

EXPERT ANALYSIS

2015 Patent Reform: Is it Happening?

By Andrei Iancu, Esq., and Maclain Wells, Esq.
Irell & Manella

Just four years after the passage of the 2011 American Invents Act, both Houses of Congress have again pushed important reforms of U.S. patent law. Most prominently, on Feb. 5, Rep. Bob Goodlatte, R-Va., reintroduced the Innovation Act, H.R. 9, for patent reform on behalf of a bipartisan coalition of 20 House members.

The Innovation Act is largely duplicative of a 2013 bill of the same name that passed the House by a wide margin but stalled in the Senate.¹

The act's stated purpose is to curb abusive patent suits by non-practicing entities, or "patent trolls," as proponents of the act sometimes call them.²

On April 29, Senate Judiciary Committee Chairman Sen. Charles Grassley, R-Iowa, introduced a companion bill, the Protecting American Talent and Entrepreneurship Act, or PATENT Act, S.1137, on behalf of a bipartisan group of senators. While similar, the Senate bill differs from the House bill in several key respects. Other, less sweeping proposed legislation has also been introduced. For example, the Targeting Rogue and Opaque Letters Act, or TROL Act, H.R. 2045, is directed only at curbing abusive demand letters.

Now that Republicans control the Senate and the House, patent reform may be one of the few areas for potential legislative agreement with the White House. President Barack Obama voiced support for the prior version of the bill, though he has not yet commented on the current version.³ Recently, however, support for the respective bills has wavered.⁴ Both houses have delayed voting on the bills until the fall. While these delays may allow lawmakers to address remaining differences in the bills, they may also signal that now is not the time for further patent reform in Congress — especially on an issue subject to intense lobbying efforts with an election year approaching.

Some legislators have begun to question whether the proposed changes are necessary given recent events impacting patent rights. Last year, for example, the Supreme Court issued its opinion in *Alice Corp. v. CLS Bank*, 134 S. Ct. 2347, in which it clarified the requirements for patentability of "abstract ideas." Commentators have observed that *Alice* "raised the bar for patentability and enforcement of software patents."⁵

The data also indicate that the decision may have had an impact on assertion of business method patents. For example, a 2015 PricewaterhouseCoopers study found that filings of new patent suits dropped by 13 percent in 2014, a change many attribute to the *Alice* decision.⁶

Supporters of the proposed legislation argue that the Innovation Act and the PATENT Act are both directed at limiting the ability of non-practicing entities to bring abusive suits to enforce alleged patent rights.⁷

As currently written, however, the legislation imposes a series of hurdles on all parties to patent litigation and could therefore impact the patent system as a whole.

NEW REQUIREMENTS FOR PATENT OWNERS BRINGING SUIT

Limiting venue

In committee, Goodlatte on June 19 introduced a manager's amendment to the Innovation Act to include further venue limitations directed at curbing suits by NPEs. Under the proposed provisions, patent infringement lawsuits may be filed only in a district that has "some reasonable connection to the dispute,"⁸ including where:

- A defendant has its principal place of business or is incorporated.
- A defendant has a regular and established physical facility where infringing activity occurred.
- The claimed invention was conceived or reduced to practice.
- Significant research and development of the claimed invention occurred.
- A party has a regular and established physical facility where the patented product is manufactured or the party engaged in management of significant research and development of the claimed invention.
- The defendant has consented to be sued.

These provisions are not limited to NPEs.

Requiring detailed factual pleading

Since their adoption in 1938, the Federal Rules of Civil Procedure have required plaintiffs to provide a short and plain statement of a claim sufficient to put the defendant on notice of the claims against him. This is known as "notice pleading." One rationale for notice pleading is that in some cases court-sanctioned discovery is necessary to determine the specifics of the alleged misconduct.

Patent cases often involve confidential technical information, such as computer source code. As a result, it is often not possible to determine the detailed functioning of the accused instrumentality without such discovery. One drawback to notice pleading is that accused infringers are often required to spend millions of dollars responding to discovery requests before the details and merits of the case are even known.

Section 3(a)(1) of the Innovation Act would create a heightened standard for pleadings in patent cases, requiring the party asserting infringement to provide detailed information at the outset of the case. Sections 3(a) and 3(b) of the PATENT Act include similar provisions. These disclosures include the specific claims being asserted; each accused instrumentality; the patent owner's contention of "where each element of each claim ... is found within the accused instrumentality" and "how each limitation ... is met"; and the bases for any indirect infringement claims for contributory or induced infringement.

If the party asserting infringement is unable to produce such specific details, it must provide a general description and an explanation of why the information "was not readily accessible." In addition, it must detail the efforts made to access such information.

