices, that use [claim limitation]) such as to cause infringement of one or more of [asserted claims of the] patent, literally or under the doctrine of equivalents.

Dkt. No. 41 at ¶¶ 21, 34, 48.

Plaintiff's allegations fail to plead contributory infringement. Plaintiff fails to identify any specific component (except base stations and the SON system), fails to allege that any identified component is a material part of the invention, and fails to allege that any identified component has no substantial noninfringing uses. Dkt. No. 55 at 8.

Plaintiff's brief argues that the accused "SON systems do not have substantial noninfringing uses." Dkt. No. 55 at 8. However, Plaintiff fails to identify where this fact exists in the Third Amended Complaint. Plaintiff argues that the Third Amended Complaint contains claim charts that identify the SON systems and that "The Ericsson's SON solution has code specifically designed for use by one or more computers." *Id.* This design for one use, taken as true, does not preclude the existence of substantial noninfringing uses. Plaintiff's brief does not argue that base stations have no substantial infringing uses. *Id.* at 7-8.

The Court **GRANTS** Defendant's [*13] motion to dismiss Plaintiff's contributory infringement claims. The Court permits Plaintiff to amend its Complaint within five business days to cure the deficiencies.

D. Willfulness Dismissed with Leave to Amend

Defendants contend that the Third Amended Complaint fails to meet this standard. Plaintiff argues that the standard is met because the Defendants learned of the patents-in-suit through related patent prosecution and patent litigation and knew of infringement thereafter. Dkt. No. 55 at 8; Dkt. No. 41 At 9-10. This Court agrees with Plaintiff that the knowledge element was adequately plead, but Plaintiff's Responsive Brief does not address the remaining elements. Plaintiff's Responsive Brief further argues, "Despite that knowledge, Defendants continued to practice

[2] Plaintiff makes no argument that the required intent is plausibly inferred, so the Court will not address this inference.

systems and methods it knew Traxcell would allege infringe[ment of]." Dkt. No. 55 at 8. Plaintiff's Responsive Brief fails to identify where these key facts about Defendants' intent are alleged in the Third Amended Complaint. *Id.*

The Court **GRANTS** Defendants' motion to dismiss Plaintiff's willfulness claims. However, given the difficulty in alleging these specific details without the benefit of fact discovery, in accordance [*14] with the Court's usual practice, the Court permits Plaintiffs to amend its Complaint after the start of fact discovery to specifically recite these elements and underlying facts, if Plaintiff has a basis to do so.

SIGNED this 31st day of January, 2022.

/s/ Alan D Albright

ALAN D ALBRIGHT

UNITED STATES DISTRICT JUDGE

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VDPP, LLC v. Volkswagen Grp. of Am., Inc.

United States District Court for the Southern District of Texas, Houston Division

August 13, 2024, Decided; August 13, 2024, Filed

CIVIL ACTION NO. H-23-2961

Reporter
2024 U.S. Dist. LEXIS 150556 *; 2024 WL 3856797

VDPP, LLC, Plaintiff, v. VOLKSWAGEN GROUP OF AMERICA, INC., Defendant.

Core Terms

hourly rate, misconduct, lawyers, patent, frivolous, billed, rates, number of hours, entire case, unrecoverable, declarations, expended, marking, spent, motion to dismiss, reasonable number, attorney's fees, rate charged, fee award, per hour, researching, specialized, calculate, discovery, meritless, briefing, engaging, lodestar, charges, damages

Counsel: [*1] VDPP, LLC, Plaintiff: Jeffrey E Kubiak, William P Ramey, III, Ramey LLP, Houston, TX.

For Volkswagen Group of America, Inc., Defendant: Thomas Christopher Trent, LEAD ATTORNEY, Trent & Taylor, LLP, Houston, TX; Elliot C. Cook, Finnegan, Henderson, Farabow, Garrett & Dunner, LLP, Reston, VA; Joseph M. Schaffner, Finnegan, Henderson, Farabow, Garrett & Dunner, LLP, Reston, VA.

Judges: Lee H. Rosenthal, United States District Judge.

Opinion by: Lee H. Rosenthal

Opinion

MEMORANDUM AND ORDER

The plaintiff, VDPP, LLC, filed a meritless patent infringement suit and continued to litigate it after the defendant, Volkswagen Group of America, pointed out its obvious lack of merit. The court dismissed the case with prejudice and held that VDPP and its counsel were liable for Volkswagen's attorneys' fees under 35 U.S.C. § 285 and 28 U.S.C. § 1927. (Docket Entry No. 47). The record amply supported the finding that this case was so lacking in merit as to make it exceptional for the purpose of awarding fees. (*Id.*).

Volkswagen has moved for an award of fees in the amount of $207,543.60. Volkswagen has supported its motion with a clear explanation of how it calculated the lodestar and with declarations from the lawyers who worked to defend the case and achieve the [*2] dismissal. VDPP's only argument in response is that the fee award should be limited to the portion "expended to defend the exceptional portion of the case[.]" (Docket Entry No. 49 at 1).

VDPP misses the point of the court's prior findings. The factors for determining whether a patent case is exceptional include: "frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence." *In re Rembrandt Techs. LP Patent Litigation*, 899 F. 3d 1254, 1277 (Fed. Cir. 2018) (internal citation omitted). This entire case was exceptional. VDPP sought an injunction and future damages that were clearly unrecoverable, because the patent was expired. *See Lans v. Digit. Equip. Corp.*, 252 F.3d 1320, 1328 (Fed. Cir. 2001). VDPP sought past

damages that were clearly unrecoverable because VDPP could not plausibly allege marking compliance under 35 U.S.C. § 287. *See Arctic Cat Inc. v. Bombardier Recreational Prods., Inc.*, 876 F.3d 1350, 1366 (Fed. Cir. 2017). VDPP lied about the existence of prior licensing agreements that confirmed the meritless nature of its case. (Docket Entry No. 36).

VDPP wants the court to limit the attorneys' fee award to the portion of the case that is exceptional. (Docket Entry No. 49 at 1). The entire case was exceptional, from the outset, for reasons that VDPP and its counsel knew. There is no [*3] need to allocate the fees between the frivolous and nonfrivolous aspects of the case. It was all frivolous.

The remaining tasks are to determine whether the number of hours Volkswagen expended and the hourly rates charges were reasonable. "In determining the appropriate amount of attorney's fees, a district court first must calculate the 'lodestar' by 'multiplying the reasonable number of hours expended on the case by the reasonable hourly rates for the participating lawyers.'" *Rodney v. Elliott Sec. Sols., L.L.C.*, 853 F. App'x 922, 924 (5th Cir. 2021) (quoting *Migis v. Pearle Vision, Inc.*, 135 F.3d 1041, 1047 (5th Cir. 1998)). Whether an hourly rate is reasonable depends on whether that rate is consistent with the "hourly rate in the community for the work at issue." *Smith & Fuller, P.A. v. Cooper Tire & Rubber Co.*, 685 F.3d 486,490 (5th Cir. 2012). The court finds that the number of hours spent and the rates charged by the three attorneys who represented Volkswagen are reasonable in light of the factors set out in *Johnson v. Ga. Highway Express, Inc.*, 488 F.2d 714, 717-19 (5th Cir. 1974).

