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 Innovation Act of 2015

I. Attorneys Fees Award

21C's Position: Supports

Issue: Current federal law empowers district courts to award attorneys fees to prevailing parties only in "exceptional" cases. The Innovation Act of 2015 would instead authorize the award of reasonable fees and other expenses to a prevailing party in an infringement action, "unless the court finds that the position of the losing party was substantially justified or that special circumstances make an award unjust."

- This provision is intended to make more clear and predictable the standards under which an award of attorney's fees is appropriate to address abusive litigation behavior in patent cases.

- Whether it comes from the plaintiff or the defendant, abusive litigation behavior must be addressed and those who pursue meritless claims or defenses in patent cases should face the prospect of financial penalties.

II. Collection of Attorneys Fees Awards

21C's Position: Supports, but recommends further amendments

Issue: The Innovation Act would allow courts to order the recovery of reasonable fees and expenses in certain circumstances when the losing party is unable to pay and a related nonparty should be responsible for satisfying the fee award.

- This provision is intended to empower courts to address a situation where an entity, in an effort to avoid paying the opposing parties' attorney fees, transfers a patent to a shell company that would not have the assets to satisfy the fee award.

- 21C believes that this provision would be improved by authorizing collection proceedings against certain financially-interested third parties to be filed after an award of fees has been made but is not satisfied. This will avoid collateral disputes over the question of whether joinder is proper at the outset of those patent cases in which a fee award is ultimately not an issue. Such collateral disputes risk delaying and unduly complicating the resolution of all patent disputes when issues concerning the collection of fee awards will arise in only a subset of cases – see discussion below in joinder section.

III. Judicial Conference: Procedures & Practices to Implement Discovery Burdens & Costs, Case Management and Form 18

21C's Position: Supports

Issue: The Innovation Act includes a number of recommendations to the Judicial Conference regarding how best to improve their processes.

- U.S. courts traditionally manage their own calendars and adopt their own case management procedures. The authority to establish and revise the Federal Rules of Civil Procedure has long fallen under the auspices of the United States Supreme Court, which manages the process of reviewing and revising these rules in reliance upon the recommendations of the Judicial Conference of the United States;

- The 21C believes Congress should offer recommendations to the Judicial Conference and leave the development of specific in-court practices to its deliberations.

IV. Protection of IP Licenses in Bankruptcy

21C's Position: Supports

Issue: The Innovation Act would 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 supports provisions that ensure licensees of U.S. intellectual property owned by foreign entities will receive the same protection as licensees of U.S. intellectual property owned by domestic entities;

- This simply ensures that existing licensees will not lose their license rights if the foreign intellectual property owner files for bankruptcy under the laws of that foreign country.

V. PGR Amendment (Judicial Estoppel Correction)

21C's Position: Supports

Issue: One of the goals of the AIA was to drive more disputes over patent validity into administrative proceedings run by the PTO rather than have them litigated in federal court. However, the final language of AIA contained an error relating to the scope of estoppel in the post-grant review (PGR) process.

- That technical error has resulted in an estoppel provision with a higher threshold than was intended.
- 21C supports procedures to encourage more participation in reviewing the validity of patents in post-grant proceedings within 9 months of issuance. But we must ensure that these procedures will not subject patent owners to the possibility of harassment.

VI. Use of District Court Claim Construction in PGR/IPR

21C's Position: Supports

Issue: The Innovation Act would mandate that the claim interpretations applied in USPTO Inter Partes and Post-Grant Reviews be the same as those used in federal district courts and in the International Trade Commission.

- 21C supports provisions that would ensure that all parties in USPTO Inter Partes and Post-Grant Reviews be treated fairly, including this one that claims of a patent in a PGR or IPR be interpreted using the same principles that are applied in courts of law;
- This provision would overrule the USPTO's current practice of construing these claims using the "broadest reasonable interpretation" ("BRI") approach -- an approach that wrongly ignores the prosecution history of those claims and prior statements made by the applicant and the patent examiner about the scope of those claims, and evidence concerning the ordinary and customary meanings of the claim terms;
- These are all routinely used by the courts in reaching proper constructions of a claim and it makes no sense to subject patent claims in a PGR or IPR to a different set of standards.

VII. Double Patenting Codification for First Inventor To File Patents

21C's Position: Supports

Issue: Under current law, if an inventor files a patent application within 18 months of a prior patent application claiming an obvious invention from the original invention, there is no mechanism to disallow issuance of the patent on the obvious invention. To assure that the AIA's new prior art provisions are implemented as Congress intended, the Innovation Act codifies the traditional "double-patenting" doctrine

- 21C supports provisions that ensure an inventor cannot secure a second valid U.S. patent simply by making obvious variations to the claimed invention in a first patent, without traditional protections for the public against double patenting.

- Enacting this provision prevents the possibility that two patents subject to double patenting could become separately owned and be separately enforced, creating the potential for separate assignees to each bring an infringement action against an accused infringer.

- The provision codifies the concept that, unless two patents from the same inventor could have validly been issued had they been sought by two different inventors, the two patents must be owned by the same entity, and must both terminate upon the earliest termination of either patent.

VIII. Patent Pleading Specificity

21C's Position: Amendments Needed

Issue: The Innovation Act would require any pleading alleging patent infringement to include an extensive and very specific list of provisions that would greatly increase the costs, burdens and time on the patent-holder.

- 21C supports the elimination of Form 18, making patent infringement actions subject to the same pleadings standards as other federal civil litigation.