These detailed disclosure requirements would necessitate more thorough pre-filing investigations, help prevent objectively baseless patent assertions and allow the parties to narrowly tailor discovery to the issues in dispute. At the same time, these additional pre-filing disclosures may be more costly for patent owners to prepare. There are no corresponding early-disclosure requirements for accused infringers.

On the other hand, district courts with local patent rules, such as the Northern District of California and the Eastern District of Texas, already require fairly early disclosures, although they are typically reciprocal.

Accused infringers are often required to spend millions of dollars responding to discovery requests before the details and merits of the case are even known.

New fee-shifting provisions

Another new provision in Section 3(b)(1) of the Innovation Act requires the court to award “reasonable fees and other expenses” to the prevailing party absent a specific finding that “the position and conduct” of the losing party were “reasonably justified in law and fact.”

There is also a caveat for “special circumstances” such as “severe economic hardship.” Under Section 7(b) of the Senate version, which also includes a similar provision, fee shifting is not the default; rather, it is appropriate when the prevailing party requests fees and the court determines that the losing party’s conduct was “not objectively reasonable.”

Both bills also take steps to ensure that the losing party can cover any fee award. Under Section 3(b)(2) of the House’s Innovation Act, either party can require certification by the other party that the other party will be “able to pay an award of fees and other expenses.” Under Sections 3(b)(3) and 3(c), this presumptive obligation extends beyond the party asserting the patent to so-called “interested parties.” These parties include assignees of the patent and others with a “direct financial interest” in the patent or the recovery. There is also a notice provision and a caveat for attorneys operating under a contingency arrangement and for stockholders of the asserting party.

The Senate version takes a somewhat different tact in Section 7(b), requiring joinder of interested parties capable of covering any fee award when the plaintiff is an NPE, and not a university, and lacks sufficient funds.

Patent cases often involve large companies and potentially very large damages awards. Given the amount on the line, high-priced patent litigation specialists and extensive, expensive discovery are frequently part of the process. Under the proposed legislation, patent litigants thus face potentially significant economic sanctions if the court disapproves of their conduct or legal theories. Proponents justify this approach by pointing to the significant economic impact of objectively unreasonable patent litigation.⁹

Delaying and limiting discovery

Rather than beginning the discovery process soon after filing initial pleadings, Section 3(d) of the Innovation Act proposes delaying the commencement of most discovery until after the court issues its claim-construction ruling, to the extent necessary, regarding disputed claim terms. In cases involving a request for a preliminary injunction based upon alleged competitive harm involving a competing product, however, discovery would proceed as usual under the Federal Rules, regardless of whether the motion is granted. Under Section 5(a) of the PATENT Act, discovery is delayed if the accused infringer brings a motion to dismiss, transfer or sever.

Where district courts have patent local rules, such as in the Northern District of California, parties usually must provide certain discovery regarding the accused products and their infringement and invalidity positions in advance of claim-construction briefing. Under the proposed schedules of the pending legislation, however, parties would potentially have to take positions regarding the scope and meaning of patent claim terms earlier, without knowing what disputes may exist regarding infringement and invalidity.

Sections 6(a)(1) of both bills also require the Judicial Conference of the United States to develop and implement a set of discovery limitations in patent cases to address “the asymmetries in discovery burdens and costs” arguably faced by some patent defendants. The proposed legislation suggests discovery limitations to curtail broad discovery under the Federal Rules to certain categories of “core documentary evidence.”

Making demand letters more informative

Under 35 U.S.C. § 287(a), in certain instances, patent owners are required to provide potential infringers with notice in order to accrue damages. One mechanism for doing so is to provide actual notice in the form of a demand letter. These demand letters often resurface in litigation

The bills propose detailed disclosure requirements that would necessitate more thorough pre-filing investigations and prevent objectively baseless patent assertions.

A new provision in the Innovation Act requires the court to award “reasonable fees and other expenses” to the prevailing party absent a specific finding that the losing party’s position and conduct were “reasonably justified in law and fact.”

as evidence that the accused infringer willfully infringed the patent. Proponents of the pending legislation point out that demand letters have emerged as a tactic employed by some NPEs to harass masses of potential targets.¹⁰

Under Section 3(f) of the House’s Innovation Act, patent owners would be required to disclose infringement positions similar to those discussed above for patent complaints in order to use the demand letters in later litigation to demonstrate willfulness. Any demand letter that failed to provide “basic information about the patent in question, what is being infringed, and how it is being infringed” would not only be evidence of bad behavior in any related motion for sanctions but could “be considered a fraudulent or deceptive practice” potentially giving rise to a cause of action against the sender under Section 3(e).

Section 8(a) of the Senate’s PATENT Act goes further, providing a detailed list of requirements for demand letters. These includes identification of the patent, at least one infringed claim, the accused products, “a clear and detailed description of the reasons why the plaintiff believes each patent ... is infringed” and an explanation of the remuneration sought. Section 9(a) of the Senate bill also imposes penalties for entities that “engage in the widespread sending” of abusive demand letters.

