

21C

THE COALITION FOR 21ST CENTURY PATENT REFORM

Protecting Innovation to Enhance American Competitiveness

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Summary of 21C's Positions on Provisions of the PATENT Act, S. 1137 (as reported), and the Innovation Act, H.R. 9 (as reported)

LITIGATION REFORMS

1. Patent Pleading Specificity

Issue:

FRCP Form 18, the model for patent infringement complaints, is generally regarded as not requiring sufficient information to adequately inform an accused infringer of the details of the infringement charges asserted. In fact, Form 18 has prevented patent infringement cases from being subject to the same pleading requirements as other types of civil litigation, even following the Supreme Court's opinions in its *Twombly* and *Iqbal* decisions. Moreover, vague assertions of patent infringement by certain patent litigants have resulted in calls for patent infringement complaints to contain very detailed information, not only providing details of the infringement allegations pled, but also requiring the disclosure of background facts and information relating to the plaintiff and the patents-in-suit.

S. 1137

Subsection 3(a) of S. 1137 would eliminate Form 18. Subsection 3(b) would add a new section 281A to title 35 requiring plaintiffs to list in their complaints each patent and claim allegedly infringed, to identify the products or processes that are accused of infringing, and to describe the alleged infringement. Plaintiffs would be permitted, however, to plead information in general terms if it is not accessible to them after an inquiry reasonable under the circumstances and to amend pleadings as specified in the Federal Rules of Civil Procedure.

H.R. 9

Subsection 3(a) of H.R. 9 would also add a new section 281A, but it would go far beyond the pleading requirements of S. 1137. It would require patent owners to provide a clear and concise statement of where each element of each claim is found within an accused product or process with "detailed specificity" regarding how each limitation of

each claim identified is met. Section 6(d) of H.R. 9 would instruct the Supreme Court to eliminate Form 18 and authorizes it to prescribe a new form setting out certain minimum allegations of patent infringement.

The 21C supports the elimination of Form 18, making patent infringement actions subject to the same pleadings standards as other federal civil litigation and thereby subjecting patent cases to the higher pleading standards mandated by the Supreme Court’s *Twombly* and *Iqbal* decisions. However, the element-by-element pleading requirement of H.R. 9, requiring each element to be pled with “detailed specificity,” would be a recipe for needless motion practice, even against complaints that fairly put a defendant on notice of the claims and allegations at issue. Accordingly, the 21C supports the pleading requirements of S. 1137 over those of H.R. 9.

2. Joinder of Interested Parties

Issue:

There is a need for a mechanism to address situations where the losing party in an action is unable to satisfy a fee award. This is of particular concern with respect to plaintiff entities in patent cases that may be created and structured to be shell entities with few, if any, assets other than the patents that are being enforced

S. 1137

21C believes that S. 1137 provides a better solution to the problem than does joinder. It would extend contingent liability for satisfaction of a fee award to certain non-parties related to a losing party against whom fees have been assessed, but only following an award of fees against that losing party. This would avoid questions about whether a patent case could continue on the merits while collateral disputes arise over joinder at the outset of the case. Its reach would be limited to nonparties with a substantial financial interest related to the proceeds from any settlement, license, or damages award resulting from the enforcement of the patent and would apply to such nonparties only following the application of a number of procedural safeguards in the interests of fairness and due process.

H.R. 9

While the goal of the joinder provision in H.R. 9 is also to allow a defendant to collect fees and expenses from a parent company of a shell patent plaintiff, it is unlikely to function as intended because the provision could be easily avoided by parties located outside of the court’s jurisdiction and therefore unable to be joined.

21C believes that the contingent liability approach of S. 1137 provides a better solution to the problem than does the joinder proposal of H.R. 9.

