

# PATENT FILE

## Getting patent reform right

With the US Innovation Act passed by the House of Representatives in December, Hogan Lovells' **Christian E Mammen** highlights issues to watch in pending patent reform legislation



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**In 2013, all three branches of the US government directed significant attention to whether, and how, to reform the patent system to address perceived problems associated with patent enforcement efforts by non-practising entities or so-called 'patent trolls'.**

Besides the many noteworthy cases handed down in 2013, federal judges took to the lecture circuit and the op-ed pages. In November, Chief Judge Rader, addressing the Eastern District of Texas Bench and Bar Conference, argued that the patent troll issue is best addressed by the courts, not Congress. Judge O'Malley has argued the same, in a speech to the Intellectual Property Owners Association annual meeting. Chief Judge Rader also co-authored an op-ed piece in the *New York Times*, arguing for an expanded use of the fee-shifting provisions in 35 USC § 285, which permits attorneys' fees to be awarded in "exceptional cases".

The Obama administration has also weighed in, and released a report in June titled, *Patent assertion and US innovation*, which calls for reforms in three areas: clearer and higher-quality patents, reduced disparity of litigation costs between patentees and accused infringers, and more flexibility to adapt patent law to new technologies.

Finally, Congress introduced no fewer than eight bills, proposing a wide variety of fixes for the "troll problem".

In the House of Representatives, the reform efforts coalesced into HR 3309 (the Innovation Act), introduced by Representative Goodlatte on 23 October 2013. Just six weeks later, on 5 December, HR 3309 passed overwhelmingly. The House Judiciary Committee report leaves no doubt about

the bill's purpose, "The harm inflicted on American innovation and manufacturing by various abusive patent-enforcement practices has been widely known and acknowledged for most of the last decade."

The focus now turns to the Senate, where four bills are pending. The most recent is S 1720, introduced by Senator Leahy on 18 November. Senator Leahy's bill addresses expanded disclosure of ownership and financial interests, stays of customer suits, pre-suit demand letters, and the claim construction standard used in certain post-issuance proceedings. On 22 May, Senator Cornyn introduced S 1013. It includes provisions for heightened pleading standards, expanded joinder, discovery limits, and fee shifting. Additionally, Senator Hatch introduced S 1612 on 30 October. It includes only a provision for fee shifting. Hearings on these three Senate bills were held in the Senate Judiciary Committee on 17 December.

The fourth pending Senate bill (S 866) was introduced by Senator Schumer on 6 May. It would expand the America Invents Act's (AIA) covered business method review programme, by making it permanent and applicable to more than just financial-related business method patents. No formal committee action has been taken on this bill, and the corresponding provisions in the Goodlatte bill were deleted prior to passage.

In this article are 10 key issues to watch as the Senate bills advance. Each of these issues are addressed in the House-passed Goodlatte bill.

### Pre-suit letters

The Leahy bill characterises sending "widespread" demand letters as an unfair or deceptive business practice under the Federal

Trade Commission Act, if the letters contain falsehoods or are likely to mislead, for example, because the letter contains insufficient detail to inform the recipient of "the reasons for the assertion that the patent may be or may have been infringed". The Leahy bill does not specify how much detail is needed. The Goodlatte bill states that it is the "sense of Congress that it is an abuse of the patent system... for a party to send out purposely evasive demand letters to end users alleging patent infringement", and would prohibit reliance on vague pre-suit demand letters to establish notice for purposes of willful infringement. The Goodlatte bill does not, however, preclude use of vague pre-suit letters to establish notice for the commencement of damages under 35 USC § 287, or for notice of indirect infringement under 35 USC § 271(b) or (c).

### Transparency of ownership, joinder

The Leahy, Cornyn and Goodlatte bills all would require additional disclosure of interested parties. In the Leahy bill, patentee-plaintiffs would be required to make an initial disclosure identifying entities with financial and other interests in the litigation. The Leahy bill includes no provisions for joinder of these entities. Under the Leahy bill, patentees would also be required to record with the US Patent and Trademark Office (USPTO) certain patent assignments; noncompliance would result in the patentee's inability to recover attorneys' fees under 35 USC § 285. The Cornyn bill requires detailed pleadings to disclose interested parties, and would permit an accused infringer to seek joinder under limited circumstances. Upon filing a patent infringement action, the Goodlatte bill requires

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disclosure of a variety of interested parties to the USPTO, the court and the defendants. The penalty for noncompliance includes an inability to recover either attorneys' fees under § 285 or increased damages under § 284. The Goodlatte bill would also permit joinder of "interested parties" to help satisfy an attorneys' fee award against a losing patentee-plaintiff.

### Customer suits

Both the Leahy and Goodlatte bills include provisions to stay patent infringement suits against customers or end-users, but only if: (a) both the customer and the manufacturer consent to the stay; (b) the manufacturer has also been sued for the same alleged infringement; and (c) the customer agrees to be bound by the outcome of the suit against the manufacturer. It has been widely reported that the customer-stay provisions are intended to limit campaigns against end-users of technology (such as coffee shops that offer wi-fi), particularly where each end-user's potential liability is much smaller than the cost of defending the litigation. If enacted, it is not clear whether patentee-plaintiffs will embrace this approach, or will instead, seek to avoid its application by refraining from suing manufacturers.

