Update On The Status Of United States Patent Reform

Presented to KCBA IP Section
April 3, 2014

Jared Schuettenhelm
Seattle, WA
Patent Reform—Why Now?

• Over the past 5-6 years, number of suits increasing exponentially
  • Perceived as significant burden on economy
  • Overwhelming district courts with complicated cases
• Significant increase in media attention
• Corporate pressure for political intervention has increased
• But to date, attempts at reform have been slow
  • The legislative process is burdensome
  • Political hurdles
Patent Reform—Who Is Responsible?

- Currently, there are several different approaches to patent reform taking place
  - Legislative in the United States Congress
  - Judicial in the Court of Appeals for the Federal Circuit and the United States Supreme Court
  - Legislative in the states
Patent Reform In Congress
Current Patent Reform Efforts In Congress

• 12 different legislative bills have been proposed
• Some of the more significant bills include the following
  • House of Representatives
    • The Innovation Act
    • Patent Litigation and Innovation Act
    • Demand Letter Transparency Act
  • Senate
    • The Patent Transparency and Improvements Act of 2013
    • The Patent Litigation Integrity Act of 2013
    • The Patent Abuse Reduction Act
Innovation Act

• Has made the most progress to date
• Represents a comprehensive attempt at patent reform which targets many of the perceived issues in the current system
• Has already passed the House and is up for debate in the Senate
Innovation Act

- Introduced in the House of Representatives (Rep. Goodlatte, VA) on October 22, 2013
- Passed by the House on December 5, 2013
Innovation Act—Key Provisions

• Heightened pleading standards
• Fee shifting provisions
• Transparency regarding real party in interest
• Discovery reform
• Staying customer suits
Innovation Act—Heightened Pleading Standards

• Complaint for patent infringement would be required to:
  • Identify each claim of each patent that is accused of infringement
  • Identify with particularity each instrumentality alleged to infringe each claim
  • Explain, for each accused instrumentality:
    • Where each claim element is found in the instrumentality
    • Whether the claim element is infringed literally or under the doctrine of equivalents; and
    • How the claim terms correspond to the functionality of the instrumentality with detailed specificity
Innovation Act—Heightened Pleading Standards

- If indirect infringement alleged, the complaint must describe
  - The direct infringement
  - Any person alleged to be a direct infringer
  - The acts of the alleged indirect infringer that contribute to or induce infringement

- Complaint must also:
  - Describe the principal business of the plaintiff
  - Contain a list of every other complaint that has been filed asserting the patents
  - Identify whether the patents have been declared essential to any standards setting organization
Innovation Act—Fee Shifting Provision

• Prevailing party would be entitled to an award of reasonable fees and expenses, unless the court finds that:
  • Position of the non-prevailing party was substantially justified; or
  • Special circumstances make such an award unjust

• A party that asserts a claim for relief against another party, and subsequently extends a unilateral covenant not to sue that other party, would be considered a non-prevailing party
Innovation Act—Fee Shifting Provision

• Concept of fee-shifting is controversial
  • Runs counter to the thesis underlying US judicial system (access to the courts for all)
• While the intent is to curb meritless patent infringement claims, could also impact accused infringers with viable, but challenging, defenses
  • How does a court determine what is “substantially justified,” particularly in light of the impact of claim construction?
Innovation Act—Discovery Reform

• Discovery prior to claim construction would generally be limited to information necessary for the court to issue its claim construction order
  • Should be minimal if any

• Court retains discretion to allow early discovery prior to issuance of a claim construction order:
  • Where resolution of the action would necessarily affect the rights of a party with respect to the patent
  • Where necessary to resolve a motion that is brought prior to the claim construction order
Innovation Act—Discovery Reform

- Would delay the majority of the cost of discovery until after claim construction

- Would allow parties to more accurately assess potential settlement in light of anticipated discovery costs
Innovation Act—Transparency of Ownership

• Plaintiff would be required to disclose the identity of:
  • The assignee of the patent(s)
  • Any entity with a right to sublicense or enforce the patent(s)
  • Any entity that plaintiff knows to have a financial interest in the patent(s)
    • Name, correspondence information, corporate information
  • Any parent entities for each of the above
• Plaintiff must disclose this information to the court, each adverse party, and to the Patent Office
Innovation Act—Transparency of Ownership