3. Stay of Discovery

Issue:

Various legislative proposals have been advanced to stay discovery at the outset of patent cases, to reduce the costs and burden of litigation while the court decides preliminary issues that may narrow or eliminate the need for subsequent discovery. Previous legislative proposals, including H.R. 9 as introduced, would have stayed discovery in patent cases pending the district court's construction of the patent claims at issue. 21C expressed grave concerns with the protracted delays that could ensue in nearly every patent infringement case while the court undertook what is often the lengthy process of construing the patent claims.

S.1137

By proposing stays of discovery only for the time required to resolve motions to dismiss, transfer venue, or sever accused infringers, filed before the first responsive pleading, S. 1137 avoids the unnecessary delays of certain earlier proposals. In addition, S. 1137 provides an exception for local rules that require the exchange of contentions regarding infringement, non-infringement, invalidity or other issues, by interrogatories or other written initial disclosures.

H.R. 9

The Managers' Amendment to H.R. 9 also limited the stay of discovery provision to the time required to resolve certain preliminary motions filed before the first responsive pleading (motions to sever a claim, drop a party, or transfer or dismiss due to improper venue). However, during the Judiciary Committee markup, the requirement that such motions be brought before the first responsive pleading was replaced with language allowing such motions to be brought as late as 90 days after service of the complaint. In addition, the proposal was amended to add all Rule 12(b) motions to dismiss to the types of motions triggering a stay. Finally, the competitive harm exception was amended to apply only after a court has actually granted a preliminary injunction.

By permitting a motion for a stay of discovery to be filed a full three months after the case begins, the stay provision in H.R. 9 is a recipe for delay, gamesmanship and abuse. Moreover, the competitive harm exception to a discovery stay has been rendered effectively meaningless. Indeed, the amended stay of discovery provision in H.R. 9 would expressly allow defendants to stay even the discovery needed to rule on a preliminary injunction motion – or any other substantive motion – by filing a motion to dismiss or transfer the case, thereby giving the

defendant “veto” power over a patent owner’s previously-filed motion for a preliminary injunction. The 21C strongly opposes the discovery stay provisions in H.R. 9 and supports the stay of discovery provision in S. 1137.

4. Venue

Issue:

Tracing back to H.R. 1908 in the 110th Congress, there were various legislative proposals to preclude a party from manufacturing venue by assignment, incorporation, joinder, or otherwise primarily to invoke the venue of a specific district court perceived as favorable. Following the decision in *In re Volkswagen of America, Inc.*, 506 F.3d 376 (5th Cir. 2007), and the difficulty of reaching a consensus among stakeholders, efforts to restrict venue in patent cases faded away.

S. 1137

There is no provision in S. 1137 to modify or restrict 28 USC 1400(a), which provides that a civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.

H.R. 9:

Section 3(g) of the Managers Amendment of H.R. 9 introduced, for the first time in the patent reform efforts in this Congress, a proposal to modify the venue where patent infringement actions may be brought. This proposal was further amended during the Judiciary Committee markup. As reported, H.R. 9 would limit civil actions for patent infringement to only those judicial districts: (1) where the defendant has its principal place of business or is incorporated; (2) where the defendant has committed an act of infringement and has a regular and established physical facility that gives rise to the act of infringement; (3) where the defendant has agreed or consented to be sued in the instant action; (4) where the inventor named on the patent in suit conducted research or development that led to the application for the patent in the suit; (5) where a party has a regular and established physical facility, that it controls and operates not primarily for the purpose of creating venue and has (A) engaged in management of significant research and development of an invention claimed in a patent in suit prior to the effective filing date of the patent, (B) manufactured a tangible product that is alleged to embody an invention claimed in a patent in suit, or (C) implemented a manufacturing process for a tangible good in which the process is alleged to embody an invention claimed in a patent in suit; or (6) for foreign defendants who do not meet the preceding requirements, according to 28 U.S.C. 1391(d). H.R. 9 also provides that a clearly and

undisputedly erroneous denial of a motion to transfer venue shall be deemed to cause irreparable interim harm.