Attorneys command high fees. Attorneys specializing in patent cases, which are often technically as well as legally complicated, are no exception. The hourly rates charged by the three lawyers who defended Volkswagen are reasonable in light of their years of experience and their expertise. The rates charged here were $979 per hour for the lead lawyer; $825 per hour for an of-counsel lawyer; [*4] and $600 for local counsel. Volkswagen provides data from PricewaterhouseCoopers showing that these rates are lower than the median 2023 rates for comparable lawyers. (Docket Entry No. 48-5). Similar surveys are routinely accepted by courts in this circuit. For example, many courts have used "the American Intellectual Property Law Association's 2021 Report of the Economic Survey, which notes average hourly rates for equity partners in Texas ranging from $339 to $900 and average hourly rates for partner-track attorneys ranging from $354 to $593." *Bobby Goldstein Prods., Inc. v. Habeeb*, No. 3:21-CV-01924, 2023 U.S. Dist. LEXIS 226688, 2023 WL 8790284, at *2 (N.D. Tex. Nov. 27, 2023), *report and recommendation adopted*, No. 3:21-CV-1924-G, 2023 U.S. Dist. LEXIS 225505, 2023 WL 8791177 (N.D. Tex. Dec. 19, 2023). Adjusting these 2021 figures for inflation yields similar results to the charges billed here. And Volkswagen has, if anything, been modest in seeking discounted 2023 rates for the entire case, even though much of the work took place in 2024.

The number of hours spent on the case is also reasonable. Although the facts of VDPP's litigation misconduct are egregious, they arose in a specialized area of patent law - marking requirements. Volkswagen had to do the work necessary to not only uncover the misconduct, but also to explain it to the court and to obtain appropriate relief. The fact that Volkswagen was [*5] able to do so in a motion to dismiss, rather than engaging in discovery and then moving for summary judgment, resulted in a reasonable number of hours spent. VDPP cannot successfully complain that it now has to pay fees for work that resulted from its misconduct in bringing the lawsuit, seeking unrecoverable relief, taking frivolous and objectively unreasonable positions, and submitting false declarations. Volkswagen's work included researching, briefing, presenting, and arguing its motion to dismiss; engaging in early and targeted discovery; researching and briefing the motion to declare the case exceptional under § 285; and responding to VDPP's Rule 59(e) motion. The 256 hours billed by three lawyers was reasonable. *See, e.g., Ortiz & Assocs. Consulting, LLC v. Vizio, Inc.*, No. 3:23-CV-791, Docket Entry No. 46, 2024 U.S. Dist. LEXIS 33148 (finding 261.7 hours of attorney time reasonable for a case dismissed for lack of marking under § 287 in another case brought by Mr. Ramey). And Volkswagen has shown billing judgment by applying a 10% reduction across the board, billing at 2023 rates, and not including any paralegal time in the amounts it seeks.

VDPP's misconduct infected the entire litigation. It is entirely fitting to require VDPP to pay all of Volkswagen's fees to defeat a case that never should have been filed. [*6] Indeed, VDPP's protestations fit the classic definition of "chutzpah." VDPP displays some nerve in asking this court to relieve it of the consequences of its own misconduct.

Volkswagen's motion to recover $207,543.60 in fees is granted.

SIGNED on August 13, 2024, at Houston, Texas.

/s/ Lee H. Rosenthal

Lee H. Rosenthal

United States District Judge

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Injunction Junction

What's the ITC's Function?

Image: Getty Images/ArtMarie

Wayne T. Brough

On December 22, 2022, the U.S. International Trade Commission (ITC) issued an exclusion order banning the import of the popular Apple Watch after determining that Apple was infringing on AliveCor's patents.[1] Yet that same month, the Patent Trial and Appeal Board (PTAB) at the U.S. Patent and Trademark Office ruled that the patents in question were invalid.[2] While the PTAB decision is on appeal, the case raises concerns about why a small federal agency created to address tariffs and unfair trade practices is becoming a prominent and popular venue for airing patent disputes.[3]

Wayne T. Brough is a resident senior fellow on R Street Institute's technology and innovation team. He focuses his research on antitrust and competition policy and intellectual property. Prior to R Street, he was the president of the Innovation Defense Foundation, a think tank focusing on technology policy that he cofounded. He can be reached at wbrough@rstreet.org.

The International Trade Commission, Patents, and Section 337 Investigations

The ITC was established in 1916 as an independent, quasi-judicial federal agency to manage the nation's tariff system and shield domestic industries from unfair competitors beyond the reach of U.S. laws.[4] However, the ITC's mandate has expanded over time, notably under section 337 of the Tariff Act of 1930, which grants the ITC broad investigation powers.[5] While section 337 investigations cover a range of unfair practices, they predominantly focus on allegations of patent infringement.[6] The ITC, in effect, has established itself as an alternative means of adjudicating patents outside the federal courts, a marked departure from the agency's original mission that has proved vulnerable to exploitation.[7]

Several factors contribute to the ITC's attractiveness as a forum for patent dispute resolution. First, the speed of ITC proceedings, typically concluding within 16 to 18 months, creates an opportunity to exert pressure on alleged infringers more quickly than in federal courts.[8] Second, unlike federal courts, the ITC does not award monetary damages; its primary remedy is the exclusion order,

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sometimes accompanied by a cease and desist order, that can ban the importation of an infringing product into the United States.[9]

Life After *eBay*: The ITC and Exclusion Orders

Before the 2006 landmark U.S. Supreme Court ruling in *eBay Inc. v. MercExchange, L.L.C.*,[10] federal courts routinely issued permanent injunctions upon a finding of patent infringement. This practice effectively allowed patent holders to exclude competitors from the market, providing significant leverage in licensing negotiations.[11] However, the *eBay* decision fundamentally changed this dynamic. The Supreme Court held that the traditional four-factor test for injunctive relief should apply to patent cases. This was a rejection of the U.S. Court of Appeals for the Federal Circuit's general rule "that courts will issue permanent injunctions against patent infringement absent exceptional circumstances."[12] The *eBay* ruling made obtaining injunctions in federal courts significantly more difficult. Courtroom remedies focused more on monetary damages, allowing better proportionality between the infringement and its economic impact.

This shift reshaped patent enforcement and defense strategies and inadvertently elevated the ITC's importance in patent litigation. Unlike federal courts, the ITC is not bound by the four-factor test established in *eBay* when considering an exclusion order, which is functionally an injunction. This makes it an attractive forum for patent holders seeking strong remedies, particularly those who might struggle to obtain an injunction in federal court.[13] The threat of an ITC exclusion order gives patent holders significant negotiating power, potentially leading to higher licensing fees or larger settlements.[14]

Consequently, companies facing the threat of a section 337 investigation may need to raise prices to offset potential litigation costs or build reserves for possible settlements.[15] Moreover, if an exclusion order removes a competitive product from the market, remaining suppliers may have greater flexibility to increase prices due to the reduced threat of competition.[16] Thus, consumers may face reduced choices and higher prices in the wake of an exclusion order.

