THE COALITION FOR 21ST CENTURY PATENT REFORM

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JOINDER OF INTERESTED PARTIES

Both S. 1013, the ñPatent Abuse Reduction Act of 2013ò and H.R. 3309, the ñInnovation Actò would amend 35 U.S.C. § 299 to add new subsection 299(d), requiring courts in any civil action arising under the patent laws to grant a motion by a party defending an infringement action to join an ñinterested partyò to the case if the party alleging infringement has no substantial interest in the patent(s)-in-suit other than litigation ï i.e., the patent owner is a so-called patent assertion entity. A joinder motion could be denied, however, if the party sought to be joined is not subject to service of process in the action or if joinder would deprive the court of subject matter jurisdiction or make venue improper. S. 1720, the ñPatent Transparency and Improvements Act of 2013,ò does not contain a provision on joinder.

The 21C questions whether such a joinder provision will function as intended. In particular, we have concerns with the inclusion of persons who have a ñdirect financial interestò in the patent or patents at issue as ñinterested partiesò (as provided in both S. 1013 and H.R. 3309). We also question whether the provision will achieve its objective of adding the parent companies of shell patent plaintiffs or litigation funders as parties to patent infringement cases. The 21C believes that more effective mechanisms exist for achieving that purpose.

The listing of certain categories of persons who may be joined ï assignees and persons with the right to enforce or sublicense the patent ï are relatively noncontroversial. For the most part, such persons must be joined as plaintiffs in patent infringement actions for standing purposes under existing law.

However, the listing of persons with a ñdirect financial interestò in a patent-in-suit as persons who may be joined raises several concerns. First, the language "direct financial interestò is ambiguous. For example, would this include persons or entities who might stand to benefit from a successful patent infringement action, but who are not so-called "third party litigation funders" who would receive a share of a damages award or who control the conduct of the litigation?

The exception from the definition of an interested party in H.R. 3309 (which would exclude from joinder ña person whose sole financial interest in the patent at issue is ownership of an equity interest in the party alleging infringement, unless such person has the right or ability to influence, direct or control the civil actionò) would alleviate some, but not all, of our concerns. We still question, however, whether this language would permit joinder of parent companies, or shareholders, of a named plaintiff, since it could be alleged that such persons have at least the ability to ñinfluenceò the civil action. If joinder is to be retained, this exception should be tightened to clarify that the joinder provision would only reach those persons who have the right to receive proceeds from an award of damages or settlement of the action. We believe that such tightening would better reflect the intent underlying the provision to join only those persons with a right to share in the proceeds of the litigation.

More fundamentally, the 21C questions whether joinder is the appropriate mechanism to ensure that an attorneys' fees award is a meaningful deterrent to abusive litigation tactics. We acknowledge that a fee-shifting provision without the ability to assess fee awards against certain third parties may not be effective in deterring litigation misconduct, because litigation funders could bring suits in the name of shell corporations that lack adequate funds to satisfy a fee award. Thus, we recognize that fee-shifting needs to reach beyond the nominal plaintiff.

The problem with joinder, however, is that it is likely to engender collateral disputes over the question of whether joinder is proper at the outset of many patent cases, even those in which a fee award is ultimately not an issue. Such collateral disputes risk delaying and unduly complicating the resolution of patent disputes generally. Equally problematic are the questions of jurisdiction and venue over the parties sought to be joined. Both S. 1013 and H.R. 3309 provide that joinder may be denied where the interested party is not subject to service or process, or where joinder would deprive the court of personal jurisdiction over the parties or make venue improper. This exception creates a risk that nominal plaintiffs who are shell companies lacking the resources to satisfy fee awards will bring suits in courts where their nonparty owners or litigation funders are not subject to jurisdiction, thus defeating the intended purpose of the joinder provision.

In our view, a better approach would be to extend contingent liability for satisfaction of a fee award to certain non-parties related to a losing party against whom fees have been assessed ï specifically, to any person with a direct financial right to share in damage awards or settlement proceeds from the action. Such contingent liability would be triggered when the named party against whom the fees have been assessed is unable to pay the awarded fees. Notice would be given to any third party with a financial interest in a patent when that patent has been asserted in litigation. The notice would inform the third party that the patent is being litigated and would allow the third party to protect itself against any liability by renouncing its right to receive proceeds from an award of damages or settlement of the action. This would ensure that such third parties would be fairly treated and be guaranteed due process.

This approach would extend contingent liability for fee awards to certain third parties without generating fights over bonding or joinder at the outset of patent cases. In addition, this approach would not be subject to circumvention by a plaintiff bringing suit in a court lacking personal jurisdiction over the third party. It might, in some cases, require collateral litigation to collect the fee award at the conclusion of the patent infringement action, but only in that subset of cases in which 1) fees are actually awarded following adjudication on the merits, 2) the nominal plaintiff is unable to pay, and 3) the third party refuses to pay voluntarily.

To ensure that the reach of this contingent fee liability proposal is properly limited, it could be made clear in the legislation or its legislative history that it would not reach to non-parties who are not the real-party-in interest, who are not in privity with a party to the action, and who would benefit only indirectly from a favorable litigation outcome. It would not encompass, for example, patent owners who have exclusively licensed their patents to the plaintiff, with the only interest in the litigation being the possibility of increased royalties if successful litigation allows the licensee to expand its revenue. Rather, it would extend only to those third-parties who own a stake in the proceeds from the litigation. The 21C believes that such an approach would directly address any concern that fee-shifting might be ineffective because patent owners would bring suits in the name of shell corporations that lack adequate funds to satisfy a fee award. It would be both more efficient, and more effective, than would the joinder of interested parties approach currently proposed in the Innovation Act.