

Senate Legislation Directed at Abusive Patent Litigation

Issue	S.1720 Leahy	S.1013 Cornyn	S.866 Schumer	S.1612 Hatch	Comments
Fee Shifting (loser pays)		✓		✓	Significantly increases financial risk of asserting patents for universities – non-profit institutions lacking large litigation budgets
Joinder		✓			Under this provision, a university could be brought into a case over which it has had no control and become a nonprevailing plaintiff subject to fee shifting
Discovery		✓			Limits discovery able to be carried out before claims construction, would make it more difficult to provide information called for in heightened pleading, militate against cases where broader discovery would be more efficient, overrides judicial discretion to limit discovery on case-by-case basis
Heightened Pleading Requirement		✓			Calls for excessive information to be presented when a patent infringement, some of which may not be available when needed due to proposed limitations on discovery
Transparency	✓				Calls again for excessive information that must be updated for the life of the patent, requires disclosures that would violate confidentiality agreements, chill VC investments
Covered Business Method Patents			✓		Expands current AIA program to challenge the validity of a narrow category of business method patents – 1) makes the temporary AIA program permanent, and 2) expands the scope of patents included beyond business methods to include any patents involving data processing methods; a harmful third post-grant challenge procedure that increases patent uncertainty
Customer Stay	✓				Intended to protect customers and other retail end users who use but do not manufacture patented products; breadth of the proposals would allow collusion among parties along the supply chain, immunizing parties from charges of infringement and weakening the ability to assert patent rights
Demand Letters	✓				Intended to target bad faith demand letters often sent out in large numbers charging infringement or making fraudulent charges, but provisions written so broadly that they could implicate legitimate and necessary communications on patent licensing and other transactions

University Comments on Legislative Proposals to Curb Abusive Patent Practices

Universities support goals of legislative proposals intended to curtail abusive practices in the patent system; such practices impair the ability of the U.S. patent system to foster innovation and economic competitiveness. Legitimate patent holders across the spectrum are victimized by these practices, including universities and their licensees. In seeking to address these abusive practices, the challenge is to avoid provisions that do more harm than good, to implement carefully crafted proposals that target abusive practices in ways that do not undermine the capacity of patent holders legitimately to enforce their patent rights. Failure to accomplish this critical balancing act could cripple the nation's innovation system.

Universities conduct roughly 60% of the nation's basic research; that research has yielded discoveries that have had far-reaching impact – the laser, MRI, life-saving drugs, defense technologies, breakthroughs in food and agriculture, and much more. University researchers make discoveries, but universities don't make the products and processes resulting from those discoveries. For that to happen, universities must be able to transfer the inventions resulting from their research into the commercial sector for development. Patents play a key role in this university technology transfer process. Because the discoveries arising from university research tend to produce early-stage, higher-risk patents, however, the university technology-transfer process must preserve a capacity for licensing high-risk/high-payoff patents for commercial development. And the innovation process also needs to sustain a climate in which the startup companies that are the frequent licensees of such patents can gain a financial footing and grow.

We are concerned that several proposals intended to target troll-like behavior do not in their current form meet the cost/benefit test of curbing abusive patent litigation practices without diminishing the value of patents.

Fee shifting (S. 1013): Fee shifting significantly increases the financial risk to universities of enforcing their patents. Patent litigation is extremely complex, and outcomes are notoriously unpredictable. As non-profit institutions lacking large litigation budgets, universities are ill-equipped to operate in a fee-shifting regimen. S. 1013, introduced by Senator Cornyn, includes a provision stipulating that fee shifting will not occur if the court determines that the non-prevailing party's actions are "objectively reasonable and substantially justified, or special circumstances make such an award unjust"; H.R. 3309 has similar language: "unless the court finds that the position and conduct of the nonprevailing party or parties were reasonably justified in law and fact or that special circumstances (such as severe economic hardship to a named inventor) make an award unjust." This would seem at first glance to be a reasonable threshold for requiring the loser to have to pay the winners costs; however –

- The burden always is on nonprevailing party to justify its conduct, and there is no judicial discretion: if the statutory prescriptions are met, fee shifting is mandatory.
- The experience of the government under the Equal Access to Justice Act, after which S. 1013 fee shifting is modeled, indicates that fee shifting is far from a rare occurrence.
- Thus, this provision poses a significant risk of a university being subjected to fee shifting; not only does this present a strong disincentive for universities to enforce their patents, but it will substantially increase the perceived risk to potential licensees and venture capitalists of investing in university patents, weakening the link between discoveries resulting from university basic research and the products and processes that can be developed from them.