The Rise of Nonpracticing Entities and Third-Party Litigation Funding

The changing landscape of patent litigation did not go unnoticed by nonpracticing entities (NPEs), who are bringing an increasing number of cases before the ITC.[17] Often disparaged as "patent trolls," NPEs acquire patents not to produce an invention or deploy a new technology but, rather, to assert the patents against alleged infringers to generate revenue through licensing fees and litigation settlements, with subsequent adverse impacts on social welfare.[18]

NPEs have found the ITC to be a particularly advantageous venue.[19] The expedited timeline and threat of an import ban can induce respondents to settle under unfavorable conditions, especially in today's globalized economy, where many products are manufactured overseas. According to data from the ITC, NPEs were the complainant in 11 of the 37 investigations instituted at the ITC in 2023, roughly 30%.[20] The level of NPE activity at the ITC has raised concerns about the impact on innovation and economic efficiency because NPEs extract value from productive companies without practicing patents themselves.[21] Moreover, the threat of an ITC investigation can divert resources from research and development to legal defense, particularly for smaller firms with limited resources.[22]

More recently, the NPE problem has been exacerbated by third-party litigation funding. This relatively new practice allows outside parties such as hedge funds and sovereign wealth funds to provide financial assistance to plaintiffs in exchange for a share of the litigation's proceeds.[23] One estimate suggests that third parties now fund almost one-third of all patent litigation, including cases before the ITC.[24] This influx of capital has enabled NPEs to pursue more cases and larger targets.[25]

UNLIKE FEDERAL COURTS, THE ITC IS NOT BOUND BY THE FOUR-FACTOR TEST ESTABLISHED IN *EBAY* WHEN CONSIDERING AN EXCLUSION ORDER, WHICH IS FUNCTIONALLY AN INJUNCTION.

Moreover, the leverage provided by the threat of exclusion orders can lead to what economists call "holdup," where NPEs extract settlements that exceed the actual value of their patents.[26] This dynamic can distort market incentives and harm consumers through increased prices or reduced product availability. In a report for the R Street Institute, William Jenks provides an example of how Daedalus Prime, LLC, an NPE, sought exclusion orders on vehicles produced by Mazda and Mercedes-Benz over patents asserted on a component in the vehicle's infotainment system. In what Jenks describes as the "little-to-big" problem, an ITC exclusion order's economic impact equates to the value of the entire vehicle—well beyond what a court would establish as the royalty value for the chip in question in the infotainment system.[27] As a result, companies may be compelled to enter into licensing agreements or settlements that do not reflect the actual economic value of the patents in question simply to avoid the risk of being shut out of the U.S. market.[28]

The ITC's Expansive Definition of Domestic Industry

While the ITC was initially established to protect U.S. industries from unfair foreign competition, a concerning trend has

emerged in recent years: the increasing use of ITC investigations for disputes between domestic companies, or cases brought by foreign complainants against American companies.[29] A 2024 study found that 196 complaints of unfair trade had been filed with the ITC since 2020; of these, 54 were brought by foreign companies.[30]

The statutory language defining a domestic industry belies much of the activity at the ITC. It begins reasonably by stating that a "significant investment in plant and equipment" or the "significant employment of labor or capital" are indications of a domestic industry.[31] However, the statute then includes "licensing" as evidence of domestic industry.[32] This provides the justification necessary for NPEs—which do not produce or innovate—to assert domestic industry status and, therefore, bring cases before the ITC. Even worse, NPEs can compel an unwilling third party forced to acquire a license to provide evidence of domestic industry via subpoena.[33]

These cases impose significant costs on American businesses and disrupt international supply chains that undermine U.S. competitiveness in the global market. Ultimately, the misuse of exclusion orders harms consumers by restricting choice through product bans, while increased litigation expenses and licensing fees contribute to higher prices. The ITC's definition of domestic industry is too expansive, allowing entities who, by definition, do not produce anything to allege unfair competition. At the same time, much of the ITC's docket is duplicative with the federal courts, suggesting a proper venue already exists for cases brought before the agency.[34] A 2021 study of ITC case data by Charles Duan found that since 2017, only 41 out of 635 ITC investigations (6.5%) involved solely domestic complainants and foreign respondents.[35]

This misuse of section 337's domestic industry requirements has several economic implications. Companies involved in ITC investigations often face higher legal expenses than traditional court proceedings due to the accelerated timeline and specialized nature of ITC cases.[36] These costs are additive when considering that cases before the ITC often have parallel litigation in the federal courts.[37] Additionally, there is an impact on innovation that can discourage small firms from innovating for fear of patent litigation.[38] The global nature of many supply chains adds another layer of complexity because an exclusion order can ripple through a company's entire production and distribution network, potentially leading to production delays, increased costs, and loss of market share.[39]

What About the Public Interest?

Section 337 specifically requires the ITC to evaluate potential public interest impacts before issuing an exclusion order.[40] The statute includes four key public interest factors to evaluate during an investigation. First, investigators must assess the impact of an exclusion order on public health and welfare, such as changes in the availability of essential products like medical devices and pharmaceuticals. Second, the effect on competitive conditions within the U.S. economy must be examined, including concerns about market structure and monopoly power. Third, the implications for U.S. production of similar or directly competitive articles must be reviewed, specifically determining whether domestic alternatives can adequately meet market demand. Fourth, the investigation must evaluate the consequences of an exclusion for U.S. consumers in terms of product availability and pricing.

Yet, historically, analysis of these public interest factors has been perfunctory at best, often lacking depth and rigor.[41] Overall, the public interest requirements have had little impact on exclusion orders granted by the ITC. In fact, over the last 40 years, there have been only four cases where the public interest was used to deny an exclusion order.[42]

Only in rare cases have public interest concerns overridden an exclusion order, as in 1984 when the ITC, after finding a violation under section 337, declined to issue an exclusion order based on public interest concerns. In this case, involving the importation of crankpin grinders, the ITC determined that an exclusion order would impede the nation's ability to meet fuel efficiency standards mandated by Congress.[43]

In 2011, the ITC issued a final rule to enhance public interest considerations, allowing the commission the option to delegate the public interest evaluation to the administrative law judge in a section 337 investigation.[44] While an earlier determination of public interest impacts aimed to improve the process, the changes have not had a significant impact on the number of investigations where the public interest has limited the role of an exclusion order.[45] Again, a prime example is the ITC's recent exclusion order on the Apple Watch. If the federal court determines that the patents are valid, imports of the popular Apple Watch could be banned, potentially affecting millions of consumers, many of whom may rely on the device to detect cardiac arrhythmia, or irregular heartbeats.[46]

A more robust public interest analysis with greater weight in the ITC's decision-making process would provide an essential check on questionable exclusion orders and allow a more careful evaluation of the potential economic and consumer harms and public health risks associated with an exclusion order. This would help create more consistency between ITC proceedings and federal court patent litigation, ensuring that the criteria for issuing exclusion orders are more aligned across both forums.