The new venue provisions in H.R. 9 go far beyond what is needed to ensure that patent cases are not brought in perceived “pro-plaintiff” judicial districts that lack any meaningful connection to the parties and claims involved in the action. It would threaten the ability of all patent owners to seek relief from infringement in their home districts where they have made enormous R&D and manufacturing investments, potentially forcing them to bring suit in a remote district in which they happen to have a small R&D or manufacturing facility. This would be the case even when the defendant is selling the infringing product in the district where patent owner conducts the bulk of its R&D and manufacturing and where the patent owner’s witnesses, documents and other evidence. The 21C strongly opposes the venue provision in H.R. 9.

IPR/PGR REFORMS

5. Amendment of Claims

Issue:

While patentees theoretically have a statutory right to amend claims in PGRs and IPRs, this “right” has been rendered largely illusory by the PTAB: it has denied almost all motions to amend the patents in AIA reviews. If patent owners effectively could amend their claims to narrow their scope in view of prior art newly-cited in PGR and IPR petitions, better patents and fairer results could be obtained.

S.1137

Subsections 11(a) and (b) provide statutory instructions for the USPTO to update its rules governing amendment of claims in IPR and PGR proceedings. It requires that any substitute claim must: be proposed within thirty days of a decision to institute a proceeding; narrow the scope of the cancelled claim; and, respond to a ground of unpatentability. If a substitute claim satisfies these requirements, the petitioner will have the burden to show that the substitute claim is unpatentable by a preponderance of the evidence. Finally, it is made clear that the assignment of this burden to the petitioner in PGR and IPR proceedings will not impact the Supreme Court’s ruling in *Microsoft v. i4i* regarding the operation of section 282(a) in court proceedings.

H.R. 9

Nothing in H.R. 9 would improve a patent owner’s opportunity to amend claims challenged in a PGR or IPR by submitting substitute claims.

The 21C supports the provisions in S. 1137 strengthening the ability of a patent owner to amend claims challenged in a post-grant proceeding.

6. Testimony (with Cross Examination) Heard Live in PGR/IPR Proceedings

Issue:

PTAB panels often refuse to hear oral testimony at a final hearing in a PGR or IPR, even when the outcome of the proceeding may depend on witness credibility.

S. 1137

Subsections 11(a) and (b) amend sections 316 and 326 of title 35 and provide either party to a post-grant proceeding the right to have live testimony (including cross examination of adverse witnesses) heard by the PTAB panel where the panel finds that such testimony would facilitate resolution of the case because genuine issues of material fact, conflicting expert opinions, or issues of witness credibility exist.

H.R. 9

There are no provisions in H.R. 9 that give either party the right to have live testimony heard by a PTAB panel.

The 21C supports the provision in S. 1137 giving either party the right to present testimony before PTAB panels in post-grant trials.

7. Burden of Proof

Issue:

Currently, validity challenges of granted patents are reviewed by district courts under the clear and convincing evidence standard, while in challenges of granted patents in PGR and IPR proceedings a petitioner only has to prove unpatentability by a preponderance of the evidence. These differing standards lead to less predictability and uniformity among the different proceedings involving granted patents.

S.1137

Subsection 11(a) of S. 1137 provides that an IPR proceeding may not be instituted on the basis that the evidentiary standard before the Office differs from the evidentiary standard used by a district court.

H.R. 9

There are no provisions in H.R. 9 that would tend to bring the standards for reviewing patents in PGRs and IPRs into greater conformity with the standards used in district courts.

The 21C believes that the same standards, burdens and presumptions applied by district courts should also be applied in both PGR and IPR proceedings. The provision in S. 1137 precluding institution of an IPR on the basis that the evidentiary standard used by the PTAB differs from that used by district courts is a step in the right direction and is preferable to the silence of H.R. 9.

