Client Alert

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For Whom the Bell Trolls: A Summary of Recent White House and Congress Patent Initiatives

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Last week, the White House once again weighed in on the issue of patent troll litigation, releasing a list of legislative recommendations and executive actions "designed to protect innovators from frivolous litigation and ensure the highest-quality patents in our system." The White House recommendations and actions follow five recent legislative proposals to curb patent troll activity, which are at various stages of consideration by Congress. Some of the legislative proposals focus on increasing the cost of bringing suit for patent trolls, or creating additional regulatory requirements that would be uniquely burdensome to trolls; others focus on making it easier for defendants to invalidate patents held by trolls, or to pursue litigation instead of being pressured to settle. While there are differences in the details, the White House and Congressional proposals all share the goal of deterring litigation by patent trolls and protecting innovation.

Now that the White House has weighed in on legislative action, it seems worth surveying the status of the various legislative proposals and how they line up with the concerns the White House has identified, which we do below. But despite an apparent bipartisan consensus that Congress should pass legislation addressing various concerns about frivolous patent litigation, there is little certainty that any of the legislative proposals will become law in the near term. Similarly, while the White House executive actions are in theory effective immediately, the more substantive actions require rulemaking by the PTO and the ITC before going into effect. Accordingly, those actions will not have any significant immediate impact, and their ultimate effect remains dependent on the results of PTO and ITC rulemaking. The White House statement nonetheless provides further confirmation that political opinion is unifying around deterring litigation by patent trolls.

WHITE HOUSE LEGISLATIVE RECOMMENDATIONS

The White House's list of legislative recommendations recognizes that "no single law or policy can address" all of the concerns generated by patent troll activity, instead identifying a number of measures that the White House believes "would have immediate effect on some major problems innovators face." Many of the legislative recommendations are already reflected in the proposed bills circulating in Congress, including:

1. Requiring patentees and applicants to disclose the Real Party-in-Interest.
2. Providing judges more discretion in awarding fees to prevailing parties in patent cases.
3. Expanding the PTO's transitional program for covered business method patents.
4. Providing better legal protection in cases concerning off-the-shelf use by consumers and businesses.

Other recommendations build on considerations already being considered by Congress, including:

5. Adjusting the ITC standard for obtaining an injunction to be consistent with the standard applied by district courts.

6. Using demand letter transparency to help curb abusive suits.

7. Ensuring the ITC has adequate flexibility in hiring qualified Administrative Law Judges.

- **Available at:** http://www.whitehouse.gov/the-press-office/2013/06/04/fact-sheet-white-house-task-force-high-tech-patent-issues

LEGISLATIVE PROPOSALS

1. Saving High-tech Innovators from Egregious Legal Disputes (SHIELD) Act (H.R. 845)

- **Introduced:** February 27, 2013 by Representatives Peter DeFazio (D-OR) and Jason Chaffetz (R-UT), who state that the Act would "force patent trolls to take financial responsibility for their frivolous lawsuits."

- **Key provision:** Requires non-exempt losing plaintiffs to pay the full costs of the prevailing party in patent infringement cases. The Act exempts the following specified parties from the fee shifting penalty: the "original inventor" or "original assignee" at the time of patent issuance, a party that can demonstrate "substantial investment…in the exploitation of the patent through production or sale of an item covered by the patent," and "University or Technology Transfer Organization[s]." SHIELD would modify the current fee-shifting provision, under which fee-shifting is limited to "exceptional" cases and is, in practice, implemented in less than one percent of cases.

- **Commentary:**

    - While there is support in various quarters for having patent trolls pay the attorneys' fees for prevailing defendants, SHIELD is widely criticized for failing to effectively define who is a "patent troll" subject to fee-shifting, and thus many believe SHIELD is likely to be both under- and over-inclusive in practice.

    - SHIELD shares the focus on fee shifting of **Legislative Recommendation One**, but rather than increasing judicial discretion in this area, the Act would mandate fee shifting in the circumstances it describes.