Congress Weighs In

For some time, Congress has shown an interest in the growing problem of abusive patent litigation. In 2011, the America Invents Act was enacted, which, among other things, took aim at the problem of business method patents and excessive litigation.[47] In the wake of the *eBay* decision and the ITC's rise to prominence as an alternative venue, Representatives Suzan DelBene (D-WA) and David Schweikert (R-AZ) first introduced the Advancing America's Interests Act in the 116th Congress in an attempt to return the ITC to its original mission and curb abusive patent litigation in section 337 investigations.[48] The legislation was reintroduced in the 118th Congress by Schweikert and cosponsor Representative Don Beyer (D-VA).[49]

As Schweikert stated:

> For far too long, the International Trade Commission has been misused by patent trolls seeking to exploit financial gain at the expense of American consumers and businesses. The Advancing America's Interests Act modernizes the ITC by reforming its unfair import processes and ensuring public interest is always prioritized above bad actors looking to stifle competition. I'm proud to introduce this bipartisan legislation that increases transparency at the ITC, encourages a strong patent system, and ensures America can continue being a leader in advancing innovation.[50]

The Advancing America's Interests Act (H.R. 3535) attempts to address concerns about section 337 investigations through new statutory language that would curb excessive litigation by NPEs at the ITC while allowing legitimate patent cases to proceed.[51] More specifically, the legislation tightens the definition of domestic industry, expands the scope of the public interest review, and makes other procedural changes to expedite section 337 investigations. Key provisions of the act include:

- **Strengthening the domestic industry requirement:** The legislation would require complainants to demonstrate that they have made significant investments in the United States to develop and exploit a patent. Licensing alone would not establish domestic industry. Rather, licensing must lead to "the adoption and development of articles that incorporate the patent, copyright, trademark, mask work, or design."[52]
- **Enhanced public interest analysis:** The act would require the ITC to determine, as an initial matter, whether an exclusion order would negatively affect the public interest. This change would increase the importance of public interest considerations in ITC proceedings.[53]
- **Eliminating the "domestic industry by subpoena":** The bill includes provisions that would make it more difficult for complainants to compel domestic licensees to join legal actions to demonstrate domestic industry.[54]
- **Establishing a new timeliness requirement:** The act would require ITC investigations to identify and address any potentially dispositive facts in the first 100 days of the inquiry so a prompt determination can be made on whether to proceed further.[55]

These changes would help refocus the ITC on its core mission of protecting true American innovators and reduce its use for adjudicating patent disputes more appropriately handled in federal courts. Such reforms would help reduce abusive patent litigation while protecting legitimate intellectual property rights and domestic industries.

But despite concerns raised in Congress and in the policy community, reforming the ITC's growing role in patent adjudication is difficult. As in many political debates, vested interests have solidified around the status quo, from bureaucratic entrenchment at the ITC, to a strong patent bar that sees opportunities in section 337 investigations, to NPEs that fare better at the ITC than they do in courts. The benefits that accrue to these strong, concentrated interests provide a classic example of Mancur Olson's collective action problem, as the costs are dispersed across consumers and the business community.[56] As a result, an agency created to protect American businesses from unfair competition is often used in ways that harm domestic industry for the benefit of those who contribute little to American economic output.

The Case for Reforming ITC Patent Practice

Patents were designed to promote progress in science and the useful arts, with established case law providing clear mechanisms for resolving disputes. However, in the wake of the Supreme Court's *eBay* decision limiting injunctive relief, the ITC has emerged as a more lucrative venue for patent disputes through its exclusion orders that can yield settlements exceeding the underlying patent's value.

The ITC's growing role as an alternative patent forum represents a marked departure from its original mission, creating parallel litigation that generates substantial duplicative costs. And the economic consequences of such forum shopping are significant and adverse for American industry and can disrupt supply chains, restrict consumer choice, and raise prices. While the Advancing America's Interests Act offers promising reforms through enhanced public interest consideration and stricter domestic industry requirements, the political economy of change remains challenging. Concentrated benefits to status quo beneficiaries—from NPEs to the patent bar—have created strong resistance to reform. Yet, without legislative or institutional reforms, the ITC will continue to serve as an attractive venue that often does more harm than good to American industry.

Ultimately, it is essential to align the agency's practices with those of the courts to ensure a consistent, harmonized approach to patent disputes. Otherwise, as seen today, section 337 will continue to impose significant costs on the U.S. economy, with substantial economic harms to consumers, American businesses, and overall economic growth. ■

Endnotes

1. Certain Wearable Elec. Devices with ECG Functionality & Components Thereof, No. 337-TA-1266 (USITC Dec. 22, 2022), https://www.usitc.gov/intellectual_property/exclusion_orders/337-ta-1266.pdf.

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3. Christopher T. Zirpoli, Cong. Rsch. Serv., IF12295, An Introduction to Section 337 Intellectual Property Litigation at the U.S. International Trade Commission (2024), https://crsreports.congress.gov/product/pdf/IF/IF12295.

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6. *About Section 337*, U.S. Int'l Trade Comm'n, https://www.usitc.gov/intellectual_property/about_section_337.htm (last visited Feb. 25, 2025).

7. Jorge L. Contreras, *Reconsidering the Patent Jurisdiction of the International Trade Commission* (Univ. of Utah Coll. of L., Research Paper No. 602, Nov. 25, 2024), https://ssrn.com/abstract=4840731.

8. Sapna Kumar, *The Other Patent Agency: Congressional Regulation of the ITC*, 61 Fla. L. Rev. 529 (2009), https://scholarship.law.ufl.edu/cgi/viewcontent.cgi?article=1672&context=flr.

9. 19 U.S.C. § 1337(d)–(f).

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Revisiting *eBay*

A Can of Worms

Image: Getty Images/Miravision

Brian Scarpelli and Priya Nair

Rapidly emerging technologies in an increasingly accessible world have caused U.S. legislators to reopen debates around the availability of injunctive relief for U.S. inventors who face the threat of patent infringement. In the United States, the grant of injunctive relief is subject to satisfying a four-factor proportionality test that has long been applied across all areas of the law. Almost two decades ago, the U.S. Supreme Court clarified that this test equally applied in patent disputes. While attempts to overturn this precedent have failed in the past, a proposal has been introduced before Congress that ignores the realities of the modern patent landscape and its role in supporting innovation.

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A Historical Look at the U.S. Patent System

The U.S. patent system encourages technological "innovation, advancement, [and] social benefit" by providing inventors the right to hold a temporary legal monopoly over their inventive claims.[1] Under the U.S. Patent Act, Congress has the power to grant inventors the right to exclude others from commercially making, using, distributing, importing, or selling their protected invention.[2] While a patent holder is allowed to choose the remedy that they want the court to enforce, the right to exclude has historically been limited to "actual damages" and subject to principles of equity.[3] Until the early 1800s, Congress intentionally omitted the power to assert equitable jurisdiction from federal courts in patent cases in line with the posture that courts should not wield undue power that is reminiscent of the old English Court of Chancery.[4] This was until 1819, when Congress allowed federal district courts to hold equitable jurisdiction in all patent cases.[5]

The U.S. Patent Act of 1952 retains federal court authority to apply both legal and equitable remedies.[6] This power was initially