8. Standing

Issue:

Recently, financial speculators have begun filing IPR petitions to manipulate the stock price of patent owners for financial gain. There have been several reports in the business press of hedge funds shorting the stock of a patent owner and then filing IPR petitions against patents protecting its important products. Given the widely-reported high “kill rates” for patents in IPR proceedings, the mere filing of the petition has actually driven down the patent owner’s stock price, allowing the fund to profit from this scheme. There is nothing in the AIA to prevent such predatory behavior.

S. 1137

While some of the improvements for instituting and conducting IPRs may mitigate this behavior, there is nothing in S. 1137 that would prohibit such filings by persons hoping to exploit these proceedings for personal gain.

H.R. 9

Section 9(b) of H.R. 9 would preclude the institution of a PGR or an IPR unless the petitioner and real parties in interest certify that they do not own and will not acquire financial instruments designed to hedge any decrease in the market value of a security of the patent owner after filing of the petition and have not demanded payment from the patent owner in exchange for a commitment not to file a petition.

While the provisions in H.R. 9 might deter some financial speculators from seeking to manipulate the stock prices of patent owners, the 21C believes it could place at risk challengers who have no intention of manipulating stock prices while not stopping truly motivated bad actors from continuing to take advantage of the perceived bias in PGR and IPR proceedings against patent owners. 21C believes that the best solution for this problem would be to conform the

standards, burdens and presumptions applicable in IPRs to those applied in the courts, and to otherwise improve the fairness of IPRs for all parties involved.

9. Coordination of Proceedings

Issue:

Currently, a PGR or IPR may not be instituted if the petitioner has filed a civil action challenging the validity of a claim of the patent. Additionally, an IPR may not be filed if the petition requesting the proceeding is filed more than one year the petitioner has been charged with infringement of the patent.

S. 1137

S. 1137 gives the Director discretion not to institute a PGR or IPR if the Director determines that institution would not serve the interests of justice, considering, inter alia, whether the grounds of unpatentability or arguments advanced are substantially the same as those considered in a prior proceeding in a court or the USPTO involving the same claim or claims and whether there is another proceeding involving the same patent pending before the Office.

H.R. 9

There is no provision in H.R. 9 precluding the Director from instituting a PGR or IPR while there is another proceeding involving the same patent underway in the USPTO.

The provision in S. 1137 allowing the Director to not institute a PRG or IPR in parallel with another proceeding in the USPTO is clearly preferable.

10. Composition of PGR/IPR Panels

Issue:

Under the USPTO's implementation of the AIA review procedures, the same PTAB panel that decides whether to institute a PGR or IPR then also hears the case on the merits, giving the appearance of being predisposed to rule against the patent holder. This appearance is confirmed when the panel's final decision agrees with its original determination (which occurs in a very high percentage of the reviews).

S. 1137

Section 11(c) of S. 1137 requires the Director shall prescribe regulations to ensure that the panels adjudicating PGR and IPR proceedings will have no more than one member, if any, who participated in the decision to institute the proceeding. The regulations may

also prescribe that the decision to institute a proceeding be made by designees of the Director rather than members of the PTAB.

H.R. 9

The provisions in H.R. 9 would not require any change in the persons deciding whether to institute a PGR or IPR proceeding and the persons adjudicating the proceeding.

Limiting the adjudication panel to only one individual who was involved in the decision to institute a PGR or IPR proceeding, as provided in S. 1137, is a welcome step and certainly preferable to silence as in H.R. 9, but fairness requires that there be no overlap in the decision-makers involved in instituting an AIA review proceeding and those involved in the final decision.

PATENT DEMAND LETTERS

11. Requirement of clarity and specificity In Demand Letters

Issue:

Many small businesses receive specious claims of patent infringement sent by opportunistic patent owners solely for the purpose of forcing an unjust settlement, typically at a cost that is less than the cost of successfully completing the litigation. Such abusive behavior can be quite disruptive for the recipient of such demand letters given the difficulty and expense in patent cases of distinguishing specious from meritorious claims. Accordingly, many parties choose to settle rather than litigate to a final conclusion, which may be a practical business solution, but perpetuates an abuse of the patent system which must be stopped.