• The plaintiff would have an ongoing duty of disclosure to the Patent Office

• Transparency would allow defendant(s) to immediately seek discovery from those with financial stake in outcome
Innovation Act—Stay Of Suits Against Customers

• If a plaintiff sues a customer for patent infringement, the customer would be entitled to stay the lawsuit where:
  • The manufacturer is a party to the lawsuit or to a separate lawsuit involving the same patent(s) related to the same product or process
  • The manufacturer and the customer consent in writing to the stay
  • The customer agrees to be bound by any judgment entered against the manufacturer to the same extent that the manufacturer is bound
Innovation Act—Summary

• Not passed the Senate
  • More controversial provisions including fee shifting could be removed or significantly altered by the Senate version prior to a vote
• A number of competing bills in the Senate have some, but not all, of these provisions
  • Senate may simply not vote on the Innovation Act, choosing to instead vote on one of the Senate bills
  • The Patent Transparency and Improvements Act of 2013 (“Patent Transparency Act”) is one Bill currently garnering attention in the Senate
Patent Transparency Act

- Introduced in the Senate (Sen. Leahy, Vt.) on November 17, 2013
- Could be voted on soon
Patent Transparency Act

• Less ambitious than the Innovation Act

• Key Provisions
  • Provisions similar to the Innovation Act
    • Transparency of patent ownership
    • Stay of customer suits
  • Other notable provisions
    • Provision addressing bad faith demand letters
Patent Transparency Act – Bad Faith Demand

• Provides that it is an unfair or deceptive act to send a written communication stating that a party infringes if:
  • The communication falsely threatens that relief will be sought if compensation is not paid
  • The assertion contained in the communication lacks a reasonable basis in fact or law
  • The communication is likely to materially mislead the recipient
    • E.g., fails to include facts necessary to inform the recipient of the reasons for the assertion of patent infringement
• Provides for enforcement by the FTC
## Summary – Legislative Reform

<table>
<thead>
<tr>
<th>Provision</th>
<th>Innovation Act (House)</th>
<th>Patent Transparency Act (Senate)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stay of customer suit</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Patent ownership transparency</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Fee shifting</td>
<td>Yes</td>
<td>--</td>
</tr>
<tr>
<td>Discovery reform</td>
<td>Yes</td>
<td>--</td>
</tr>
<tr>
<td>Heightened pleading requirements</td>
<td>Yes</td>
<td>--</td>
</tr>
<tr>
<td>Bad faith demand letters</td>
<td>--</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Patent Reform In The Courts
Judicial Attempts At Patent Reform

• Courts are often able to address issues more quickly than the legislative process
• In recent years, both the Supreme Court and the Federal Circuit have issued a number of decisions impacting patent litigation
• District courts have also implemented procedures to reduce cost and impact of patent infringement litigation
Supreme Court—Changes In Legal Standards

• The Supreme Court has granted certiorari in several cases likely to impact patent infringement litigation
  • *Limelight Networks v. Akamai Technologies*
    • Legal test for determining induced infringement
  • *Nautilus, Inc. v. Biosig Instruments, Inc*
    • Legal test for determining whether a patent claim is indefinite
Federal Circuit—Changes In Legal Standards

• It may be easier for defendants to obtain fees against plaintiffs that bring infringement actions
  • *Kilopass Technology v. Sidense Corp.* (2013)
  • In order to obtain fees, the defendant must show the plaintiff acted in subjective bad faith
  • But this can be shown in a variety of ways
    • May be established by objective baselessness
District Court—Procedural Changes

• Pleading standards
  • Traditionally, courts have held that a plaintiff need only comply with Form 18 to state a claim for direct patent infringement
    • Form 18 provides a sample complaint for patent infringement
    • Form 18 has been described as “bare-bones”
  • Recently, there have been efforts to end reliance on Form 18
District Court—Procedural Changes