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left up to the discretion of the federal courts that had a common practice of granting injunctive relief in patent disputes to align with the statute's express acknowledgment that a patent confers a "property right" to its owner.[7] This general rule could be seen as a narrow interpretation of the traditional four-factor test used in courts of equity to determine when a permanent injunction is appropriate. The patent landscape officially diverged from the traditional four-factor test in 1982, when the U.S. Court of Appeals for the Federal Circuit was established as an Article III court with specialized appellate jurisdiction over U.S. patent cases.[8] The Federal Circuit applied the general rule that injunctive relief was presumed following a finding of infringement and validity, absent a sound reason for denying such remedy.[9]

A Turning Point: The *eBay* Decision

The Federal Circuit's interpretation of equitable jurisdiction in patent cases lasted until 2006 with the Supreme Court decision in *eBay v. MercExchange*, where well-known e-commerce platform eBay, its wholly owned subsidiary Half.com, and related website ReturnBuy were sued for the infringement of business method patents related to the online sale of goods owned by an entity named MercExchange, which operated to hold patents assigned to it by inventor Thomas Woolston.[10] In the U.S. District Court for the Eastern District of Virginia, ReturnBuy settled and took a license with MercExchange, while eBay and Half.com were found liable for infringement; the court awarded MercExchange with $29.5 million in damages.[11] The district court denied injunctive relief under an evaluation of the traditional four-factor test.[12]

The Federal Circuit reversed, stating that denial of such relief is appropriate only in exceptional circumstances, which the Federal Circuit did not believe the district court sufficiently found.[13] The Supreme Court unanimously rejected the Federal Circuit's general rule for equitable relief in patent cases, stating that the four-factor test to determine the proper awarding of a permanent injunction similarly applies to disputes arising under the U.S. Patent Act.[14] The four-factor test requires a plaintiff seeking a permanent injunction to show that (1) the plaintiff has suffered an irreparable injury; (2) remedies available at law, including monetary remedies, are inadequate to compensate for that injury; (3) considering the balance of hardships between the parties, a remedy in equity is warranted; and (4) the public interest would not be disserved by a permanent injunction.[15] This framework importantly ensures that court-awarded remedies make the plaintiff whole rather than penalize the accused infringer, in line with the sentiments of the U.S. Patent Act.[16]

The Court noted that both the district court and Federal Circuit incorrectly interpreted traditional principles of equity. While the district court applied a broader interpretation than the principles would permit in any case, potentially leading to an erroneous denial of injunctive relief, the Federal Circuit's rigid test provided largely unchecked certainty of injunctive relief.[17]

Concurrences by Chief Justice John Roberts and Justice Anthony Kennedy added important clarification to the Court's opinion. Chief Justice Roberts stressed that the Federal Circuit's long history of granting injunctive relief upon the finding of infringement and validly does not justify it as a general rule, but it is instructive in applying the traditional four-factor test.[18] Justice Kennedy observed that the patent landscape has drastically altered, where some entities that exist to hold patents solely to obtain licensing fees would be enabled to threaten an injunction to pressure potential licensees into excessive fees.[19] Justice Kennedy noted that this scenario is significant where the patented invention is a small component of the licensee's product and legal damages may be sufficient to make the plaintiff whole, representing a better solution to serve the public interest.[20] Therefore, the Court determined that the flexibility provided under the traditional four-factor test both adheres to principles of equity adopted by Congress and accounts for an evolving patent landscape.

THE *EBAY* COURT DETERMINED THAT THE FLEXIBILITY PROVIDED UNDER THE TRADITIONAL FOUR-FACTOR TEST BOTH ADHERES TO PRINCIPLES OF EQUITY ADOPTED BY CONGRESS AND ACCOUNTS FOR AN EVOLVING PATENT LANDSCAPE.

eBay's Clarification of the Four-Factor Test Supports U.S. Innovation

Since *eBay*, disputes have erupted over whether the Supreme Court was correct in rejecting the Federal Circuit's general rule to presume injunctive relief, instead applying the traditional four-factor test in patent disputes, known as the *eBay* test. The Court in *eBay* noted that patents have "attributes of personal property," yet this is qualified with the U.S. Patent Act's express provision that injunctions "may" issue in accordance with the principles of equity and the Court's long-standing position to refrain from diverging from the same.[21]

Under the Supreme Court's clarified rule, practicing patent holders continue to receive injunctions at a similar rate as they did in pre-*eBay* decisions.[22] The shift in the landscape is rather felt by patent holders that a court determines are adequately compensated for their injury through monetary remedies. This is often the case where a patent holder's business model is predicated on receiving licenses for patents that are not practiced and, as Justice Kennedy noted in his concurrence, an injunction would be inappropriate. This business model is particularly harmful where a foreign entity is targeting American innovators, extracting revenue out of the U.S. economy and disincentivizing research and development (R&D) investments. One study points to the drop in injunctive relief grants after *eBay* as attributed to courts finding that often nonpracticing entities (NPEs) that operate to license and monetize their patents are sufficiently made whole through compensation, with an injunction grant rate dropping from 88.8% pre-*eBay* to 62.5% post-*eBay*.[23] This drop in injunctive relief is likely also attributable to a decrease in requests for injunctive relief by NPEs from 52.9% to 29.6%.[24] The decrease in requests for injunctive relief by NPEs can be starkly contrasted by practicing entity requests that merely dropped from 56.6% to 44.1%.[25]

One argument states that the Federal Circuit's previous interpretation of equitable jurisdiction in patent cases was the correct understanding of the U.S. Patent Act because it deterred infringement and enabled good faith negotiations that led to a fair market value for the use of a patent.[26] This position notes that infringers will subscribe to predatory infringement tactics that allow them to pay less than the cost of a fairly negotiated licensing fee, weakening the market value of a U.S. patent.[27] These fears have been expressed despite thin evidence that *eBay* has enabled increased infringement.[28] The Supreme Court has simply clarified that Congress did not intend for patent disputes to have a specific rule outside the traditional principles of equity, and, therefore, the four-factor test must apply as it does in all other cases.[29] *eBay* simply helps limit the ability of patent holders to use the threat of an injunction to extract royalties that greatly exceed the value of the patented invention at the cost of American innovation.[30]

The *eBay* decision has rebalanced the equities in a patent licensing negotiation to ensure that neither party receives undue leverage. Where monetary relief is an adequate remedy, the patentee is entitled to reasonable royalties "attributable to the use of its invention."[31] U.S. courts have been clear that a reasonable royalty should be assessed by apportioning the alleged infringer's profits and the patentee's damages between the patented feature and the unpatented features.[32] Particularly, the governing rule states that where multicomponent products are involved, the computation between the royalty base and the royalty rate must reflect the value of the infringing features of the product without capturing more.[33] Indeed, there are situations where regulatory mandates or industry standards leave industry participants little choice but to use a patented technology despite the existence of equivalent alternatives. In these cases, the cost of switching is not merely the cost associated with using another technology, but also the cost of obtaining new regulatory approvals or developing entirely new standards—both costs that have nothing to do with the claimed technology. These costs can be significant, which ultimately forces a company to infringe if it seeks to remain in the market.[34] In these situations and where a rights holder is ultimately seeking monetary compensation, a damages-based approach is more likely to lead to an outcome congruent with the long-standing jurisprudence regarding patent value and apportionment.[35]

If injunctive relief is presumed, the patent holder is enabled by law to use exclusionary conduct likely inconsistent with the societal goal of the mandate. Due to *eBay*, a patent court must examine factors, including whether "the public interest would not be disserved by a permanent injunction."[36] A presumption of injunctive relief would not anticipate where the government changes structures within the patent landscape due to unanticipated societal concerns, including health and safety risks.

