

H.R. 845, the “SHIELD Act¹”

The 21st Century Coalition for Patent Reform believes that H.R. 845, the “Shield Act,” while well-intentioned, misses the mark because it focuses on the litigant and not litigation abuse that should be discouraged. The focus of fee-shifting should be on curbing litigation abuse, rather than on deterring meritorious suits by non-practicing entities (NPEs) who have not commercialized their patents.

Some of our best and most productive inventors do not manufacture or market their own inventions. Among these are America’s independent inventors, university and government based inventors, and many small businesses and start-ups. NPEs serve as important sources of technology that are, or become components of, innovations that are developed and brought to market by others, including many of the members of the 21st Century Coalition.

The assertion of non-meritorious litigation positions has always been a part of patent litigation, but this conduct is not limited to NPE patentee plaintiffs. Such assertions should be no more acceptable by an accused infringer than by a patent owner, and no more acceptable by a practicing patent owner than by an NPE. If applied in a balanced, principled manner, targeting misbehavior on the part of any litigant, however, fee shifting can encourage meritorious litigation behavior and can discourage litigation abuse.

Currently, section 285 of the patent statute provides that a court may, in exceptional cases, award reasonable attorney fees to the prevailing party. Admittedly, section 285 has been invoked too rarely to serve as an effective deterrent against litigants who seek to assert specious positions – both questionable assertions of infringement and questionable infringement defenses.

However, rather than authorizing a court to award reasonable attorney fees to either party if it found exceptional circumstances, H.R. 845 would mandate that only certain types of patent owners pay full costs to an accused infringer asserting invalidity or noninfringement. By targeting only certain types of patent owners who lose infringement cases, H.R. 845 tilts the playing field against patent owners, making it riskier for them to assert their patents even when their infringement allegations are well-founded.

It must also be recognized that much has already been done to address the issue of litigation abuse in patent cases. The public debate that followed the 2004 recommendations of the National Academy of Sciences laid the foundation for a number of actions by both the Congress and the courts to counteract abusive patent litigation. The Leahy-Smith America Invents Act (“AIA”)² included many provisions designed to lessen the opportunity for abusive patent litigation conduct by:

- making the criteria for patentability more objective and transparent by eliminating subjective tests for patentability in favor of determining patentability on the basis publicly available information.;

¹ Saving High-tech Innovators from Egregious Legal Disputes Act of 2013, H.R. 845, 113th Cong., 1st Sess.

² Pub. L. No. 112–29.

- significantly increasing the resources available to the USPTO to examine patent applications;
- allowing the public to submit information to assist in the patent examination process;
- creating several new post-grant procedures that allow members of the public, including those who are being sued for infringement, to promptly challenge a patent before a panel of APJs; and,
- precluding patent plaintiffs from indiscriminately joining unrelated parties in a single law suit.

The Act also tasked GAO to study the consequences of patent litigation by NPEs and report its findings to Congress along with any recommendations to minimize the impact of such litigation. GAO's report is expected soon and should be thoroughly analyzed before additional legislative steps are taken.

Congress also addressed patent litigation concerns by passing a pilot patent courts bill establishing a ten year program to test the concept that patent cases can be better and more efficiently handled, and abuses deterred, if they are handled by district court judges who specialize in managing and deciding them. This initiative is now being implemented, and is already yielding fruit in the form of a number of proposals for courts to limit the amount and cost of discovery in patent cases and to actively manage them to deter and/or punish litigation abuse.

The courts have also been very active in curbing problematic patent issues:

- the Supreme Court restricted the availability of patent injunctions in *eBay*,³ rejecting the Federal Circuit's rule of a near automatic grant of injunctive relief in patent cases and calling instead for the determination to grant an injunction to be based on the "principles of equity."
- the Supreme Court has tightened the rules for determining the validity of problematic method claims in the context of patentable subject matter under 35 U.S.C. Section 101.⁴
- the Federal Circuit is poised to directly address *en banc* what is required in software claims to properly qualify as patentable subject matter under section 101.⁵
- the Federal Circuit has also addressed over-breadth of claims by reaffirming that the patent laws in fact require a fully enabling written description of an invention⁶ and by ensuring that functional language in such patent claims finds adequate structure in the specification for performing the claimed function.⁷
- the Federal Circuit also employed the extraordinary remedy of issuing writs of mandamus to prevent litigants from abusing the permissive venue provisions by filing patent litigation in venues that have no reasonable connection to the parties and evidence.⁸

More could be done. The 21st Century Coalition has supported amending 35 U.S.C § 285 to require fee awards to prevailing parties, plaintiff or defendant, unless the court makes a finding that the

³ 547 U.S. 388

⁴ *Bilski v. Kappos*, 130 S.Ct. 3218 (2010).

