THE COALITION FOR 21ST CENTURY PATENT REFORM

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OPPOSITION TO BONDING REQUIREMENT

The 21st Century Coalition for Patent Reform (21C) understands that Senator Hatch may offer an amendment to S. 1720 to add a bonding requirement as set forth in S. 1612. This amendment would add a new section 285A that would authorize a court, on motion by a defendant or respondent in a proceeding, to order the party alleging infringement to post a bond sufficient to ensure payment of the accused infringerôs reasonable fees and other expenses, including attorney fees. We strongly urge that such an amendment not be included in S. 1720.

The 21C has long been a proponent of authorizing more routine fee shifting to prevailing parties in patent cases where the conduct and claims or defenses advanced by the non-prevailing party were not substantially justified and where special circumstances do not exist that would make such an award unjust.[1] Indeed, we have consistently supported the fee shifting language first introduced by Senator Hatch in S. 3818 in 2006, and which is now embodied in Senator Hatchôs latest bill, S. 1612. Proper fee shifting can be a powerful mechanism to drive more efficient resolution of patent disputes, but only if it adequately meets the following essential criteria:

(1) it treats plaintiffs and defendants equally before the law,

(2) it targets only those who engage in objectionable conduct,

(3) it imposes sanctions in the form of fees and costs only after a final determination has been made that the subject claim or defense was not substantially justified;

(4) it does not discourage persons with meritorious claims from bringing suit;

(5) its effect cannot be circumvented by those inclined to engage in the conduct to be deterred;

(6) good faith cases in which substantial claims are met with substantial defenses are unaffected by the provision,

(7) any additional proceedings created by the provision will occur only after the merits of the case have been decided, and

(8) the sanctions proposed are fair, proportional and non-discriminatory.

Further, the 21C also recognizes that fee-shifting might not be an effective deterrent against litigation abuse if fee awards are limited to the named parties in the case. A fee-shifting provision without the ability to assess fee awards against third parties, such as those entities which control or fund litigation on behalf of a named party, may not be effective in deterring such misconduct, because third parties could

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[1] See Statement of Philip S. Johnson on Behalf of the Coalition for 21st Century Patent Reform, Subcommittee on Courts, Intellectual Property and the Internet, Committee on the Judiciary, United States House of Representatives on ñAbusive Patent Litigation: The Impact on American Innovation & Jobs, and Potential Solutions,ò at page 15, March 14, 2013, at http://www.patentsmatter.com/docs/Johnson%20House%20Statement%203-14-13-c.pdf.

bring suits in the name of shell corporations that lack adequate funds to satisfy a fee award. Thus, we recognize that fee-shifting may need to be accompanied by a mechanism to ensure that not only the nominal parties, but also certain non-parties, are held responsible for satisfying a fee award. At various times, three proposals have been advanced to address this concern: (1) bonding; (2) joinder of interested parties; and (3) contingent liability for fee awards extended to certain interested non-parties. Of these proposals, (3) is by far the most preferred; we are on record as opposed to (1) and we believe that (2) is easily circumvented and more problematic than (3).

As for the proposed bonding amendment, a main concern is the one-sided nature of the requirement, which conflicts with the principle that patent litigation reform ought to target bad behavior by any party, not just certain classes of plaintiffs. Yet, the bonding proposal only allows for posting of a bond by a plaintiff.

Another concern is that the proposed bonding requirement risks making it difficult, if not impossible, for the small inventor or patent holder to enforce his or her rights. Bonds are quite expensive to obtain and incur interest payments during the time they are outstanding. In a typical patent case, a small inventor may be required to post a bond under the current proposal during the several year period a patent case takes to be resolved. For many, the financial burden will render enforcement of their government-granted rights simply ñunaffordable.ò

Third, the motion-based approach to bonding will unnecessarily increase the costs and delay the resolution of patent litigation. Given the obvious and material financial implications of a bond, there will undoubtedly be collateral disputes over the need for, and amount, of, a bond at the outset of almost every case. By contrast, the number of cases in which fee awards are actually made, even under the new system, will be relatively small. Every case for which a bond was fought for and collected, but not ultimately awarded, constitutes clear and avoidable waste of precious judicial resources. This waste is non-trivial as each bonding dispute will require findings on the expected costs of litigating the action, the financial ability of the party against whom bonding is sought to satisfy a fee award, and the underlying merits of the action. All of these findings would be required at the outset of the case and on an incomplete record. Indeed, it is entirely foreseeable that motions for bonding will be brought for improper tactical purposes, as a way to slow down litigation on the merits of an action and as a way to increase the burdens on litigation opponents.

21C would support a bonding approach so long as the following conditions are met. First, the bond requirement must apply to plaintiffs and defendants alike. Our membership both asserts patents and defends against such assertions, and from time to time faces not only frivolous claims, but also frivolous defenses and counterclaims. Since abuses exist on both sides, whoever is harmed by them should have the ability to receive fee awards, and ensure that are collectable against those responsible for the abuse. Second, any motion for a bond should be conditioned on a showing by the moving party by clear and convincing evidence that the positions being advanced by the opposing party are of such little merit as to make the award of fees in the case likely. This will lessen the number of instances where a bond will be required. Finally, the bill must make an award of attorneyôs fees and costs to the prevailing party (whether movant or non-movant) on any such motion for the posting of a bond mandatory. This will help insure that such motions are only brought for legitimate reasons.