Moreover, the Supreme Court is reviewing two patent infringement cases concerning the award of attorney fees (*Octane* and *Highmark*), with oral arguments presented February 26 and final rulings expected before July. In addition, the Federal Circuit (*Kilopass*) recently expanded the interpretation of the current "exceptional circumstances" standard for fee shifting. Given the potential impact of a sweeping statutory fee-shifting provision on universities, start-ups, small business, and independent inventors; and given the

Supreme Court cases under review and the new Federal Circuit interpretation of exceptional circumstances, it would seem prudent for Congress to wait for these recent and pending court cases to play out before locking into law a sweeping fee-shifting provision.

Joinder (S. 1013): Under this provision, a university could be brought into a case over which it has had no control, effectively becoming a nonprevailing plaintiff subject to fee shifting. The scope of the joinder proposal in S. 1013 is extremely broad, covering *any* civil action arising under *any* Act of Congress relating to patents, which sweeps in at least 21 statutes and could apply to issues such as contract disputes having nothing to do with abusive patent practices.

As an apparent protection against seemingly limitless joinder, the defendant must show that the interest of the plaintiff is limited primarily to asserting the patent or a given patent claim in litigation. The intention of this provision is laudable, seeking to target abusers of the patent system, but the protection is much less robust than it may seem – there are a number of ways that a well-financed prevailing defendant could succeed in casting a patent holder legitimately seeking to enforce patent rights as a party whose primary interest is in asserting the patent or patent claim in litigation, causing joinder of an uninvolved party such as a university.

The combination of fee shifting and joinder is especially troubling to universities; we are very concerned that they could seriously damage the university technology transfer process by increasing the financial risk to universities and their licensees enforcing their patents and by discouraging potential licensees and venture capitalists from investing in the development of promising discoveries resulting from university research. Such consequences would move in the opposite direction of ongoing university/industry/government efforts to expand the breadth and pace of commercialization of inventions resulting from university research.

Limitations on discovery (S. 1013): This provision limits the discovery that can be carried out before claims construction, which could make it more difficult to provide information called for in heightened pleading requirements (below), and preclude cases where broader discovery would be more efficient. Moreover, the statutory mandates override existing judicial discretion to limit discovery on a case-by-case basis.

Heightened Pleading (S. 1013): This provision calls for excessive information to be presented when a patent infringement case is filed, some of which may not be available when required due to proposed limitations on discovery (above).

Increased transparency (S. 1720): The transparency requirements also call for excessive information which must be updated for the life of the patent. The statutory requirements would force disclosures that would violate confidentiality agreements and would chill venture capital investments.

Expanded covered business method patent program (S. 866): This bill expands in two ways a sharply focused eight-year program in the America Invents Act (AIA) to challenge the validity of a narrow category of financial business method patents – 1) by making the temporary AIA program permanent, and 2) by expanding the scope of covered patents to include any patents involving data processing methods, sweeping in biotechnology, software and other patents, increasing patent uncertainty, reducing the incentive for early challenges to patents, and upsetting the careful balance between post grant and inter partes review codified in the AIA.

Customer stays (S. 1720): Intended to protect customers and other retail end users who use but do not manufacture patented products; this provision's breadth would allow collusion among parties along the supply chain, immunizing parties from charges of infringement and weakening the ability to assert patent rights.

Demand letters (S. 1720): This provision is intended to curtail bad faith demand letters, often sent out in large numbers, charging infringement or making fraudulent charges. The provisions are written so broadly that they could implicate legitimate and necessary communications on patent licensing and other transactions.

It should be possible to modify these provisions so that they achieve their intended purpose of curbing abusive patent practices without undermining the ability of patent holders legitimately to enforce their patents. Universities applaud the deliberative process the Senate Judiciary Committee has undertaken to allocate the time and attention needed to work through these complicated provisions. Getting this right is critical for the nation's innovative capacity and economic competitiveness, particularly in the face of rapidly increasing international competition.

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