- **Status:** The SHIELD Act has been assigned to the subcommittee on Courts, Intellectual Property, and the Internet within the House Judiciary Committee. It has four co-sponsors: Jason Chaffetz (R-UT), Peter Welch (D-VT), Tim Walberg (R-MI), and Kerry Bentivolio (R-MI).

- **Available at:** http://beta.congress.gov/113/bills/hr845/113hr845ih.xml

2. Patent Quality Improvement Act of 2013 (S. 866)

- **Introduced:** May 6, 2013 by Sen. Charles E. Schumer (D-NY), this Act aims to invalidate the types of patents likely to be owned and asserted by patent trolls.

- **Key provision:** Expands the scope of covered business-method patents eligible for post-grant review under Section 18 of the AIA by:
    - Including patents covering data processing or other operations used in any "enterprise, product or service" (currently, only "financial" products or services are included).
    - Making post-grant review of business-method patents permanent by eliminating the current eight-year sunset provision.
- **Commentary:**
    - Proponents of S. 866 note that expanding post-grant review would be beneficial for patent challengers, because Section 18 review provides two main advantages over inter partes review (IPR) and post-grant review (PGR) proceedings:
      (1) Section 18 proceedings result in a more limited estoppel effect than IPRs and PGRs.
      (2) Section 18 proceedings allow the petitioner to raise additional grounds for invalidity, such as arguments based on the claiming of unpatentable subject matter and lack of enablement (IPR is limited to invalidity arguments based on printed prior art).
    - Aligns directly with **Legislative Recommendation Three** to expand the PTO's transitional program for covered business method patents.
- **Status:** Senator Schumer's bill has been referred to the Senate Judiciary Committee, and has no co-sponsors to date.
- **Available at:** http://beta.congress.gov/113/bills/s866/BILLS-113s866is.xml

3. End Anonymous Patents Act (H.R. 2024)

- **Introduced:** May 16, 2013 by Rep. Theodore E. Deutch (D-FL), H.R. 2024 targets patent trolls' use of shell companies and undisclosed licensing agreements to assert patents.
- **Key provision:** Requires anyone who applies for or acquires a patent to make ownership information publicly available (currently, disclosing a patent's Real Party-in-Interest is voluntary). The Act requires such information to be filed with the USPTO when a patent is applied for, when maintenance fees are paid, and when ownership of a patent is transferred.
- **Commentary:**
    - The End Anonymous Patents Act has received a number of positive responses from technology organizations. For example, the Consumer Electronics Association issued a statement that "[b]y requiring much-needed transparency…this bill will better inform parties subject to lawsuits by patent trolls."
    - Furthers the goal of **Legislative Recommendation Two** regarding disclosure of the Real Party-in-Interest by listing a number of specific circumstances under which such disclosure would be required.
- **Status:** H.R. 2024 has been assigned to the House Judiciary Committee, and has no co-sponsors to date.
- **Available at:** http://beta.congress.gov/113/bills/hr2024/BILLS-113hr2024ih.xml

4. Patent Abuse Reduction Act (S. 1013)

- **Introduced:** May 22, 2013 by Sen. John Cornyn (R-TX), who states that the Bill "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."
- **Key provisions:**
    - Awards attorneys' fees to the prevailing party — plaintiff or defendant — unless the non-prevailing party's "position and conduct…were objectively reasonable and substantially justified" or exceptional circumstances make the award unjust.
    - Requires that the initial complaint disclose the identity of any person with a direct financial interest in the outcome of the action.
    - Limits discovery until after claim construction is complete, and requires that discovery costs be shifted to the requesting party for any discovery beyond core discovery.
- **Commentary:**
    - Some believe the Patent Abuse Reduction Act is promising, because it would force patent trolls to do additional due diligence before they sue and to name who stands to financially benefit from a lawsuit. But it has been criticized for limiting its measures to litigation reform, while failing to address patent quality or consider implementing changes at the PTO.
    - Shares the subject matter of **Legislative Recommendations One and Two**, although like the other bills with similar provisions, would increase fee shifting by mandating the penalty in particular circumstances (rather than expanding judicial discretion), and would require disclosure of Real Party-in-Interest only in certain situations.
- **Status:** The Patent Abuse Reduction Act has been referred to the Senate Judiciary Committee, and has no co-sponsors to date.
- **Available at:** http://beta.congress.gov/113/bills/s1013/BILLS-113s1013is.xml