Critics of *eBay* often cite studies indicating that injunctive relief was granted in most pre-*eBay* patent infringement disputes while a significant number of cases have been denied injunctive relief post-*eBay*.[37] This criticism is based on the unsupported premise that wide availability of injunctions is beneficial. Indeed, there is evidence that the converse is true. Where holdup practices are stronger, U.S. inventors have less of an incentive to invest significant resources into developing products that are likely to be targeted by monetization schemes enforcing older, broader, and potentially invalid patents. Indeed, empirical research has found that firms facing exposure to patent litigation have invested more in R&D since the *eBay* decision.[38]

Moreover, this criticism also suggests that *eBay* has left patent holders powerless, which is simply not true. While *eBay* helped provide some balance, there is still a significant power disparity that allows patent holders to profitably target small businesses with dubious assertions.[39] One recent example of this was revealed in a case between the State of Washington and "patent troll" Landmark Technology A, where internal litigation communications revealed bad faith licensing tactics. Washington has alleged that the defendant targeted 1,176 different companies across 18 months using an extremely broad (and questionably enforceable) patent, demanding $65,000 in license fees.[40] Even without a credible threat of an injunction, many of the targeted small companies across diverse industries ultimately settled to avoid costly litigation fees.[41]

Strong Patent Rights Do Not Require Automatic Injunctions

The United States has maintained its position as a leading innovator in the global economy since pre-*eBay* times.[42] U.S. leadership in intellectual property (IP) rights and protections is attributed to a variety of mechanisms, including the Patent Trial and Appeal Board (PTAB) and sector-specific rights and protections. The U.S. approach can and should be contrasted with other countries, such as the People's Republic of China, which is known for issuing the most patents in the world, yet has one of the weakest IP regimes globally.[43] Notably, China utilizes an "essential facilities doctrine" to require granting access to patents deemed essential (outside the standardization content) and employs ambiguous regulatory approval processes that enable the government to access IP and other data from market participants.[44] Unlike U.S. courts, Chinese courts grant permanent injunctions in about 90% of patent infringement cases.[45] Other countries like Brazil have a strong practice of granting preliminary injunctions, yet similarly have a weak IP system.[46] This evidence indicates that the strength

of an IP system is weighed in the balancing of existing IP rights and protections with developing and competing innovation, and the persistent awarding of injunctions in patent infringement disputes without first considering factors captured in *eBay* is a shared approach among countries with weak IP frameworks.

The *eBay* Test Provides for a Critical Balancing of Interests That Supports Innovation

Both predatory infringement and holdup tactics pose significant threats to the strength of a patent's market value. The *eBay* test enables a court to recognize a scope of concerns, leaving the award of injunction to practicing patent holders virtually unchanged, while significantly decreasing the grant of injunctions to NPEs.[47] This makes sense considering courts often find that monetary damages are appropriate to compensate NPEs for infringement since they prefer to monetize their patents through licensing rather than excluding competitors from relevant markets.[48] *eBay* has largely worked as the Court intended, with firms that had greater exposure to patent litigation before *eBay* obtaining more patents and increasing their investments in R&D of patentable claims after *eBay*.[49] This has led to a greater rate of balanced and appropriate outcomes for injunctive relief.

Persistent Attempts to Undo *eBay*

The Realizing Engineering, Science, and Technology Opportunities by Restoring Exclusive (RESTORE) Patent Rights Act of 2024 was introduced by Senators Chris Coons (D-DE) and Tom Cotton (R-AR), with a House companion bill introduced by Representatives Nathaniel Moran (R-TX) and Madeline Dean (D-PA).[50] The bill intends to turn back the clock before *eBay* revoked the presumption of injunctive relief for valid and infringed U.S. patents. This effort comes at a time where global threats to the strength of American innovation are heightened, leading to varying views on how equitable remedies can be used for and against good faith U.S. inventors.

This is not the first time that Congress has seen a bill like the RESTORE Patent Rights Act. The Support Technology and Research for Our Nation's Growth and Economic Resilience courts to presume that monetary damages were inadequate to compensate for patent infringement in contradiction with *eBay*.[51] This bill was introduced by Senator Coons but ultimately did not move forward. Reminiscent of 2019, the RESTORE Patent Rights Act is paired with other legislation that overrides judicial precedent clarifying the scope and enforcement rights of a patent and makes mechanisms established by Congress through the America Invents Act (AIA) inaccessible to stakeholders that it was primarily intended for, namely small businesses.[52] Thin evidence that *eBay* has harmed U.S. innovators continues to be the chief reason that these bills tend to come to a quick halt. Efforts to abrogate *eBay* have also faced significant criticism. Former Representative Trey Gowdy (R-SC) has explained that RESTORE will make it easier for "patent trolls to pursue frivolous cases, leaving American companies no choice but to accept unfair settlements."[53]

Navigating the Modern Patent Landscape

Congressional intent is not always clear, but historical context provides significant clues into how the U.S. Patent Act was intended to be read. Against this backdrop, one must consider the goal of the patent landscape "to promote the progress of science and useful arts" and wonder what threatens this goal. Does the Supreme Court's four-factor test to evaluate injunctive relief invite external threats and devalue the U.S. patent, or has it enabled courts to anticipate evolving innovation streams and the use of patents to support them? The world is increasingly more connected, providing foreign entities with greater access to the U.S. patent system. The importance of a landscape that both approaches and anticipates global threats is a core solution to promoting resilient patents. After almost two decades, we wait to see if Congress will close the chapter on *eBay*. ■

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The Case for the Patent Trial and Appeal Board That Congress Envisioned

Image: Getty Images/Cheunghyo

Bob Goodlatte

Over 26 years in the U.S. House, including three terms as chair of the House Judiciary Committee, I had the opportunity to work on issues of grave importance to America's national security, global competitiveness, and economic development.

No single issue traversed those three areas quite like intellectual property (IP). America's IP system forms the foundation upon which our economy is built. Patents give their holders a monopoly over the ability to manufacture and commercialize a product, providing a strong incentive to innovate and develop new technological breakthroughs that improve all of our lives and lead to greater economic prosperity.

IP rights are so foundational to a free and fair economy that they are specifically addressed in our Constitution. Article I, Section 8, Clause 8 grants Congress the power "to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

When the system is working as it should, the U.S. Patent and Trademark Office (USPTO) rewards innovation by only granting patents for inventions that are novel, nonobvious, and useful—the patent eligibility standards described in the Patent Act.[1] But whether it is due to occasional human error, time constraints, or limited agency resources, examiners at the USPTO sometimes grant patents for "inventions" that do not meet these baseline requirements.