Changing procedures for post-issuance challenges in the PTO

Three years ago, Congress enacted the Leahy-Smith America Invents Act. The AIA includes a new procedure, *inter partes* review, codified at 35 U.S.C. § 311, to challenge issued patents. This procedure has been used to challenge thousands of issued patents.

Amendments to both proposed acts include various provisions added in committee modifying IPR procedures. For example, the manager’s amendment to the Innovation Act includes provisions directed at preventing hedge funds from using these proceedings to influence stock prices, addressing inconsistent claim construction provisions in the PTO and in district courts, allowing the patent owner to include certain evidence in its response to a petition and allowing a petitioner a reply to address new issues raised in the response.

The manager’s amendment to the PATENT Act includes similar provisions relating to claim construction and evidence considered in petitions. It also includes provisions that change the composition of reviewing panels, allow the patentee to present substitute claims and provide that patents subjected to review are presumed valid.

In the past several months, the PTO itself has proposed changes to its post-issuance procedures, including allowing the patent owner to include certain evidence in its response to a petition and allowing the petitioner a reply. Some of the changes may moot certain provisions proposed by Congress in the new acts.

Other provisions

Both proposed acts include provisions requiring the disclosure of patent ownership interests (H.R. 9, Section 4; S.1137, Section 3(b)(1)), stays of customer suits (H.R. 9, Section 5; S.1137, Section 4), small business outreach (H.R. 9, Section 7; S.1137, Section 12), and various studies and other changes and corrections to the 2011 America Invents Act (H.R. 9, Sections 8-9; S.1137, Sections 13-14).

CONCLUSION

In large part, the proposed legislation aims to curtail abusive patent litigation, brought primarily by NPEs. However, many of the provisions added to the patent laws by these proposed acts apply to all patent cases. It remains to be seen if the proposed changes — if implemented — will have the desired effect of curtailing abusive patent suits while maintaining a balanced system for the legitimate enforcement of patent rights. But the immediate question is whether Congress will move forward with these bills, and if so, what provisions survive.

NOTES

- ¹ Pete Kasperowicz, *House votes to thwart 'patent trolls,'* THE HILL, Dec. 6, 2013, <http://thehill.com/blogs/floor-action/votes/192206-house-votes-to-thwart-patent-trolls>.
- ² Press Release, U.S. Rep. Bob Goodlatte, House Passes Innovation Act to Make Reforms to Our Patent System (Dec. 5, 2013), http://goodlatte.house.gov/press_releases/476.
- ³ Exec. Office of the President, Statement of Administration Policy on H.R. 3309 (Dec. 3, 2013), https://www.whitehouse.gov/sites/default/files/omb/legislative/sap/113/saphr3309r_20131203.pdf.
- ⁴ Mario Trujillo, *House pushes back vote on patent reform,* THE HILL, July 15, 2015, <http://thehill.com/policy/technology/248055-house-delays-vote-on-patent-reform-bill>.
- ⁵ Pricewaterhouse Coopers, *2015 Patent Litigation Study: A change in patentee fortunes* (May 2015), <http://www.pwc.com/us/en/forensic-services/publications/patent-litigation-study.jhtml>.
- ⁶ Gene Quinn, *Decrease in patent litigation questions need for patent reform,* IP WATCHDOG (Mar. 30, 2015), <http://www.ipwatchdog.com/2015/03/30/decrease-in-patent-litigation-questions-need-for-patent-reform/>.
- ⁷ Goodlatte press release, *supra* note 2; Press Release, U.S. Sen. Chuck Grassley, PATENT Act Clears Committee with Overwhelming Vote of Support (June 4, 2015), <http://www.grassley.senate.gov/news/news-releases/patent-act-clears-committee-overwhelming-vote-support>.
- ⁸ U.S. House of Reps., Judiciary Committee, Markup of: H.R. 9, The Innovation Act, Manager's Amendment (June 11, 2015), http://judiciary.house.gov/index.cfm/hearings?id=2848E2C2-F705-4A03-800C-64930626A395&Statement_id=CF3D1F76-9219-4E6C-9B28-692BD6206E21.
- ⁹ See Grassley Press Release, *supra* note 7.
- ¹⁰ Press Release, U.S. Sen. Chuck Grassley, Senators Aim to End Patent Abuses that Cost U.S. Economy Billions of Dollars Every Year (Apr. 29, 2015), <http://www.grassley.senate.gov/news/news-releases/senators-aim-end-patent-abuses-cost-us-economy-billions-dollars-every-year>.



Andrei Iancu is a partner with **Irell & Manella** in Los Angeles, where he focuses his practice on intellectual property litigation. **Maclain Wells** is counsel at the firm's Los Angeles office and also focuses on intellectual property litigation.