- The elimination of FRCP Form 18 will subject patent cases to the higher pleading standards mandated by the Supreme Court's *Twombly and Iqbal* decisions, thereby requiring additional specificity including a clear identification of the party asserting infringement and a description of their right to bring action; unfortunately the requirements of the Innovation Act of

2015 would go far beyond these Supreme Court standards, and would likely prevent persons with meritorious claims from fairly accessing the courts.

- This provision is also likely to raise costs and prolong case resolutions by fostering more preliminary motion practice.

- 21C believes that further disclosures beyond that required on the initial pleadings should be required from both parties as part of the initial disclosure and case management procedures mandated by the Federal Rules of Civil Procedure and the local patent rules that are now in effect in most of the district courts that hear patent cases. 21C has proposed uniform requirements in terms of the content and timing of such initial disclosures, to be applied on a nationwide basis.

IX. Joinder of Interested Parties

21C's Position: Amendments Needed

Issue: The Innovation Act would allow the defendant in a patent infringement suit to move to join third parties having a "direct financial interest" in the litigation. These third parties would also be liable if the patentee cannot pay when fees and expenses are awarded to the defendant.

- While the goal of this provision is to allow a defendant to collect fees and expenses from a parent company of a shell patent plaintiff, it is not likely to function as intended.

- First, it is unclear which third parties would qualify as having a "direct financial interest". At a minimum, this language should be tightened to ensure that only third parties who would receive damages or settlement funds would be eligible under this provision.

- Second, issues of joinder under this provision would need to be addressed at the outset of every litigation – before determining whether the grant of fees and expenses is at issue, and even though collection issues relating to awarded fees will arise only in a subset of cases.

- Third, the effect of this provision will be easily avoided by those so inclined because parties located outside of the court's jurisdiction may not be joined, and those wishing to avoid this provision will situate themselves and their litigations beyond the reach of such joinder.

- 21C feels that a better approach would be to extend contingent liability to non-parties. Contingent liability becomes relevant only if 1) the case is finally decided (and not settled), 2) a party is awarded attorney fees, and 3) the fee award is not satisfied by the party against whom the award was assessed. Since about 95% of all patent cases settle, and of those that do not, only a minority will involve fee awards, and of those with fee awards only a minority will raise collection issues, contingent liability will likely be needed in no more than 1-2% of filed patent cases. Limiting collection provisions to these cases, and then only to third parties who held a right to share in the proceeds from the litigation, would adequately protect fee-worthy parties without burdening all litigants with unnecessary legal process.

X. Transparency of Patent Ownership

21C's Position: Amendments Needed

Issue: The Innovation Act would require disclosure in each complaint of the assignee of the patent or patents at issue, any entity with a right to sublicense or enforce the patent or patents at issue, any entity, other than the plaintiff, that the plaintiff knows to have a financial interest in the patent or patents at issue or the plaintiff and the ultimate parent entities of the foregoing.

- In certain cases some of the information required to be disclosed could pertain to competitively sensitive information that should not be required to be disclosed in a public document. The "right to enforce" a patent is not nearly as straightforward as identifying the owner or assignee of a patent, and is more likely to require the disclosure of confidential business relationships;

- Therefore, while 21C has no objection to the spirit of this provision, provided the nature of the information to be disclosed is clarified and that it not be required to be included in the complaint, but rather is be disclosed as a later court filing which may be submitted under seal.

XI. Customer Suit Exception (Stay)

21C's Position: Amendments Needed

Issue: The Innovation Act would require courts to stay patent litigation against customers when there is parallel litigation against the manufacturer.

- 21C supports the concept of staying suits against customers and end users who are doing nothing more than reselling or using purchased products as their manufacturers intend, but believes any legislative language should limit the scope of automatic stays back to their original intent: to protect persons at the end of the distribution chain, not others who contribute to the manufacture or otherwise materially alter the accused instrumentality.

- Language is also needed to ensure that patent owners will not suffer stays of suits that in fairness should proceed, and to ensure that patent owners will not need to join end-users to establish liability against manufacturers.

- The right to stay certain suits would curtail the practice of filing suits simply to coerce settlements and would promote the resolution of patent disputes between those who are in the best position to litigate the merits of the case: the patent owner and the manufacturer or supplier of the products accused of infringement.

XII. Covenant Not to Sue

21C's Position: Opposed

Issue: The Innovation Act includes a new provision providing that a party giving a unilateral covenant not to sue shall be deemed a "non-prevailing" party for purposes of fee shifting.

- Simply put, this provision would not advance the interests of prompt and efficient resolution of patent disputes.

- There may be many good reasons to give a covenant not to sue that have nothing to do with the merits of an infringement action, including changed marketplace conditions or economic circumstances that make further litigation wasteful or unnecessary, or even the possibility that the party asserting its patent rights has simply exhausted its funds to pursue litigation.

XIII. Stay of Discovery

21C's Position: Opposed

Issue: The Innovation Act would limit the ability of patent-holders to initiate the discovery process until the court has reached a claim construction decision, which oftentimes takes many months.

- This onerous provision would apply a blanket "one-size-fits-all policy" on all cases. Courts are already empowered to manage discovery and to tailor case management to the particular facts and circumstances of each case.

- District courts across the country with the most experience and skill in managing patent infringement cases have adopted local rules that specify the timing and scope of discovery and none of those courts have put in place an automatic stay of discovery pending claim construction.

- It would be far preferable for Congress to offer recommendations to the Judicial Conference and leave the development of specific in-court practices to its deliberations instead of a "one-size-fits-all policy."

- Finally, this provision would needlessly increase costs for litigants by delaying discovery that is case dispositive.

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.

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