Patent Reform Momentum in 2014

- America Invents Act began taking effect on September 16, 2011.
- The House passed a new far-reaching reform bill on December 5, 2013, by a vote of 325-91.
  - Sponsored by Rep. Bob Goodlatte – Virginia (R)
  - Passed House 325-91 on December 5
  - Conventional wisdom was that a bill that received that many votes from both parties would sail through the Senate.
  - Not so fast . . .
Patent Reform Momentum in 2014

- The Senate Judiciary Committee spent four months drafting a compromise bill in a marked up version of S 1720.

- Sen. Pat Leahy – Vermont (D) – abruptly pulled the bill off the table on May 21.

- In July, Sen. Leahy blamed Sen. Harry Reid for being unwilling to bring a bill to a vote on the Senate floor – claiming to be “furious.”

- Fee shifting is the main issue of contention.

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Patent Reform Momentum in 2014

- The Supreme Court issued six patent opinions out of 69 total opinions issued last term.

- New legislation is pending, and the Court is hearing argument on another key case next term.

- Dozens of states are taking action, too.
Is There a Problem? What Is It?

- Suggesting that there is not a problem is heresy to some.
- There is a good argument, however, that the “problem” is a civil justice problem and not a patent litigation problem.
- The cost and time required to resolve a case in the courts may be a problem that particularly acute in the patent setting.

Overview of Today’s Webinar

- Patent Reform in the Congress
- Patent Reform in the Courts
- AIA Review Procedures Seem to Be Working
- State Law Actions
- Executive Action
- What to Expect in 2015
Patent Reform in the Congress in 2014

- Innovation Act – a/k/a the Goodlatte Bill
- Patent Transparency and Improvements Act
- Lawsuit Abuse Reduction Act
- Patent Abuse Reduction Act
- Patent Litigation Integrity Act
- Patent Litigation and Innovation Act
- Shield Act
- End Anonymous Patents Act
- Transparency in Assertion of Patents Act
- Demand Letter Transparency Act
- PACES Act
- Patent Quality Improvement Act
- STOP Act
- PATENT Jobs Act
- Patent Fee Integrity Act
- Innovation Protection Act
- Targeting Rogue and Opaque Letters Act
- Trade Protection Not Troll Protection Act

Leading House Bill – Innovation Act – HR 3309

Key Provisions:
- Eliminate Form 18 and require detailed pleading, essentially requiring infringement contentions
- Loser pays – unless reasonably justified in law and fact
- Disclosure and liability of “interested parties”
- Phased discovery
- Requires specificity in demand letters to later prove willful infringement
- Stay cases against customer defendants
- Directs adoption of new rules of civil procedure
- Modifies claim construction standard in IPR and PGR
- Narrows AIA estoppel
- Extends patent litigation pilot program
Innovation Act – HR 3309

- **ABA Criticism:**
  - February 4 letter to Senator Leahy from ABA and ABA Section of Intellectual Property
  - Supports Section 5 of S 1720 re bad faith demand letters
  - Opposes mandatory fee shifting, but supports more flexible application of 35 U.S.C. § 285 – case would not need to be both objectively baseless and pursued in subjective bad faith
  - Favors increasing transparency re ownership but not HR 3309
  - Approves of stays of customer suits
  - Favors limiting estoppel in PGR
  - Opposes applying district court claim construction standard to IPR and PGR
  - Opposes making CBM review permanent
  - Favors studying a patent small claims procedure

Leading Senate Bill – Patent Transparency and Improvements Act – S 1720

- **Key Provisions:**
  - Requires disclosure of all financially interested parties and timely recording of assignments – failure to comply would block ability recover enhanced damages or attorneys’ fees
  - Stay suits against customer defendants (must agree to be bound by lead suit)
  - Materially false or misleading demand letters are a deceptive trade practice to be regulated by the FTC
  - Conforms claim construction standards used in IPR and PGR to district court standard
  - Narrows estoppel in PGR
Patent Transparency and Improvements Act – S 1720

- Comparison to HR 3309:
  - No loser pays
  - No phased discovery
  - No mention of Form 18 or heightened pleading requirements

Senate Compromise

- Form 18 and stricter pleading requirements
  - Identify accused product and how it infringes unless “not readily accessible”
- Demand letter rules
- Modified loser pays
  - Fee shifting if loser did not behave in an objectively reasonably fashion as opposed to a default provision
  - Carve outs for certain classes of plaintiffs
- Discovery initially limited to claim construction
- Disclosure of interested parties
- Stays of cases against customer defendants if customer agrees to be bound
- Conform IPR and PGR claim construction to district court approach
- Narrow PGR estoppel
Patent Reform in the Congress – Common Themes

