

# Client Alert

Intellectual Property Practice Group

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## The Five Ps of Patent Reform

### *What You Need to Know About the Patent Litigation Reform Legislation Moving Through Congress*

The Leahy-Smith America Invents Act (AIA) was passed by Congress and enacted into law on September 16, 2011. Named for its lead sponsors, Sen. Patrick Leahy (D-VT) and Rep. Lamar Smith (R-TX), the Act changed the U.S. patent system from a “first to invent” to a “first inventor to file” system, eliminated interference proceedings, and developed new post-grant proceedings. Its central provisions went into effect on March 16, 2013.

Since passage of the America Invents Act, Congress and industry have continued to discuss ways to enhance intellectual property protection, foster U.S. innovation, and minimize litigation abuse. On December 5, 2013, the U.S. House of Representatives, by an overwhelming vote of 325-91, passed a bill that overhauls the patent litigation system in order to curb patent assertion entities, also known as patent “trolls.”

In this Client Alert, we will look at the five “Ps” of the patent reform debate taking place on Capitol Hill, highlighting the key policymakers, the legislative proposals, the politics and accompanying problems surrounding the bill, and, finally, the path forward.

#### **Policymakers**

At the heart of the debate is a bipartisan group of lawmakers, including the Chairmen of the House and Senate Judiciary Committees, with jurisdiction over patent issues. In the House, Chairman Bob Goodlatte (R-VA) was joined by a bipartisan group of committee members bent on reforming the patent litigation system, including Reps. Zoe Lofgren (D-CA), who represents Silicon Valley, and Daryl Issa, Chairman of the House Oversight and Government Reform Committee.

On the other side of the debate, a small group of lawmakers including House Judiciary Committee Ranking Member John Conyers (D-MI) and Rep. Mel Watt (D-NC) have been trying to slow down progress on passing comprehensive patent litigation reform and have criticized the bill as one that would infringe on the independence of the federal judiciary and harm small inventors.

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On the Senate side, a number of Judiciary Committee members have weighed in on the debate by introducing their own legislation, including Sens. John Cornyn (R-TX), Orrin Hatch (R-UT), Chuck Schumer (D-NY) and most recently, Chairman Patrick Leahy (D-VT) in conjunction with Sens. Mike Lee (R-UT) and Sheldon Whitehouse (D-RI).

## Proposals

In the House of Representatives, the **Innovation Act** (H.R. 3309) was introduced by Chairman Goodlatte (R-VA) and drew support from both parties, as well as major players in the technology industry such as Google and Microsoft. The bill keeps the effective structure of the patent system in place while reducing the incentives to file frivolous complaints. It is intended to lower the cost of patent litigation and bring more transparency to the process.

The Innovation Act raises the bar for sending a patent infringement letter and raises the stakes for filing and losing a case. These reforms would make it harder for patent assertion entities to send vague letters to companies, who frequently choose to settle rather than face the higher cost of defending themselves against patent infringement allegations in court. Historically, a patent infringement complaint only had to identify the patents alleged to be infringed, but under the Innovation Act, it would also need to identify the products or processes alleged to infringe them, among other things. The potentially lengthy and expensive discovery process in a suit would also be put off until the court has had an opportunity to construe the claims of the patents. Finally, the bill discourages abusive lawsuits by requiring the losing party to pay court costs and the prevailing party's legal fees in some instances.

During debate, the House accepted a manager's amendment with minor changes, as well as amendments requiring additional disclosure in demand letters and further study of the bill's economic impact on minorities and others. Another adopted amendment, introduced by Rep. Dana Rohrabacher (R-CA), would keep intact a section of existing law that allows inventors independent judicial review of their patent application. Four additional amendments, including a substitute from leading Democrats on the House Judiciary Committee, were defeated.

House Oversight and Government Reform Committee Chairman Daryl Issa (R-CA) has also introduced legislation in the form of H.R. 2766, the **Stopping the Offensive Use of Patents Act** ("STOP Act"). The Issa bill proposes to amend the Leahy-Smith America Invents Act to remove the eight-year sunset provision with respect to the transitional post-grant review program available to review the validity of covered business method patents, thereby making the program permanent. The bill would also expand the term "covered business method patent" to include a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of any enterprise, product, or service, except technological inventions. Current law limits the program to financial products or services.

On the Senate side, Judiciary Committee Chairman Patrick Leahy (D-VT), along with Sens. Mike Lee (R-UT) and Sheldon Whitehouse (D-RI), have introduced S. 1720, the **Patent Transparency and Improvements Act of 2013**. Their bill is aimed at increasing transparency in patent ownership, protecting customers who are sued for patent infringement by allowing the case against them to be stayed while the manufacturer litigates the suit, cutting down on the widespread practice of sending of frivolous demand letters, and improving resources for small businesses that are targeted in patent infringement suits, among other provisions.

Senator Orrin Hatch (R-UT) has introduced S. 1612, the **Patent Litigation Integrity Act of 2013**, which would require courts to award a prevailing party reasonable fees and other expenses, including attorney fees, incurred in connection with a civil action in which any party asserts a claim for relief arising under any Act of Congress relating to patents, unless the court finds that the position and conduct of the losing party were substantially justified or that special circumstances make an award unjust. Currently, in exceptional cases, the court is permitted but not required to award reasonable attorney fees.

