June 1, 2015

The Honorable Charles E. Grassley
Chairman
Committee on the Judiciary
U.S. Senate
Washington DC, 20510

The Honorable Patrick J. Leahy
Ranking Member
Committee on the Judiciary
U.S. Senate
Washington DC, 20510

Re: S. 1137, the “PATENT Act”

Dear Chairman Grassley and Ranking Member Leahy:

I write on behalf of the American Bar Association to thank you, the other co-sponsors of S. 1137, and the membership of the Judiciary Committee for your excellent work and progress toward finding a fair and balanced response to the abusive patent enforcement practices by those who acquire and hold patents primarily to extract extortionist settlements and judgments, and not to provide products and services to the public. Fashioning legislation that accomplishes these objectives without diminishing the ability of legitimate patent owners to enforce their rights is no easy task, and we congratulate you for finding, in the PATENT Act, bipartisan solutions to extremely complex and contentious issues.

In the Second Session of the 113th Congress, your Committee engaged in extensive efforts to review several Senate bills and one House-passed bill and to assemble a comprehensive package of solutions to issues presented by the unscrupulous tactics of persons and entities known by the various labels of patent troll, non-practicing entity, and patent assertion entity. On February 4, 2014 the ABA and its Section of Intellectual Property Law wrote you expressing our views and concerns regarding the many proposals that you were evaluating.

A primary concern of ours was the extent to which some of the proposals would override the congressionally established system under which the federal courts develop rules of procedure and case management for all litigation. Instead, those proposals would by legislative fiat establish separate rules applicable only in patent cases. We urged the Committee to continue reviewing and refining the legislation “with particular emphasis on providing guidance to the Judicial Conference and district courts,” rather than statutory mandates.

In our view, the provisions of section 6 of S. 1137 providing for the development of rules of procedure and case management constitute an effective response to problems caused
by the asymmetries in discovery burden and costs when a non-practicing entity files a patent infringement suit. Section 6 provides guidance rather than an inflexible mandate to the Judicial Conference in developing rules to address issues such as entitlement to core discovery, procedures for electronic discovery, additional document discovery beyond core discovery, and discovery sequence and scope. Section 6 also authorizes a district court, in applying these rules as developed by the Judicial Conference, to modify the requirements of the rules for good cause shown. This additional safety valve should help facilitate effective and efficient application of these discovery rules. We support these provisions.

We encourage you to apply the principle reflected in section 6 – which leaves responsibility for the development of detailed rules of procedure with the federal judiciary, with congressional guidance on the issues to be addressed and factors to be considered in the rulemaking – to two other provisions of S. 1137 that present similar issues and challenges. These are section 3 relating to pleading requirements and section 5, discovery limits.

Section 3 would establish extremely detailed and demanding statutory pleading requirements for alleging patent infringement, including identification of each patent and each claim infringed, the elements of the claim infringed and how the claim is infringed, and each accused instrumentality.

With the bill’s sanction of dismissal of any claim failing to meet all these requirements, the pleading requirements of S. 1137 seem certain to generate extensive motion practice, resulting in increased delays and expenses of the proceedings.

Section 5 addresses issues relating to delayed discovery in the early stages of a patent suit. We commend the authors of S. 1137 for your decision not to authorize strict limits on discovery until a claim construction is issued, as other bills have proposed. However, we believe that the limits on discovery during the pendency of a motion to dismiss, transfer venue, or sever accused infringers may generate undesirable consequences similar to those we foresee in the pleading requirements in section 3: extensive motion practice and increases in delay and expense.

In addressing the issues of pleading and delayed discovery during early motion practice, we urge you to apply the measured and balanced approach that you wisely apply in the discovery provisions of section 6.

S. 1137 also includes a very positive change in the treatment of fee shifting, perhaps the most contentious of the issues addressed in the bill. While other bills before the Committee have called for mandatory awards of attorney fees to prevailing parties in patent cases, S. 1137 does not. The bill properly places the burden of proof on the prevailing party. Before making such an award, the court must find that the position or conduct of the non-prevailing party was not objectively reasonable in law or fact. The court also has discretion to decline to make such an award when “special circumstances make an award unjust.”
Section 4 of the S. 1137 addresses the issue of stays of suits against downstream customers who are selling or using allegedly infringing products when the manufacturer of the product is also being sued. While earlier proposals providing for these stays had strong support conceptually, many, including the ABA Section of Intellectual Property Law, believed that the proposals as drafted contained flaws that would allow downstream “value added” manufacturers to qualify for a stay. S. 1137 corrects those flaws by limiting eligibility to retailers or end users who have not materially modified the product or process in question.

We also commend you for including provisions in S. 1137 authorizing direct enforcement action by the Federal Trade Commission against parties that send out bad faith demand letters alleging patent infringement, with the objective of obtaining extortionist settlements. Provisions similar to these were included in S. 1720, Senator Leahy’s bill, but in no other bill before the Committee in the 113th Congress. We support the enactment of these provisions, and believe that direct action targeting this small subset of the total population seeking to enforce their patent rights can be an efficient and cost-effective action to combat these abusive tactics.

The ABA appreciates your diligent work in forging balanced and responsible legislation to address these complex issues, and we appreciate your considering our recommendations regarding modification of sections 3 and 5 of the bill. We would be pleased to work with you as you continue your good work in this area. Should you have any questions concerning the ABA’s views on S. 1137, please feel free to contact Hayden Gregory with the ABA Governmental Affairs Office at 202-662-1772 or hayden.gregory@americanbar.org.

Sincerely,

William C. Hubbard