- Pleading requirements
- Transparency
- Phased discovery
- Staying of suits versus end-users
- Fee shifting
- Demand letters
- AIA adjustments
- Other provisions

Pleading Requirements

- HR 3309 and S 1013
- Apply \textit{Iqbal} and \textit{Twombly} to direct infringement claims
- Require extensive contentions at pleading stage with some exceptions
Transparency

- HR 3309, HR 2024, S 1720, and S 1013
- Require disclosure of all financially interested parties – broadly defined
- Liability for all such parties if there is fee shifting
- Heightened recording requirements at the Patent Office
- Failure to comply can block economic damages, enhanced damages, and attorneys’ fees

Phased Discovery

- HR 3309 and S 1013
- Discovery initially limited to claim construction
- S 1013 requires cost-shifting or posting of a bond for “additional discovery”
- HR 3309 required amendment of the FRCP
- Limits on discovery of emails and other ESI
Stays

- HR 3309 and S 1720
- Require or urge district courts to stay suits against customer or other end-user defendants
- May require the party seeking the stay to agree to be bound by the lead suit

Fee Shifting

- HR 3309, S 1013, S 1612
- True “loser pays” provision – fee shifting would be the default rule
- Other bills allow fee shifting where losing party’s position was objectively unreasonable
- S 1612 requires the plaintiff to post a bond
- Some safe harbors for certain classes of patent holders
Demand Letters

- HR 3540, S 1720, and S 2049
- At a minimum, requires heightened notice before such notice can be used as evidence of willfulness
- Most bills give FTC authority to regulate demand letters
- Some bills also empower Patent Office or state AGs to enforce
- Large fines for each non-compliant letter

AIA Adjustments

- HR 3309, S 1720, and S 866
- Claim construction standard adjusted
- PGR estoppel
- HR 2766 and S 866 would extend scope of CBM review and make the procedure permanent
Other Provisions

- Extension of Rule 11 (HR 2655 and S 1288)
- Preclusion of admission of settlement agreements in evidence (S 1013)
- Stays pending motions to transfer or dismiss (HR 2639)
- Extend patent pilot program
- Patent small claims procedure
- Allow PTO to keep all user fees - $1 billion in fees diverted since 1990 (HR 3349 and S 2146)
- Limit NPE ability to file suit in the ITC

“Laws are like sausages, it is better not to see them being made.”  - attributed to Otto von Bismarck
Patent Reform in the Courts in 2014

- Supreme Court issued 69 opinions in 2013-14 Term – 5 related to patent reform:
  - Alice Corp. Pty., Ltd. v. CLS Bank Int'l, 134 S. Ct. 2347 (2014)

Octane Fitness and Highmark

- Fee shifting
- No longer need to prove that a case is both objectively baseless and brought in subjective bad faith – courts look at totality of circumstances now
- SCOTUS held that the old rule set the bar too high
- It should be easier to recover attorneys’ fees, but that will be very judge-dependent
- Standard of review on appeal is now abuse of discretion

** Does this limit the need for fee shifting in pending legislation??
Nautilus

- How clear do claim terms have to be to be valid?
- The old test held that claim terms were valid unless they were “insolubly ambiguous”
- SCOTUS held that the old test set the bar too high
- Claims must serve a public notice function
- They must be “reasonably certain”

Limelight

- Is there a separate test for direct infringement versus the direct infringement that is a necessary predicate for indirect infringement?
- SCOTUS held that there is only one test
- There must be a single direct infringement – cannot be divided
- SCOTUS seems to urged the Federal Circuit to reexamine the divided infringement doctrine – this could be step back for patent reform
Alice

- Patentability under 35 U.S.C. § 101
- SCOTUS did not “do away” with software patents
- But SCOTUS held that a patent holder cannot claim an entire abstract idea, even by adding a generic computer adaptation
- Need meaningful limitations
- ** Does this make cases more vulnerable to a Rule 12(b)(6) motion.

USPTO Guidance re Alice

- USPTO issued guidance on June 25, 2014
  1) Determine whether the claims are direct to one of the four statutory categories of invention (i.e. process, machine, manufacture, or composition)
  2) If the claim does fall within one of the statutory categories, determine whether the claim is directed to a judicial exception (i.e. laws of nature, natural phenomena, and abstract ideas)
  3) To determine whether the claims are direct to an abstract idea . . .
     - Courts are concerned with monopolization of basic tools of science and technology
     - Claims cannot cover: fundamental economic practices, methods of organizing human activities, an idea itself, mathematical formulas
  4) If the claim covers an abstract idea, are there other meaningful limitations?
     - Yes: E.g., improvements to another technology or technical field or improvements to the functioning of a computer
     - No: E.g., adding the words “apply it” to an abstract idea or requiring no more than a general purpose computer
USPTO Guidance re Alice