5. Discussion Draft from Rep. Bob Goodlatte (R-VA) and Sen. Patrick Leahy (D-VT)

- **Introduced:** Not yet formally introduced, this 38-page proposal has been circulated in the House and Senate as, according to Representative Goodlatte, "the first step in enacting meaningful legislation that reduces the costs of frivolous litigation, increases patent certainty, and promotes the creation of American jobs." The draft bill is aimed at concerns that patent trolls file vague complaints and seek to force settlements by driving up litigation costs through discovery demands.

- **Key provisions:**
    - Imposes stricter pleading requirements on patent complaints.
    - Limits discovery in patent cases.
    - Allows manufacturers of allegedly infringing products to intervene when their customers are sued.
    - Requires patent infringement complaints to identify (1) specific products alleged to infringe and (2) the plaintiff's theory about how the accused products meet the claims of the patent.
- **Commentary:**
    - A number of the bill's many provisions are not related to curbing patent troll activity, leading to criticism that the draft seems more like an amendment to the AIA, rather than a targeted approach to patent troll issues.
    - The only proposal so far to address **Legislative Recommendation Four** of better protecting consumers from harassment by trolls.
- **Status:** The Discussion Draft was released to the House on May 23, 2013 by Rep. Goodlatte, and has subsequently been circulated with the support of Sen. Leahy in the Senate.
- **Available at:** http://judiciary.house.gov/news/2013/05232013%20-%20Patent%20Discussion%20Draft.pdf

WHITE HOUSE EXECUTIVE ACTIONS

In addition to the legislative recommendations, the White House statement includes five executive actions intended "to help bring about greater transparency to the patent system and level the playing field for innovators." The executive actions differ significantly in their scope and the further process required for implementation:

- **Making "Real Party-in-Interest" the New Default.** The PTO will begin a rulemaking process to require patent applicants and owners to designate the "ultimate parent entity" in control of the patent or application when they are involved in proceedings before the PTO.
- **Tightening Functional Claiming.** The PTO will provide new targeted training to its examiners on scrutiny of functional claims and develop strategies to improve claim clarity, such as the use of glossaries in patent specifications to assist examiners in the software field.
- **Strengthen Enforcement Process of Exclusion Orders.** The U.S. Intellectual Property Enforcement Coordinator will launch an interagency review of existing procedures that Customs and Border Protection and the U.S. International Trade Commission use to evaluate the scope of exclusion orders and work to ensure the process and standards utilized during exclusion order enforcement activities are transparent, effective, and efficient.

Executive agencies are also directed to provide outreach programs and materials to help innovators and consumers understand and assert their rights against patent trolls:

- **Empowering Downstream Users.** The PTO will publish new education and outreach materials, including an accessible, plain-English website offering answers to common questions by those facing demands from a possible troll.
- **Expanding Dedicated Outreach and Study.** The PTO, DOJ, and FTC will expand their outreach efforts to stakeholders such as patent holders, research institutions, consumer advocates, public interest groups, and the general public. This will include events across the country to develop new ideas and consensus around updates to patent policies and laws. The PTO will also expand its Edison Scholars Program to develop more robust data and research on the issues bearing on abusive litigation.

Given the further steps required before implementation of the executive actions, it is difficult to predict their ultimate impact with any certainty. Similarly, none of the recent legislative proposals appear likely to pass in the near term, and their ultimate form obviously is not yet known. Accordingly, the most significant aspect of these executive and legislative efforts may be their implicit confirmation that political opinion is unifying against patent trolls. But it is unclear whether, in this respect, politicians are leading the charge, or merely following the shifts in public, judicial, and academic opinion regarding the negative effects of litigation by patent trolls.

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