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U.S. Patent Reform Legislation – Abusive Patent Litigation and the 113th Congress

Minnesota Intellectual Property Lawyers Association

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Introduction

- **The America Invents Act**
 - First-to-File
 - Harmonization with other industrialized nations
 - Post-Grant Proceedings
 - Clean up poor quality patents
 - Faster and less expensive as compared to district court litigation
 - Effect on NPEs
- **Round II of Patent Reform**
 - Patent Trolls
 - Abusive Litigation Tactics
 - Some Amendments to the AIA
- **White House Initiatives**
 - Abusive Patent Litigation
- **Effect of No USPTO Director**

House of Representatives

- **H.R. 3309, the Innovation Act**
Introduced by Chairman Goodlatte (VA) on October 23, 2013
- **H.R. 3540, the Demand Letter Transparency Act of 2013**
Introduced by Reps. Polis (D-CO), Marino (R-PA), and Deutch (D-FL) on November 19, 2013
- **H.R. 2766, Stop Offensive Use of Patents (STOP) Act**
Introduced by Rep. Issa (R-CA) and Chu (D-CA) on July 22, 2013
- **H.R. 2639, Patent Litigation and Innovation Act of 2013**
Introduced by Reps. Jeffries (D-NY) and Farenthold (R-TX) on July 10, 2013
- **H.R. 2024, End Anonymous Patents Act**
Introduced by Rep. Deutch (D-FL) on May 16, 2013
- **H.R. 845, Saving High-Tech Innovators from Egregious Legal Disputes Act (SHIELD) Act of 2013**
Introduced by Rep. DeFazio (D-OR) and Rep. Chaffetz (R-UT) on February 27, 2013

- **S. 1720, Patent Transparency and Improvements Act of 2013**
Introduced by Chairman Leahy (D-VT) on November 18, 2013
- **S. 1612, Patent Litigation Integrity Act of 2013**
Introduced by Senator Hatch on October 30, 2013
- **S. 1013, Patent Abuse Reduction Act of 2013**
Introduced by Senators Cornyn (R-TX) and Grassley (R-IA) on May 22, 2013
- **S.866, Patent Quality Improvement Act of 2013**
Introduced by Senator Schummer (D-NY) on May 6, 2013

Current Status

▪ **H.R. 3309 (Goodlatte)**

- House Judiciary Committee Hearing on October 29, 2013
- House Judiciary Committee Mark-up on November 20, 2013
 - Approved, as amended, by a vote of 33-5
- Passed the House of Representatives, as amended, on December 5, 2013
 - Vote: 325-91

▪ **S. 1720 (Leahy)**

- Senate Judiciary Committee Hearing on December 17, 2013
- Additional briefings on specific topics
- Mark-up has been delayed multiple times
- Some question about status

Major Issues

- Patent Pleading Specification (Form 18) – requires more specificity in complaints
- Fee Shifting – the loser in litigation under Title 35 pays fees and costs
- Discovery – delays full discovery until *Markman* hearing
- Patent Ownership – requires ownership of patents to be disclosed and reported to USPTO
- Stays of Customer Suits – allows manufacturer to litigate the case and customer suit is stayed pending resolution
- Bad Faith Demand Letters – gives Federal Trade Commission express authority to investigate and police “widespread” sending of false or misleading demand letters
- AIA Amendments – expand CBM proceedings, change claim construction standard for post-grant proceedings and limit estoppel for Post-Grant Reviews

Important Considerations

- Legislation affects all patent owners
- Focus should be inappropriate behavior not status of patent owner
 - Definition of “patent troll”
 - Many companies own patents today and do not practice the invention
- Position of small companies and independent inventors
- Goal: Improve patent system and promote innovation
- Effect of intervening court decision and proposed amendments to the Federal Rules of Civil Procedure
- Is legislation the best vehicle to make changes?