S. 1137

Section 8 of S. 1137 would require that patent demand letters contain detailed information regarding the assertion, including an identification of one claim of each patent believed to be infringed, and of each product, process, or chemical composition believed to be infringed. The communication must also contain a description of why each patent is believed to be infringed, inform the recipient that it may have the right to stay any lawsuit, identify any person with the right to enforce each patent, and a statement as to how that claim for compensation was derived. Written communications between parties to existing licensing agreements would be exempted. If the notice does not contain the required information, the defendant's time to respond to the complaint is extended by an additional thirty days. In addition, a letter that fails to include the required information cannot serve as evidence of pre-suit notice to establish willful infringement.

H.R. 9

Section 3 of H.R. 9 states that it is the sense of Congress that patent demand letters should include basic information about the patent in question such as what is being infringed and how it is being infringed, and section 8 H.R. 9 calls for the Director to conduct a study on patent demand letters, it does not require that such communications provide recipients with sufficient information to enable them to make informed evaluations about the demand.

While 21C recognizes that a few bad actors have been using the threat of patent litigation to extort money from unsophisticated individuals and small businesses, it believes that the best remedy for these practices would be to establish national standards that prohibit the sending of false and deceptive demand letters. (See below.) Unfortunately, the specificity requirements of the currently proposed notice letter provisions are likely to have the opposite of their intended effects, as most businesses will simply elect to file suits against infringers, as their abilities to negotiate private pre-litigation settlements will be restricted. In particular, given the nature of these specificity requirements, patent owners will not be likely to satisfy these notice provisions without also being exposed to declaratory judgment counter-suits, and thus will be encouraged to sue first and negotiate settlements later.

12. FTC Authority over Abusive Demand Letters

Issue:

One of the most frequently mentioned reasons for the current effort to revise the patent statute involves the widespread sending of letters bad containing bad faith assertions of patent infringement to recipients who lack the expertise or resources to investigate or defend against them, to intimidate or coerce the recipients into extortionist settlements. Several proposals have been advanced in this Congress to make the sending of bad faith patent demand letters an unfair or deceptive act or practice within the meaning of section 5(a)(1) of the Federal Trade Commission Act.

S. 1137

Section 9(a) of S. 1137 would provide that the widespread sending of written communications that falsely represent that the recipients may be infringing a patent and may therefore owe compensation shall be treated as unfair or deceptive act or practice under section 18 of the Federal Trade Commission Act. Although titled “BAD-FAITH DEMAND LETTERS,” it does not include or define the term “bad faith,” leaving patent owners pursuing legitimate enforcement and licensing activities without clear guidance

as to what they can and cannot say to infringers and potential licensees. In addition, it does not address the proliferation of the myriad of varying and inconsistent laws that have been enacted in various states.

H.R. 9

Sections 3(e) and (f) of H.R. 9 provide a “Sense of Congress” provision and a proposed amendment to Section 284 that does not allow a claimant seeking to establish willful infringement to rely on pre-suit notification of infringement unless the notification contains certain information identifying the patent, how the accused product or process infringes, the investigation undertaken, and the ultimate parent of the claimant. H.R. 9 is silent with respect to making the sending patent demand letters an unfair or deceptive act or practice under the FTC Act.

