



Report on Patent Reform in the 113th Congress

Background

The Coalition for 21st Century Patent Reform (the 21C) was instrumental in translating the recommendations of the National Academies of Sciences' report, *A Patent System for the 21st Century*, into a comprehensive and cohesive legislative package of reforms that culminated in passage of the Leahy-Smith America Invents Act (AIA) in 2011. The AIA represented the most comprehensive overhaul of the nation's patent laws since at least 1952. Following passage of the AIA, the 21C has been working closely with other stakeholders and the United States Patent and Trademark Office (USPTO) to fully implement the AIA's reforms.

However, that job is not finished. As with every major piece of legislation, issues have arisen in connection with its implementation, and ensuing circumstances have demonstrated that additional legislative fixes may be needed to carry out the intended purposes of the AIA. Principal among these was the USPTO's unprecedented decision to interpret patent claims more broadly in USPTO post-grant and inter-partes review proceedings than they would be in the courts – a decision that injects unpredictability into these reviews while often prejudicing its participants. As a result, PGR and IPR proceedings have not been instituted sparingly, but have mushroomed beyond expectations, as the USPTO's "broadest-reasonable-interpretation" approach has swamped the intentionally higher institution standards that were written into the AIA.

In addition, ensuing developments since the passage of the AIA showed that more legislation was needed to address other IP-related problems. Among these were proposals to target certain widely-publicized, abusive patent enforcement practices. Such practices, which capitalize upon the *in terrorem* effects of bad faith patent assertions to coerce payments from innocent consumers, have no place in a properly-functioning patent system. These practices do not promote American innovation, the interests of the public, or the vast majority of patent holders in this country. This is why the 21C remained actively engaged in the legislative efforts to curb these abusive practices, while at the same time working to ensure that such remedial legislation would not impinge upon the rights of patent owners who wish to continue to license, assert and litigate their patents in good faith.

Legislation to address these outstanding issues was introduced in both the House and the Senate beginning in 2013 and continuing through the spring of 2014, along with a number of other changes sought by various stakeholders. Patent reform legislation began in the House, where Judiciary Committee Chairman Bob Goodlatte published two discussion drafts leading to the introduction of H.R. 3309, the "Innovation Act," on October 23rd. The 21C worked constructively with Chairman Goodlatte and other members of the Committee to identify problematic provisions in the successive versions of this legislation and to suggest improvements as it progressed through the Committee to its passage by the House in early December. The legislation that passed the House contained a requirement that the USPTO construe claims in IPR & PGR proceedings as they are in the courts, as well as certain other provisions that unfortunately needed further improvement to ensure that its reforms to patent infringement litigation practices would not unduly weaken the ability of patent owners acting in good faith to enforce their patents against infringers. Accordingly, the 21C indicated that it would seek changes to some of the House-passed provisions in the Senate to ensure this balance was achieved.

On November 18, 2013, Senator Patrick Leahy, Chairman of the Senate Judiciary Committee, introduced a “companion,” although narrower, patent reform measure, S. 1720. Again, the 21C worked constructively with Chairman Leahy and the other members of the Committee in the development of S. 1720 and presented detailed testimony on this measure on December 17. As with our efforts in the House, the 21C highlighted issues and offered suggestions for accomplishing the goals of the legislation while minimizing any unintended or adverse consequences.

Although consensus legislation is not expected to be realized in the 113th Congress, the dialogue among diverse stakeholder groups was constructive. With more work, we still believe it should be possible to arrive at legislative solutions that will balance the interests of all stakeholders – preserving the value of patent rights by preserving their enforceability, while providing real and meaningful relief to the targets of abusive patent enforcement practices. The 21C will work with the 114th Congress to continue the dialogue that has taken place during this Congress.

At the same time, we will urge Congress to continue to resist calls by narrow interest groups for reform that does not enjoy widespread support. We will emphasize that the patent laws should serve to promote innovation by all segments of our economy, and must not become a means for picking winners and losers among industries or business models.

A summary of the specific reform proposals in the 113th Congress and the positions the 21C took with respect to them, are set forth below.