Transparency of Patent Ownership

- Problem: NPEs hide behind shell companies
 - Can't obtain a license
 - Can't settle with all of the facts
 - Don't know who your real competitors are if you want to enter the market
- Proposed Legislation:
 - Upon filing complaint must disclose (1) any assignee of the patent, (2) any entity with the right to enforce the patents, and (3) any entity with a financial interest in the patents or the plaintiff
 - Must disclose to court adverse party and USPTO
 - Cannot recover fees under § 285 or enhanced damages under § 284
- Criticism:
 - May require disclosure of confidential trade secret information
 - Penalty too harsh
 - Difficult to determine who has a right to enforce the patent
- USTPO Initiative

Fee Shifting

- Problem: Patent Trolls sue knowing that defendant would rather settle than pay litigation costs
- Proposed Legislation:
 - Not in Leahy version
 - Award of fees and costs to prevailing party unless position and conduct were reasonably justified
 - Senator Hatch introduced a bill that allows patent infringement defendants to make a motion to require the patent owner to post a bond
- Criticism:
 - Denies access to the courts for small entities and independent inventors
 - Attorneys may not want to settle
 - The degree to which fee shifting should be mandatory or left to the discretion of the trial judge
- Effect of Supreme Court decisions:
 - Redefining an “exceptional case”
 - Using a facts and circumstances standard
 - Standard of Review: Abuse of discretion

Claim Construction for IPR and PGR

- Problem: PTAB is killing too many patents
- Proposed Legislation:
 - PTAB must use district court claim construction standard
- Criticism:
 - Does not promote specificity of claims
 - Will not “clean up” poor patents
- Issue on Appeal:
 - Did USPTO have the authority to impose a BRI claim construction standard by regulation?

Heightened Pleading Requirements

- **Problem:** NPEs use Form 18 and then use expensive discovery to determine scope of potential infringement
 - NPEs typically have fewer documents
 - Defendant is incentivized to settle
 - Form 18 requires only a patent number and an allegation of infringement
- **Proposed Legislation:**
 - House Bill requires that complaints for patent infringement provide a more detailed explanation of the alleged infringement, including an identification of the claims infringed, an identification of the infringing instrumentality, how the instrumentality infringes the claims and whether the patents are SEPs
- **Criticism:**
 - Increases litigation costs
 - Delays litigation if motion to dismiss filed
- **Judicial Conference Proposal:**
 - Eliminate Form 18

- Problem: NPEs try to front load discovery in order to incentivize an early settlement
- Proposed Legislation:
 - The House Bill stages discovery and limits discovery to those matters necessary for claim construction until the district court determines claim construction in the *Markman* ruling. The Leahy version does not have this provision
- Criticism:
 - It takes case management away from judges
 - Delays resolution of suit to the disadvantage of patent owner with meritorious claims
 - The alleged infringer is incentivized to draw out the *Markman* ruling

Observations

- Have proposals been studied enough?
- Has the AIA had time to act?
- Is it better to leave changes, where possible, to the USPTO or the judicial conference?

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Bernard J. Knight, Jr. is among the most respected authorities on intellectual property law in the United States, having served as General Counsel for the U.S. Patent and Trademark Office's (USPTO) from 2010 to 2013. At the USPTO, he played a leading role in the development of the landmark America Invents Act (AIA), which opens up several paths to challenge the validity of a patent that were not available previously. These challenges will become an integral part of overall strategy for any major patent dispute. As General Counsel of the USPTO, he led the development and legal review of the regulations implementing the new Inter Partes review, post grant review, business method review and derivation proceedings, as well as the regulations changing the United States to a first-inventor-to-file system. As such, Bernie is perfectly positioned to provide insightful advice to clients based on his intimate familiarity with the AIA.

Bernie is experienced in handling all IP matters, including patent, trademark and copyright issues. He has advised on intellectual property cases before the United States Supreme Court and provided oversight on patent and trademark cases before the Court of Appeals for the Federal Circuit and the district courts.

Bernie previously served as Acting General Counsel of the U.S. Treasury at the height of the financial crisis. From 2001 to 2006, he was Deputy General Counsel for the USPTO. Bernie began his government career in 1991 at the Department of Justice, Tax Division, where he served for 10 years. Earlier, he was a Senior Manager at Ernst & Young.

Bernie has been appointed General Counsel of the American Intellectual Property Lawyers Association and by invitation of the President to the Committee on Legislation. He is a frequent speaker before trade and bar associations, such as the Intellectual Property Owners Association, the American Intellectual Property Lawyers Association, the American Bar Association and the Federal Circuit Bar Association.

He is admitted to practice in Illinois and Texas. Bernie also has been granted recognition by the USPTO to appear as counsel in inter partes proceedings before the Patent Trial and Appeal Board.