Patent Reform

Estimates on the exact number of bad patents in circulation vary. During debate on the bipartisan America Invents Act (AIA), legislation Congress passed in 2011 to rein in bad patents and modernize our IP system, Representative Zoe Lofgren (D-CA) cited USPTO figures that, over the preceding 12 years, nine out of 10 reexaminations at the agency "resulted in invalidation of at least one claim of the patent that was being challenged."[2] A 2019 study, released eight years after the AIA became law, still found

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that "asserted patents are at least partially invalidated about 40 percent of the time when validity is litigated."[3]

Last year, a report on patent quality in the U.S.—one that was *funded* by an organization that is seeking to undermine reforms Congress made when it passed the bipartisan AIA—even noted that between 2017 and 2023, "7–8% of patent applications that have been granted a patent contain at least one claim that should have been rejected."[4] Perhaps because of its funders, that report does not advocate for more robust patent quality checks after patents are issued. If one considers, however, that the USPTO grants more than 350,000 patents each year,[5] this means that—at a minimum—there are as many as 200,000 invalid patents still in force that were granted between 2017 and 2023 alone (not to mention the many invalid patents in force that were granted before 2017).

There is a strong public interest in having erroneously granted patents adjudicated and invalidated. When an unjust monopoly is granted in the form of an invalid patent, this does not "promote the progress of science and useful arts." In fact, it does the opposite. These monopolies improperly block competition and innovation, while creating greater opportunity for waste and abuse.

As all who have worked in government know, there are times when things fall out of alignment. It's then that Congress has a responsibility to step in, make reforms, and ensure our country's IP system rewards innovators and cracks down on bad actors.

That's why, in 2011, I worked with colleagues on both sides of the aisle to craft the AIA, which made the largest reforms to our patent system in a half century. The AIA modernized the U.S. patent system by moving from a first-to-invent to a first-inventor-to-file application and grant process, and the law took clear steps to alleviate the issues caused by improperly granted patents.

In particular, in passing the AIA, Congress recognized the need to address the increasingly common phenomenon of nonpracticing entities (NPEs) leveraging improperly granted patents in lawsuits. Sometimes referred to as patent trolls, NPEs' business model centers around litigation. NPEs frequently amass large patent portfolios but do not use those patents to develop and sell products or make new technological breakthroughs. Instead, they exclusively use their patents to litigate and extract payments from legitimate businesses. Patents of questionable validity, which are not being actively commercialized, are favorites of NPEs. They are easier and cheaper to acquire, and the broader and more nonspecific a patent is, the more products an NPE can claim that it applies to. When Congress passed the AIA, NPEs were responsible for more than 60% of all patent lawsuits in the U.S., costing legitimate businesses a staggering $29 billion annually, not including indirect costs like lost shareholder value.[6]

Among the AIA's core tenets was providing relief for entrepreneurs and businesses of all sizes that found themselves on the receiving end of an abusive patent infringement claim filed by an NPE. For many small and midsized companies, the costs of defending themselves through litigation were out of reach, forcing them to settle lawsuits brought by NPEs, even when they had not infringed because the NPE's underlying patent was invalid. For well-resourced businesses, defending against NPEs still presents a massive financial burden with no productive outcome, and it can delay new products coming to market.

THE AIA REPRESENTED HOW OUR GOVERNMENT SHOULD WORK FOR THE PEOPLE IT SERVES—WITH LAWMAKERS FROM BOTH PARTIES COMING TOGETHER TO FIND COMMON GROUND AND ADDRESS A SERIOUS CHALLENGE THAT IMPACTED ALL OF US.

NPEs were driving costs for productive businesses and consumers, while also stunting innovation in communities large and small all across America. So the AIA established a new process at the USPTO—inter partes review (IPR)—where any member of the public could petition expert judges serving on the Patent Trial and Appeal Board (PTAB) to review, and invalidate if appropriate, patents that the petitioner could show have a "reasonable likelihood" of being invalid.[7] This new system:

- streamlined the process for invalidating a bad patent;
- served as a less costly alternative to litigation; and
- brought much-needed stability and consistency to patent disputes, with expert judges making determinations in extremely complex matters, as opposed to lay juries trying to sort through the intricacies of patent law.

With the PTAB, targets of NPE lawsuits—in addition to the many other participants in the economy who have an interest in ensuring consistent patent quality standards—were given an alternative to the litigate-or-settle bind that gave NPEs leverage to extract payments.

Overwhelming bipartisan majorities in both chambers of Congress voted to pass the AIA (304–117 in the House, 89–9 in the Senate), and President Obama swiftly signed it into law.

The new law represented how our government should work for the people it serves—with lawmakers from both parties coming together to find common ground and address a serious challenge that impacted all of us.

PTAB Works

More than a decade later, we now have enough empirical evidence to show that—with few exceptions—the PTAB has worked as Congress intended. It creates greater economic opportunity, it is more efficient than litigation, and its determinations are accurate and reliable. Consequently, it is critical now that we take steps to protect PTAB access as new challenges emerge.

The PTAB has been especially beneficial for the manufacturers who make up the backbone of America's economy and who are attractive targets for NPEs because their operations and products often depend on complex technology. One analysis found that, from 2014 until 2019, "cost savings associated with the AIA/PTAB led to an increase in US business activity of $2.95 billion in gross product, $1.41 billion in personal income, and nearly 13,500 job-years of employment (including multiplier effects)."[8] The same study found that the PTAB benefits the manufacturing sector the most, creating $1.41 billion in gross product and just under 5,100 job-years in employment.[9]

We also know that the PTAB is more efficient than litigation. Costs are lower, disputes take less time to resolve, and the determinations are accurate and reliable. The price tag for an IPR (from petition to written decision) comes in at about $324,000, compared to the $1–$2 million cost of fighting a patent infringement claim in the courts.[10] Over a five-year period, in fact, other analysis found that the PTAB saved plaintiffs and defendants a combined $2.31 billion.[11]

The PTAB's efficiency is especially beneficial to small businesses, many of whom do not have the resources they need to defend themselves against abusive litigation. Rather than paying a troll a settlement to go away, mom-and-pop operations are able to petition the PTAB to invalidate the bad patents being asserted against them, which allows small companies to continue doing what they do best in strengthening our communities.

Furthermore, the PTAB is capable of moving much more quickly for all parties involved. The panel has six months to decide whether to institute a review after a petition is filed.[12] It then has 12 additional months to issue a written decision, meaning the entire process takes 18 months at most. On the other hand, the top patent courts in the country—the Western and Eastern Districts of Texas and the District of Delaware—take on average anywhere from 28 months to 38 months to resolve a dispute. Posttrial activities mean that the issuance of a final ruling in court can take even longer than that.[13]

What's more, we find further evidence of the PTAB's efficiency and effectiveness in the rate at which its rulings are upheld. As Joe Matal, former acting director of the USPTO, put it when testifying before the U.S. Senate's IP Subcommittee in 2023: "Indeed, according to the data, district courts are almost two and a half times more likely to be reversed on appeal when deciding patent validity issues than is the PTAB."[14]

In May 2024, the Congressional Research Service—Congress's official nonpartisan research institute—found that "the Federal Circuit reverses district courts on patent validity issues at a higher rate (12.1% reversal rate) than it does PTAB decisions (4.8% reversal rate)."[15] A separate analysis found that last year alone, the Federal Circuit affirmed PTAB decisions more than 83% of the time.[16]

A Step in the Wrong Direction

Even with these overarching successes, the AIA and the PTAB could have been even more effective over the past decade if not for changes made under prior USPTO leadership that restricted access to the agency's review and enabled aggressive forum shopping practices.