Specific Patent Reform Proposals in the 113th Congress

Permanent Funding for the USPTO – H.R. 3349 (Conyers) and S. 2146 (Feinstein) would create a “United States Patent and Trademark Office Public Enterprise Fund” into which fees paid by patent and trademark applicants would be deposited and available for use by the Director without fiscal year limitation to provide the services for which the fees were paid.

The 21C strongly supported full funding for the USPTO.

Bad-Faith Demand Letters – Violation of FTC Act – S. 1720 (Leahy), S. 2049, (McCaskill), and H.R. ____ (Terry) would make the bad faith sending of demand letters, representing that the recipients have or may be infringing a patent and owe compensation, an unfair or deceptive practice under the Federal Trade Commission Act.

The 21C supported tailored legislation providing the FTC with the authority to target the sending of bad-faith patent demand letters and pre-empting state laws specifically relating to communications involving the assertion of patent rights.

Heightened Pleading Requirements – H.R. 3309 (Goodlatte), H.R. 2639 (Jeffries/Farenthold), and S. 1013 (Cornyn) would generally require any pleading alleging patent infringement to include, *inter alia*, an identification of: each patent and each claim allegedly infringed; each accused instrumentality, including its name or model number; an explanation of all theories of infringement; an identification of the right of the party alleging infringement to assert the patent(s)-in-suit; a description of the principal business of the party alleging infringement; a list of prior litigation involving the patent(s)-in-suit; and disclosure of any licensing term or pricing commitments for the patent(s)-in-suit through any agency or standard-setting body.

The 21C supported abolishing Form 18, thereby clarifying that patent infringement cases are subject to the same pleading requirements as in other areas of civil litigation. These requirements have been heightened in recent years by the Supreme Court in its Twombly and Iqbal decisions. Beyond that, the 21C has cautioned that Congress should not legislatively mandate so much specificity that every patent infringement complaint spawns needless and burdensome battles about the adequacy of what has been pled. Pleadings should put the parties on fair notice of the claims and defenses at issue in the case, without creating collateral disputes that increase the costs and burden or litigation and delay its resolution. The 21C has suggested that the Judicial Conference is the best position to propose rules that strike the right balance.

Attorney Fees Awards – H.R. 3309, S. 1013, and S. 1612 (Hatch) would amend 35 U.S.C. § 285 to mandate the award of reasonable fees and other expenses to a prevailing party in a patent infringement action unless the court finds that the position of the losing party was substantially justified or that special circumstances make an award unjust. H.R. 845 (DeFazio/Chaffetz) would mandate the award of costs and attorney fees if the plaintiff fails to meet certain conditions.

The 21C supported relaxing the "exceptional" case standard to permit fee shifting in patent cases to encourage both plaintiffs and defendants to assert only meritorious positions.

Attorney Fees Recovery – H.R. 3309 and S. 1013 would authorize a court, where a losing party is unable to satisfy the award, to make the reasonable costs and other expenses recoverable against any interested party joined pursuant to proposed new section 299(d). H.R. 3309 would require that a party identified as an "interested party" subject to joinder be notified and permitted to renounce any interest in the patent(s) at issue. S. 1612 would authorize a court to order the posting of a bond sufficient to ensure payment of the accused infringer's reasonable fees and other expenses, including attorney fees.

The 21C supported authorizing courts to order the recovery of reasonable fees and expenses where the losing party is unable to pay, but rather than using joinder or bonding as the mechanism to accomplish this, we suggested 35 U.S.C. § 285 be amended to impose "contingent liability" on those having a direct financial right to a share of a damages award or settlement proceeds.

Stay of Discovery – H.R. 3309, H.R. 2639, and S. 1013 would amend 35 U.S.C. § 299A to delay discovery in every civil action relating to patents where construction of the terms used in a patent claim is required until the court has rendered its claim construction decision. Prior to such decision, discovery would only be permitted to the extent necessary for the court to determine the meaning of the terms used in any asserted patent claims.