• Efforts to amend pleading standards for direct infringement
  • Judicial Conference of the U.S.
    • Proposed amendments to the Federal Rules of Civil Procedure
    • The proposed amendments would abrogate Rule 84, under which the model forms are provided
      – Cites “tension between the pleading forms and emerging pleading standards”
  • Specifically references inadequacies in Form 18
    – “[S]ome of the forms have come to seem inadequate, particularly the Form 18 complaint for patent infringement”
District Court—Procedural Changes

• At least one district court has recently required heightened pleading for direct infringement
    • Held that compliance with Form 18 was not sufficient to plead direct infringement
    • According to the district court, the plaintiff must ascertain
      – Exactly **what claims** are allegedly infringed
      – **How** they are infringed
    • This “will mean taking great care crafting a . . . patent complaint” and “may well, indeed likely will, require expert assistance”
District Court— Other Procedural Changes

- Infringement contentions
  - A number of courts require detailed infringement contentions
  - Some courts require showing of good cause to amend
- Discovery reform
  - Limits on custodians and email
- Limitations on asserted claims
- Limitations on number of claim terms to be construed
Patent Reform In The States
State Efforts At Patent Reform—Can They Do It?

• United States patents are governed by federal law, not state law
  • The patent system arises out of the United States Constitution

• There are questions regarding the ability of states to enforce laws that may impact patent rights
  • Expect significant challenges to constitutionality of attempts by the states
State Efforts At Patent Reform—What is being done?

• Primary vehicle has been through amendment of consumer protection laws
  • These laws are designed to protect the residents of a state from predatory acts by companies, especially those operating in bad faith
State Efforts At Patent Reform—Vermont

- Vermont has passed a law allowing companies to sue non-practicing entities for bad faith assertions of patent infringement.
- Under Vermont’s law, “bad faith assertions” include:
  - Sending a licensing demand letter that lacks basic information about the alleged infringement.
  - Failing to conduct an analysis comparing the claims to the allegedly infringing product.
  - Sending a licensing demand letter that demands payment of a licensing fee in an unreasonable amount of time.
  - Offering to grant a license for an amount that is not based on a reasonable estimate of the value of the license.
  - Bringing a meritless or deceptive claim for patent infringement.
State Efforts At Patent Reform—Vermont

- Remedies for violation of this consumer protection law
  - Damages
  - Costs and fees, including attorney’s fees
  - Exemplary damages in an amount equal to $50,000, or three times the total of damages, costs, and fees, whichever is greater
State Efforts At Patent Reform—Vermont

• Bond provisions
  • If an alleged infringer files a motion demonstrating a reasonable likelihood that an entity made a bad faith assertion of patent infringement, the court shall require the entity to pay a bond
State Efforts At Patent Reform—Vermont

- The Attorney General of Vermont has already filed a complaint against one patent assertion entity
  - *State of Vermont v. MPHJ Tech. Investments, LLC*
    - The entity allegedly sent demand letters to a number of small business and non-profit organizations in the State
    - Vermont alleges that these actions were unfair and deceptive
  - The case is still in the fairly early stages
    - MPHJ has raised constitutional challenges
State Efforts At Patent Reform

• Other states have enacted, or are in the process of enacting, similar legislation
  • Oregon
  • Wisconsin
  • Nebraska
  • Kentucky
  • Maine
State Efforts At Patent Reform—Nebraska

• The Nebraska Attorney General has also made a concerted effort to halt NPEs
  • The Attorney General launched an investigation of a law firm that represents NPEs
  • He also ordered the law firm to stop sending demand letters while he investigated whether it was violating consumer protection laws
    • A judge subsequently ruled that the Attorney General could not issue such an order
  • Regardless, it is clear that the Nebraska Attorney General intends to pursue NPEs aggressively
State Efforts At Patent Reform—New York

• New York has also sought to curb NPEs
  • New York’s Attorney General sued MPHJ, the same NPE that the Vermont Attorney General sued
  • The Attorney General reached a settlement with MPHJ
• This same NPE (MPHJ) has recently sued the Federal Trade Commission (FTC) in Texas
  • Claims that the FTC is interfering with its rights to exploit its patents
Thank you!

Jared Schuettenhelm
Associate
Bracewell & Giuliani LLP
701 Fifth Ave.
Suite 6200
Seattle, WA 98104
jared.schuettenhelm@bgllp.com