The so-called "*NHK-Fintiv* rule" was made precedential by the USPTO in 2020.[17] It outlined six factors, not included in the statute, for the PTAB to use in determining whether to discretionarily deny a petition for review. Most significantly, under *Fintiv*, meritorious petitions for review are denied if parallel proceedings are underway. In other words, if an NPE has already initiated a lawsuit, the defendant can no longer successfully request validity review by the PTAB. *Fintiv*, which was advanced in the name of greater efficiency, turns congressional intent on its head. District court litigation should be stayed pending the more efficient, reliable PTAB review, not the other way around. Due to *Fintiv*, many petitioners have been denied review in the instances where it was most urgently needed.

Partially as a result of *Fintiv*, some judicial districts—most notably, the Waco division of the Western District of Texas (WDTX)—soon emerged as hotbeds for patent lawsuit forum shopping.[18] In single-judge divisions like Waco, NPE plaintiffs could know with certainty the judge they would be assigned. An imbalance emerged when plaintiffs also believed that a certain judge could give them an edge, and certain judges engaged in active recruiting of cases to their division.[19] Waco became known for its rocket docket.[20] Cases were scheduled on unrealistically fast timelines, and the existence of a parallel proceeding allowed plaintiffs to escape PTAB review of their patents under *Fintiv*. Delays inevitably ensued.

Beginning in 2020, the WDTX overtook the District of Delaware as the country's most popular destination for filing patent cases,[21] with one out of every four patent cases *in the entire United States* filed before a specific judge in Waco.[22] NPEs were responsible for 85% of the increase in cases filed in the WDTX.[23]

By the end of 2021, the problem became so bad that in his year-end report on the federal judiciary, Chief Justice Roberts asked the Judicial Conference to address patent litigation forum shopping. Some progress has been made on that front.[24] In July 2022, the then-chief judge in the WDTX, Orlando Garcia, ordered that patent cases filed in Waco would be randomly assigned throughout the WDTX.[25] Then, in March 2024, the conference issued measures to address so-called "judge shopping."[26]

Fintiv, which was implemented outside the normal agency rulemaking process, in combination with aggressive NPE forum shopping undermined the clear congressional intent in the AIA—namely, that IPR should serve as a more efficient *alternative* to litigation, not be cast aside in favor of more litigation.

More Danger on the Horizon

Although there has been some progress in turning back the harm

Fintiv causes, it is alarming that a few lawmakers in Congress now want to further undermine the AIA and PTAB by making it less accessible for those in need of the relief it can provide, while also advancing separate proposals that would benefit NPEs.

The Promoting and Respecting Economically Vital American Innovation Leadership (PREVAIL) Act would impose new standing requirements for a petitioner to access the PTAB, dramatically reducing who is able to request review of patents.[27] Many NPEs target entire industries—threatening dozens or hundreds of individual companies with litigation—based on commonly used technology such as Wi-Fi. In these cases, trade associations and other membership organizations can pool their resources to defend against these patents. Denying these groups standing before the PTAB would mark a major step backward.

The PREVAIL Act would also raise the standards for evidence from a "preponderance" to a "clear and convincing" standard, forcing the PTAB to let stand many bad patents that they are able to invalidate under current law. Lastly, the bill effectively codifies *Fintiv*, marking a major step in the wrong direction for all who see the PTAB as a better alternative to defending against meritless infringement cases in the courts. The evidence shows that when the PTAB is accessible, it works. The PREVAIL Act would be a costly "own goal" that reduces the efficacy of the PTAB.

There are also proposals pending in Congress right now that, while not directly related to the PTAB, would drag the U.S. patent system backward and embolden NPEs by increasing the availability of vague, abstract patents and putting NPEs in a stronger position as they advance meritless patent infringement accusations.

The Patent Eligibility Restoration Act (PERA), for example, would overturn U.S. Supreme Court case law and dramatically lower the standard for what ideas are allowed to be patented, meaning that even more abstract, low-quality patents will flood into the economy, giving NPEs even more ammunition for their abusive litigation campaigns.[28] Patents are supposed to be limited to legitimate technological advances, but PERA would upend this system and eliminate the guardrails that are in place to protect what types of patents the USPTO can issue. One observer has noted that "PERA would take the radical step of authorizing patents on products of nature, natural laws, and abstract ideas for the first time in our country's history."[29]

In essence, more patents that do not cover a legitimate invention would become available under PERA for bad actors to weaponize against innovators. These could include natural phenomena or even the simple idea of running a type of business. As a result, the challenges that companies face today fending off abusive patent litigation would multiply and costs for defending against lawsuits would grow, leaving fewer resources available for research and development, creating jobs, and expanding operations.

Eroding PTAB review while also advancing proposals that will embolden the worst actors in the patent system is sure to be a costly combination for the U.S. economy.

What the Federal Government Should Do Now

Instead of these ill-advised efforts, Congress and the USPTO should instead focus on ensuring that the PTAB works as intended, mainly by striking *Fintiv* completely. This is especially important given the rise of the third-party litigation financing (TPLF) industry that allows hedge funds, foreign sovereign wealth funds, and shell companies to invest in patent infringement lawsuits in the hopes of realizing a return on their investment.

We don't yet have a full picture of the TPLF industry because there are no universal disclosure requirements in civil courts for outside investors. But what we do know should startle us all. TPLF is estimated to now bankroll one-fourth of all patent lawsuits, at minimum, with investment incentivized by the potential for massive damages awards and murky NPE arrangements that can shield investors from negative consequences.[30]

THIRD-PARTY LITIGATION FINANCING IS ESTIMATED TO NOW BANKROLL ONE-FOURTH OF ALL PATENT LAWSUITS.

The threat that undisclosed litigation funding presents is real. A *Bloomberg Law* report recently uncovered that Russian oligarchs are evading sanctions by investing in nonpatent lawsuits in American courts.[31] In the District of Delaware, one of the few jurisdictions that does require disclosure, it was revealed that a Chinese entity was investing in patent lawsuits in U.S. courts against tech companies.[32]

Delaware's model, requiring disclosure for third-party investors in lawsuits, should be the standard for all our courts. But even in the absence of universal disclosure requirements, it reinforces the PTAB's importance. Companies targeted by investor-backed NPEs on the basis of old, wrongfully granted patents should be able to go to the PTAB to quickly invalidate the patent and then get back to the important work of creating jobs, growing our economy, and generating new technological breakthroughs.

That's why it's so important that *Fintiv* be repealed in its entirety, and for proposals to weaken the PTAB to be set aside. It is critical that we get this right in order to ensure that the PTAB can do its job, as Congress intended, enhancing patent quality and serving as a check on bad actors attempting to manipulate our courts and patent system.

More than a dozen years since the PTAB was established, we can state with confidence that it is working. It has offered relief to companies targeted with litigation, lowered costs, and expanded economic benefits. We should continue to protect the AIA and

the PTAB, crack down on threats to our innovation economy, and reject efforts by those who would reverse the progress we have made. ■

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