⁵ *CLS Bank v. Alice Corp.*, No. 2011-1301 (Fed. Cir. 2013). Oral argument in *CLS* is scheduled for April 15, 2013.

⁶ *Ariad Pharmaceuticals, Inc. v. Eli Lilly and Company*, 598 F.3d. 1336 (Fed. Cir. 2010) (en banc).

⁷ *Function Media, LLC v. Google, Inc.*, No. 2012-1020, slip op. at 9 (Fed. Cir. Feb. 13, 2013).

⁸ See, e.g., *In re Microsoft Corp.*, 630 F.3d 1361 (Fed. Cir. 2011); *In re Acer America Corp.*, 626 F.3d 1252 (Fed. Cir. 2010); *In re Zimmer Holdings, Inc.*, 609 F.3d 1378 (Fed. Cir. 2010); *In re Nintendo Corp.*, 589 F.3d. 1194 (Fed. Cir. 2009); *In re Genentech*, 566 F.3d 1338 (Fed. Cir. 2009); *In re Hoffman-LaRoche Inc.*, 587 F.3d 1333 (Fed. Cir. 2009); *In re TS Tech USA Corp.*, 551 F.3d 1315 (Fed. Cir. 2008).

losing party's position was "substantially justified" or that "special circumstances" make such award "unjust."⁹

In addition, both Chairman Goodlatte in Section 5 of his May 23, 2013 "Discussion Draft" and the Obama Administration in its June 4, 2013 "White House Task Force on High-Tech Patent Issues" paper have also proposed allowing manufacturers to intervene in actions against consumers and end users. Both proposals would also give customers and end users the right to stay patent infringement actions against them pending the outcome of an action between the patent owner and the manufacturer of the accused product or process. With certain amendments and other clarifications (see <http://www.patentsmatter.com/issue/113Congress.php>), the 21C would support Section 5 of the Discussion Draft, but cannot comment on the Task Force proposal in the absence of seeing specific language.

We must also not lose sight of other issues that surfaced since enactment of the AIA. The inadvertent application of an estoppel precluding a member of the public from raising in later infringement litigation any issue that "reasonably could have been raised" during the nine-month post-grant proceeding could frustrate the intent of Congress that the procedure be used as an early check on the quality of recently issued patents.¹⁰

Also, the proposal of the USPTO to give claims their "broadest reasonable interpretation" in post-grant proceedings under the AIA would likewise frustrate the intent of Congress that these proceedings serve as a quick and cost-effective alternative to litigation to ensure that patents granted by the USPTO will stand up in court.¹¹

Regarding the litigation reforms that are the purported target of the SHIELD Act, however, we believe Congress should proceed cautiously, closely monitoring the actions that have been taken and that are in the process of being implemented. To further modify the system at this time without fully considering the possible unintended consequences would make reliable patent enforcement substantially less certain and risk chilling innovation. The 21st Century Coalition is committed to working with Congress and all stakeholders to find fair and balanced solutions.

The Coalition has approximately 50 members from 18 diverse industry sectors and includes many of the nation's leading manufacturers and researchers. The Coalition's Steering Committee includes 3M, Caterpillar, General Electric, Johnson & Johnson, Eli Lilly and Procter & Gamble. Visit <http://www.patentsmatter.com> for more information.

⁹ See Statement of Philip S. Johnson, "Abusive Patent Litigation: The Impact on American Innovation & Jobs, and Potential Solutions," before the House Judiciary Subcommittee on Courts, Intellectual Property and the Internet (available at <http://www.patentsmatter.com/docs/Johnson%20House%20Statement%203-14-13-c.pdf>).

¹⁰ See Reasonably Could Have Raised Estoppel: A Technical Error That Should Be Corrected, available at <http://www.patentsmatter.com/issue/pdfs/RCHR%20Estoppel%20Paper%2012-30-2012.pdf> and Why RCHR Estoppel Should Not Apply to PGR, available at <http://www.patentsmatter.com/issue/pdfs/Why%20RCHR%20Estoppel%20Should%20Not%20Apply%20to%20PGR.pdf>.

¹¹ See Why The PTO's Proposed Use of the Broadest Reasonable Interpretation of Patent Claims in Post-Grant and Inter Partes Reviews Is Inappropriate Under the America Invents Act, available at http://www.patentsmatter.com/issue/pdfs/Why_the_PTOs_Proposed_Use_of_BRI_is_Inappropriate_19July2012.pdf.