### Heightened pleading

Both the Cornyn and Goodlatte bills would require detailed allegations in a patent infringement complaint, including: the asserted patents, claims, and accused instrumentalities; a detailed explanation of how the accused instrumentalities infringe (eg, as might be in an infringement claim chart); if indirect infringement is alleged, a description of the underlying direct infringement (though neither bill requires detailed allegations concerning intent to induce or contribute to infringement); details about the plaintiff, its business and its right to assert the patents; prior litigation involving the asserted patents; and whether the patents in suit are subject to obligations to standards-making bodies.

Additionally, the Cornyn bill would require detailed disclosure of entities, other than the plaintiff, who have an interest in the patents-in-suit or the litigation.

### Elimination of Form 18

Form 18 in the Appendix following the Federal Rules of Civil Procedure (FRCP) provides an approved sample patent infringement complaint, which requires only bare-bones allegations. Commentators have argued that Form 18 is inconsistent with the US Supreme Court's rulings in *Iqbal*<sup>1</sup> and *Twombly*,<sup>2</sup> which

require allegations of sufficiently detailed facts to state a plausible claim for relief. However, courts have held that Form 18 continues to apply, at least to allegations of direct infringement. Both the Goodlatte and Cornyn bills would direct the Supreme Court to amend or abolish Form 18. Some commentators have questioned whether Congress can, or should, legislate the content of the FRCP's forms.

### Stay of discovery

The Cornyn and Goodlatte bills would preclude all discovery other than claim-construction-related discovery, until after the court has issued a claim construction ruling. The timing of claim construction remains a topic of debate. A 2008 Federal Judicial Center report indicates that most courts surveyed held claim construction after at least some fact discovery. This comports with recommendations made by Peter S Menell, a professor at University of California, Berkeley, in the 'Patent Case Management Judicial Guide' (2d ed 2012), which explains, "it is only by knowing the details of the accused product and the relevant prior art that the parties are able to determine which claim terms need construction." Relatedly, many courts have now adopted Patent Local Rules that require early (generally pre-claim-construction) production of infringement contentions and related documents, and invalidity contentions and related documents. To the extent these Patent Local Rule productions are considered to be discovery, they might be prohibited by such a discovery stay.

### Core document discovery

Both the Cornyn and Goodlatte bills would initially limit document discovery to a defined list of "core documentary evidence", and would restrict discovery of electronic communications and computer code. The Goodlatte bill would permit additional document discovery only if the requesting party pays the associated costs and attorneys' fees – and posts a bond sufficient to cover anticipated costs. The Cornyn bill would go farther and impose the requester-pays rule for *all* additional discovery beyond "core documentary evidence," not just additional document discovery.

### Fee shifting

The Cornyn, Hatch and Goodlatte bills would modify 35 USC § 285 (which currently permits the court to award attorneys' fees in exceptional cases), and would mandate awarding attorneys' fees to the prevailing party unless, *inter alia*, the losing party's position was "substantially justified". This is currently a hot topic in the courts. The Supreme Court

has granted *certiorari* in two cases this term (*Octane Fitness*<sup>3</sup> and *Highmark*<sup>4</sup>), and on 26 December, the Federal Circuit issued a ruling<sup>5</sup> that is believed to expand the applicability of § 285.

### Claim construction in post-issuance review

Both the Leahy and Goodlatte bills would require the use of "district court claim construction" in post-grant review and *inter partes* review. That is (combining the statutory language with the standard in the *Phillips*<sup>6</sup> case), rather than applying the "broadest reasonable interpretation" standard normally applied in USPTO proceedings. A claim would have to be construed "as such claim *would be* in a civil action to invalidate a patent under section 282(b)," namely, "the meaning that the term *would have* to a person of ordinary skill in the art in question at the time of the invention." (emphasis added). In other words, the USPTO *would be* required to ascertain what a district court would conclude a person of skill in the art at the time of the invention *would have* understood the term to mean.

### Clarification of jurisdiction

The Goodlatte bill provides a "clarification" that "the Federal interest in preventing inconsistent final judicial determination as to the legal force or effect of the claims in a patent presents a substantial Federal issue that is important to the Federal system as a whole." Traditionally, federal question jurisdiction must appear on the face of a "well-pleaded complaint". It is unclear whether this "clarification" would require additional pleading detail or discovery for certain categories of patent-related suits (such as breach of licence agreement or malpractice), in order to determine whether the suit will require a "determination of the legal force or effect of the claims in a patent".

### Footnotes

1. *Ashcroft v Iqbal*, 556 US 662 (2009).
2. *Bell Atlantic Corp v Twombly*, 550 US 544 (2007).
3. *Octane Fitness, LLC v Icon Health & Fitness, Inc*, cert granted, 134 S Ct 49 (1 Oct 2013).
4. *Highmark Inc v Allcare Health Management Systems, Inc*, cert granted, 134 S Ct 48 (1 Oct 2013).
5. *Kilopass Technology, Inc v Sidense Corp*, F3d, 2013 WL 6800885 (Fed Cir 2013).
6. *Phillips v AWH Corp*, 415 F3d 1303 (Fed Cir 2005) (en banc).