



## 2014 Patent Reform – Developments in the Congress and the Courts

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### Patent Reform Momentum in 2014

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- 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

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- 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.

3

## Patent Reform Momentum in 2014

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- 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.

4

## Is There a Problem? What Is It?

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- 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.

5

## Overview of Today's Webinar

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- 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

6

## 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

7

## 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

8

## Innovation Act – HR 3309

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- 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

9

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

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- 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

10

## Patent Transparency and Improvements Act – S 1720

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

11

## Senate Compromise

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- 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 reasonable 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

12

## Patent Reform in the Congress – Common Themes

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

13

## Pleading Requirements

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- HR 3309 and S 1013
- Apply *Iqbal* and *Twombly* to direct infringement claims
- Require extensive contentions at pleading stage with some exceptions

14

## Transparency

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- 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

15

## Phased Discovery

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- 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

16



## Stays

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- 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

17

## Fee Shifting

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- 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

18

## Demand Letters

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- 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

19

## AIA Adjustments

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- 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

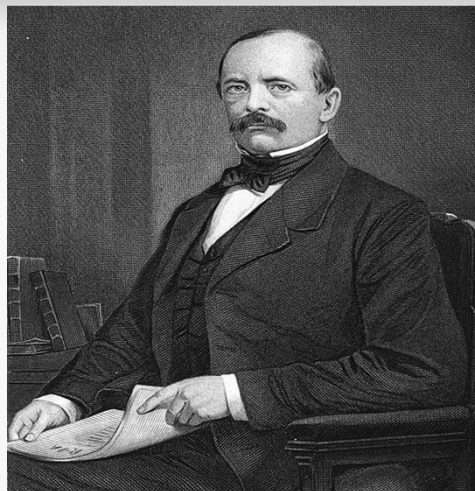
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## Other Provisions

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- 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

21



“Laws are like sausages, it is better not to see them being made.”

- attributed to Otto von Bismarck

22

## Patent Reform in the Courts in 2014

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- Supreme Court issued 69 opinions in 2013-14 Term – 5 related to patent reform:
  - *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014)
  - *Highmark Inc. v. Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744 (2014)
  - *Nautilus, Inc. v. Biosig Instruments, Inc.*, 134 S. Ct. 2120 (2014)
  - *Limelight Networks, Inc. v. Akami Techs., Inc.*, 134 S. Ct. 2111 (2014)
  - *Alice Corp. Pty., Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014)

23

## Octane Fitness and Highmark

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- 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??

24

## Nautilus

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- Patent Indefiniteness under 35 U.S.C. § 112
- 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”

25

## Limelight

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- 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

26

## Alice

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- 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.

27

## USPTO Guidance re Alice

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- 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

28

## USPTO Guidance re Alice

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- 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

29

## AIA Review Procedures Appear To Be Working

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- 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

30

## AIA Review Procedures Appear To Be Working

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- 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?

31

## AIA Review Procedures Appear To Be Working

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- 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.

32



## State Law Action

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- 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

33

## State Law Action

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- 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?

34

## State Law Action

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- 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.

35

## State Law Action

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- 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.

36

## State Law Action

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- 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?

37

## Executive Action

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- 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

38

## Ownership Transparency

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- 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

39

## Functional Claiming

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- 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

40

## Crowdsourcing Prior Art

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

41

## What to Expect in 2015

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- 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 contested 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.

42

## What to Expect in 2015

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- 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.

43

## 2014 Patent Reform – Developments in the Congress and the Courts

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