Senator John Cornyn (R-TX) has also introduced S. 1013, the **Patent Abuse Reduction Act of 2013**, that would require plaintiffs to disclose the substance of their claim and reveal their identities when they file their lawsuit; allow defendants

to hale into court interested parties; bring fairness to the discovery process; and shift responsibility for the cost of litigation to the losing party.

Last but not least, Senator Chuck Schumer (D-NY) has introduced S. 866, **Patent Quality Improvement Act of 2013**, a companion to Rep. Issa's bill, which amends the Leahy-Smith America Invents Act to make the transitional post-grant review program permanent. Akin to the Issa bill, the Schumer bill expands the term "covered business method patent" to include a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of any enterprise, product, or service, except technological inventions.

This Schumer bill is a variation on another piece of legislation that Senators Schumer and Kyl pushed through Congress successfully in 2011 specifically concerning patents in the financial services industry. The United States Patent and Trademark Office (PTO) has so far examined approximately 20 patent cases as part of that patent review program. But suits filed by patent assertion entities based on software patents is a much larger issue in terms of numbers, with some 62% of patents asserted by patent assertion entities from 1990-2010 were software patents; 75% were in computer and communications technology.

## Politics

Shortly after the House vote on the Innovation Act, Chairman Goodlatte stated that he was encouraged by the bill's bipartisan support and that looks forward to "working with the Senate to see that patent litigation reform legislation is signed into law." He stressed that passage of the bill is "central to U.S. competitiveness, job creation, and our nation's future economic security." The vote marks a victory for patent reform advocates, who have spent months pushing for legislation to address the abuses of patent assertion entities. The measure has the support of House Republican leadership and several top Democrats in both chambers, as well as the White House. Advocates say the relatively lopsided vote will send a strong message to the Senate to pick up the issue quickly.

The Obama administration has indicated it supports the House patent reform bill "as reported" because it "would improve incentives for future innovation while protecting the overall integrity of the patent system." According to a December 3, 2013 **Statement of Administration Policy ("SAP")**, "[t]he administration supports the effort to discourage abusive court filings, but hopes that, as final legislation is crafted, appropriate recognition is given to the importance of judicial discretion in balancing competing interests." The SAP also noted that the "administration continues to have concerns about the bill's provisions on post-issuance review proceedings, including those pertaining to patent claim construction."

Although the bill has wide bipartisan support, high-profile Democrats who oppose the bill did make attempts to derail the bill's passage. Specifically, Rep. Conyers introduced a substitute amendment on the House floor that would have removed a number of the Goodlatte bill's provisions, but his alternative proposal was defeated by a vote of 157-258.

## Problems

Groups like the National Small Business Association (NSBA) argue that the patent reform proposals winding their way through Congress place an unfairly high burden on patent holders, making it too difficult for small businesses or individual inventors to protect their patents. The NSBA expressed consternation at the "alarming rate" at which patent legislation has moved forward given that the Goodlatte's bill was introduced less than two months ago. In addition, some universities which develop and license patents but do not build commercial products, say that the bill's scope is too broad and would hurt their ability to make money from research. Qualcomm CEO, Paul Jacobs, said the "point of view of the inventor" was missing from the debate.

Leaders of conservative groups including the Club for Growth and American Conservative Union have also argued that the Goodlatte bill is too broad in scope. The leaders, who also include Eagle Forum President Phyllis Schlafly, signed onto a letter to Hill leadership opposing the bill. "This legislation would weaken American patents, patent-holders, and

the ability of innovators—particularly individual, independent inventors—to secure their constitutionally guaranteed right to their discoveries,” the letter states.

There also remain serious concerns with Section 9(c) of the Innovation Act, which would undermine PTO’s ability to apply the broadest reasonable interpretation (“BRI”) claim construction standard, and instead require the standard applied in the Courts, which often leads to a more narrow construction of the patent. The America Invents Act created two new procedures to challenge invalid patents. These procedures were created to provide a low-cost forum (at least relative to litigation in the courts) for parties to seek reconsideration of patent validity. Proponents argue that these review procedures have worked well and that cases will be completed in significantly less time than it would take to litigate in the courts and at a much lower cost. Changing the standard from the “broadest reasonable interpretation” to the one required in the federal courts would make it more difficult to invalidate many patents.

Of specific note is the fact that the change proposed in the Innovation Act would alter PTO procedures that have been in effect for almost 100 years and have a long established understanding in the Intellectual Property community. The PTO is also opposed to the change proposed in Section 9(c), arguing that requiring use of the District Court’s narrower interpretation would hamper the PTO’s ability to eliminate, narrow, or clarify ambiguous or otherwise improper patents.

## **Path Forward**

Action on patent litigation legislation now moves to the Senate, where the Senate Judiciary Committee has scheduled a hearing for Tuesday, December 17. The hearing will focus on the Leahy bill as well as other proposals before the Committee. A Committee markup is expected early in the New Year, followed by floor consideration by the full U.S. Senate. We will continue to keep you apprised of any new developments.

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