While S. 1137 provides needed clarity and objectivity in the definition of permitted and prohibited contents of demand letters to define the FTC’s civil enforcement authority, it needs the addition of a clearly-defined “bad faith” requirement to avoid ensnaring good faith licensing communications which the patent system has always encouraged. In addition, language is needed making clear that S. 1137 creates uniform standards for patent demand letters that apply on a nationwide basis. From its origins in the Constitution, patent law has always been exclusively within the province of federal statutes and courts, and so too should issues relating to patent demand letters be applied consistently and uniformly nationwide through federal legislation, regulation and judicial action. The current patchwork of differing – and often inconsistent – state patent demand letter laws that has arisen over the past two years risks weakening our patent system by making patent licensing and enforcement more difficult, costly, and less certain. Ironically, the difficulty of navigating through the growing maze of differing state laws may incent patent owners to adopt a “sue first, talk later” approach, resulting in more, not less, patent litigation.

OTHER PROVISIONS

13. Transparency of Patent Ownership

Issue:

Many stakeholders and members of Congress believe that there is insufficient information available to the public to determine who owns patents that are being asserted by certain litigants. It is argued that some patent holders take steps to hide their identity, making it more difficult for parties accused of infringement to defend against abusive assertions of patent infringement.

S.1137

Section 10 of S. 1137 requires disclosure to the USPTO of the name of the assignee and the ultimate parent entity of the assignee owning all substantial rights in a patent no later than the date a patent issues and when any subsequent assignment is made that results in a change to the ultimate parent entity. A party failing to provide such assignment information may not recover increased damages under section 284 or attorney fees under section 285 with respect to infringing activities taking place during any period of noncompliance, unless the denial of such damages or fees would be manifestly unjust.

H.R. 9 Section 4 of H.R. 9 also requires disclosure of ownership information, but imposes an unnecessarily long list of items to disclose, including the names of the assignee of the patent, any entity with a right to sublicense or enforce the patent, any entity that the plaintiff knows to have a financial interest in the patent, the ultimate parent entity of any assignee identified, as well as a clear and concise description of the principal business of the party alleging infringement, a list of each complaint filed asserting infringement of the patent of which the party alleging infringement has knowledge, and whether such patent has been identified as a standard essential patent.

The 21C believes that the measured and less burdensome approach of S. 1137 for ensuring that the public is informed of patent ownership is preferable to that of H.R. 9.

14. Codification of Double Patenting

Issue:

The doctrine of obviousness-type double patenting was judicially created to address the situation where the patent law did not preclude the earlier patent of an inventor from being used to prevent that inventor from validly obtaining a second patent for the same invention by claiming minor (obvious) variations from the claims of the earlier patent. Such an obvious second patent was permitted, but only if the inventor agreed to limit its term to that of the earlier patent and to not separate their ownership. In 1984 and 2004, Congress acted to treat patents issued to co-workers and collaborators of an inventor in the same manner as patents issued to a single inventor, stating in the legislative history that the judge-made law of “double patenting” should apply to those co-workers and collaborator patents in the same manner as it was applied to multiple patents of a single inventor. In recent years, however, the judge-made law of “double patenting” has strayed far from the 1984/2004 congressional intent that it apply only where the patent statute did not preclude the grant of a second patent to an inventive entity that only

differed in obvious ways from an earlier patent by that entity. To assure that the AIA's new novelty and non-obviousness requirements are implemented in an objective and predictable manner, the judge-made law of "double patenting" for first-inventor-to-file patents should be codified to reflect Congressional intent.

S. 1137

There are no provisions in S. 1137 addressing the issue of double patenting.

H.R. 9

To restore the double patenting doctrine to that intended by Congress, Section 9(e) proposes a complex, 8-page solution which is neither transparent nor objective.

The 21C believes that a simpler, more straight-forward provision is needed to avoid the years of costly litigation to resolve the issues that will ensue were the proposed text in H.R. 9 to become law.

The Coalition for 21st Century Patent Reform has more than 40 members from 18 diverse industry sectors and includes many of the nation's leading manufacturers and researchers. The coalition's steering committee includes 3M, Bristol-Myers Squibb, Caterpillar, ExxonMobil, General Electric, Procter & Gamble, Johnson & Johnson, and Eli Lilly. For more information, visit <http://www.patentsmatter.com>.