- Is this enough guidance?
- Section 101 cases will be back in the Supreme Court.
  - The next leading case to be heard in the Federal Circuit is *Ultramercial Inc. v. WildTangent Inc.*, Case No. 10-1544

AIA Review Procedures Appear To Be Working

- The key new procedures are the Covered Business Method review, the Inter-Partes Review, and the Post-Grant Review
- Approximately 80% of petitions for IPRs are granted – a proceeding was begun
  - (out of 1614 IPRs and 204 CBMs as of August 14, 2014)
- Most cases that do not settle result in invalidity rulings or serious claim amendments – many cases settle early
- Some have referred to the PTAB boards hearing these cases as "patent death squads"
- Legal fees and costs typically range from $250,000 to $500,000 – materially less than district court litigation
AIA Review Procedures Appear To Be Working

- New proposed legislation might:
  - Expand CBM review
  - Limit the estoppel provision in PGR
  - Conform the claim construction standard to that used in the district court

- Is any further reform needed here?

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AIA Review Procedures Appear To Be Working

- MBF has initiated more than a dozen IPRs – two final judgments so far and our clients won both.

- We have a team focused on these proceedings that combines both litigation and patent prosecution experience as these procedures a hybrid of both.

- Gilberto Espinoza presenting next month’s webinar on this topic.
State Law Action

- At least 12 states have passed laws regulating patent demand letters:
  - Includes Wisconsin
  - Illinois legislation passed and is on the governor’s desk
- Other state Attorneys’ General have brought suits based on existing consumer protection laws.
  - E.g., Nebraska and Vermont cases against MPHJ
- State politicians and AGs have found a politically popular issue.
  - Oregon law passed unanimously

State Law Action

- Wisconsin:
- Defines mandatory contents of a demand letter:
  - Asserted patent
  - Accused product
  - Patent owner’s identity
  - Basis for allegations
  - Include a copy of the patent
- $50,000 fine per violation
- Exception for health care or research institutions that receive federal funding and have expenditures of at least $10 million – carve out for University of Wisconsin? Or WARF?
State Law Action

- Illinois:
  - New Bill – SB 3405
    - The bill would add a new section to the Consumer Fraud and Deceptive Business Practices Act.
    - Letters must contain identity of person asserting the patent, specific factual allegations re infringement, disclosure of invalidity rulings.
  - Governor must decide whether to sign by August 26, 2014.

State Law Action

- Are these state laws constitutional?
- Article I, Section 8, Clause 8
  - Congress has the exclusive power:
    - “To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries”
  - Are these laws necessary – existing consumer protection laws may suffice?
  - At least one district court has enjoined such state activities – Nebraska AG cease and desist effort against MPHJ.
  - On the other hand, Vermont suit against MPHJ allowed to proceed in state court.
State Law Action

- It’s not clear that these bills address the most serious patent litigation challenges.

- . . . back to my opening questions; is this a patent problem or a civil justice problem?

Executive Action

- Requiring USPTO to write rules requiring patent applicants and owners to regularly update ownership information
- New training for examiners re functional claiming to improve claim clarity
- Crowdsourcing prior art
- More robust technical training for patent examiners
Ownership Transparency

- Authorizes Patent Office to draft rule requiring disclosure of real party in interest – uses term “attributable owner”
- Including the ultimate patent entity
  - (See HR 2024)
- Must be updated at various times in the life of a patent
- Final rule due in coming months

Functional Claiming

- Aimed at a perceived large source of vague or overly broad patents, especially in “software patents”
- Direct Patent Office to develop and implement better training for examiners
- Rigorously examine functional claims
- PTO pilot program using glossaries in patent specifications to promote clarity
  - But few want to do this
Crowdsourcing Prior Art

- Directed Patent Office to work with private industry, experts, and the public to find prior art
- Use databases developed by private parties

What to Expect in 2015

- The new Congress almost certainly will take up patent reform again:
  - House Judiciary Committee Chair Bob Goodlatte has made this a high priority.
  - Senate Judiciary Committee Chair Patrick Leahy seems willing to address patent reform – if taken at his word, he should not be an obstacle to reform if he becomes just the ranking minority member of the committee.
  - Fee shifting again is likely to be the most hotly contest issue.
  - Whether Senator Harry Reid is in position to block a floor vote again becomes the key.
  - Legislators continue to propose new demand letter bills.
  - Pending legislation to prevent NPEs from filing suits in the ITC.
What to Expect in 2015

- SCOTUS has accepted another important case:
  - The Supreme Court will decide whether district court claim construction decisions should be reviewed de novo.
    - *Teva Pharm. USA Inc. v. Sandoz Inc.*
    - Set for oral argument on October 15, 2014
  - Some believe that giving the courts more discretion will result in fewer appeals and more certainty.