The 21C opposed this provision as it would delay and bifurcate merits discovery that might otherwise be undertaken, thus delaying trial while the postponed discovery is completed, adding substantially to the total pendency of every patent infringement case, even cases between competitors where prompt resolution of the infringement allegations on the merits may be essential to protecting the patent owner's investments in R&D, products and businesses built upon the patented invention. Any such statutory "stay of discovery" should exempt patent cases based on allegations that the infringement causes competitive harm, and we believe that it would be preferable for Congress to offer recommendations to the Judicial Conference and leave the development of specific in-court practices to its deliberations.

Transparency of Patent Ownership – H.R. 3309 would require the disclosure of certain patent ownership and related information upon filing of a complaint for patent infringement, while H.R. 2024 would require such information at various times during the life of a patent. This information would include the assignee of the patent(s) at issue, any entity with a right to sublicense or enforce the patent(s), any entity that the plaintiff knows to have a financial interest in the patent(s) or the plaintiff, and the ultimate parent of any assignee. S. 1720 would require the filing of certain assignment information and would authorize the court to require certain disclosures from a patentee who has filed a civil action.

The 21C did not oppose ensuring transparency in patent litigation. While requiring a plaintiff to disclose the owner or assignee of the patent being asserted will generally not impose an undue burden on the patent owner, the 21C believes that these matters are best left to the courts, and the Federal Judicial Conference, to manage. However, apart from patent litigation, the 21C did oppose requiring disclosure and periodic updating of real parties in interest and related information during the life of all patents, as this would burden all patent owners, but do nothing to prevent or deter "troll" behavior.

Customer Suit Exception (Stay) – H.R. 3309, H.R. 2639, and S. 1720 would provide for a stay of a patent infringement action against a customer for infringing a product where the manufacturer of the product and the customer agree to the stay.

The 21C supported a provision staying an action against customers/end users where they agree to allow the manufacturer to intervene or proceed in a separate action against the patent owner and to be bound by the outcome. This provision, coupled with legislation targeting bad faith demand letters, would go far in targeting the most egregious patent enforcement abuses that have spurred calls for legislative action.

Procedures & Practices to Implement Discovery & Case Management – H.R. 3309 would require the Judicial Conference, using existing resources, to develop rules regarding discovery issues and asymmetries in patent actions, including the definition of core discovery evidence, the discovery of electronic communications, case management, and Form 18.

The 21C supported Congress directing the Judicial Conference to develop rules to address such discovery issues and case management practices.

Protection of IP Licenses In Bankruptcy – H.R. 3309 and S. 1720 would amend title 11 to make it clear that, in U.S. bankruptcy proceedings involving foreign bankruptcy administrators, U.S. courts will apply the protections of title 11 to prevent unilateral rejection of the debtor's existing intellectual property licenses.

The 21C supported this provision as it would have ensured that licensees of U.S. intellectual property owned by foreign entities will receive the same protection as licensees of such property owned by domestic entities.

PGR Amendment (Judicial Estoppel Correction) – H.R. 3309 and S. 1720 would amend the PGR procedure to eliminate the "reasonably could have been raised" estoppel provision that was added by a "scrivener's error" so that estoppel would only apply to grounds that a challenger actually raised.

The 21C supported this change.

District Court Claim Construction in PGR/IPR – H.R. 3309 and S. 1720 would amend the AIA to overrule the USPTO's current practice in PGR/IPR proceedings to construe claims using the "broadest reasonable interpretation" approach that it uses in its initial examination of patent applications and require that each claim of a patent in a PGR or IPR "shall be construed" as it has been or would be in a civil action under section 282(b) of title 35.

The 21C supported this provision.

Codification of "Double Patenting" – H.R. 3309 and S. 1720 would codify the judge-made law of "double patenting" for patents that are subject to the AIA's new first-inventor-to-file standard for patentability.

The 21C supported this provision.

Expansion of the Covered Business Method Review Program – S. 866 (Schumer) and H.R. 2766 (Issa/Chu) would expand the Transitional Program for Covered Business Method Patents established by the AIA in several respects, including by eliminating the 8-year sunset period and broadening the definition of "covered business method patent."

The 21C opposed expansion of the CBM program. The suggested expansion would have upset the carefully-crafted framework for post-issuance reviews established by the AIA and is not necessary given the availability of PGR for patents issued under the first-inventor-to-file system that went into effect on March 16, 2013.

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.