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# Patent Reform Legislation Debate January 24, 2014

**Moderator: James Gourley, Partner, Carstens & Cahoon**

**Panelists: Scott Burt, Chief IP Counsel, Conversant**

**Max Ciccarelli, Partner, Thompson & Knight**

**Brett Johnson, Partner, Farney Daniels**

# What is a Patent Troll?

**U.S. Patent**

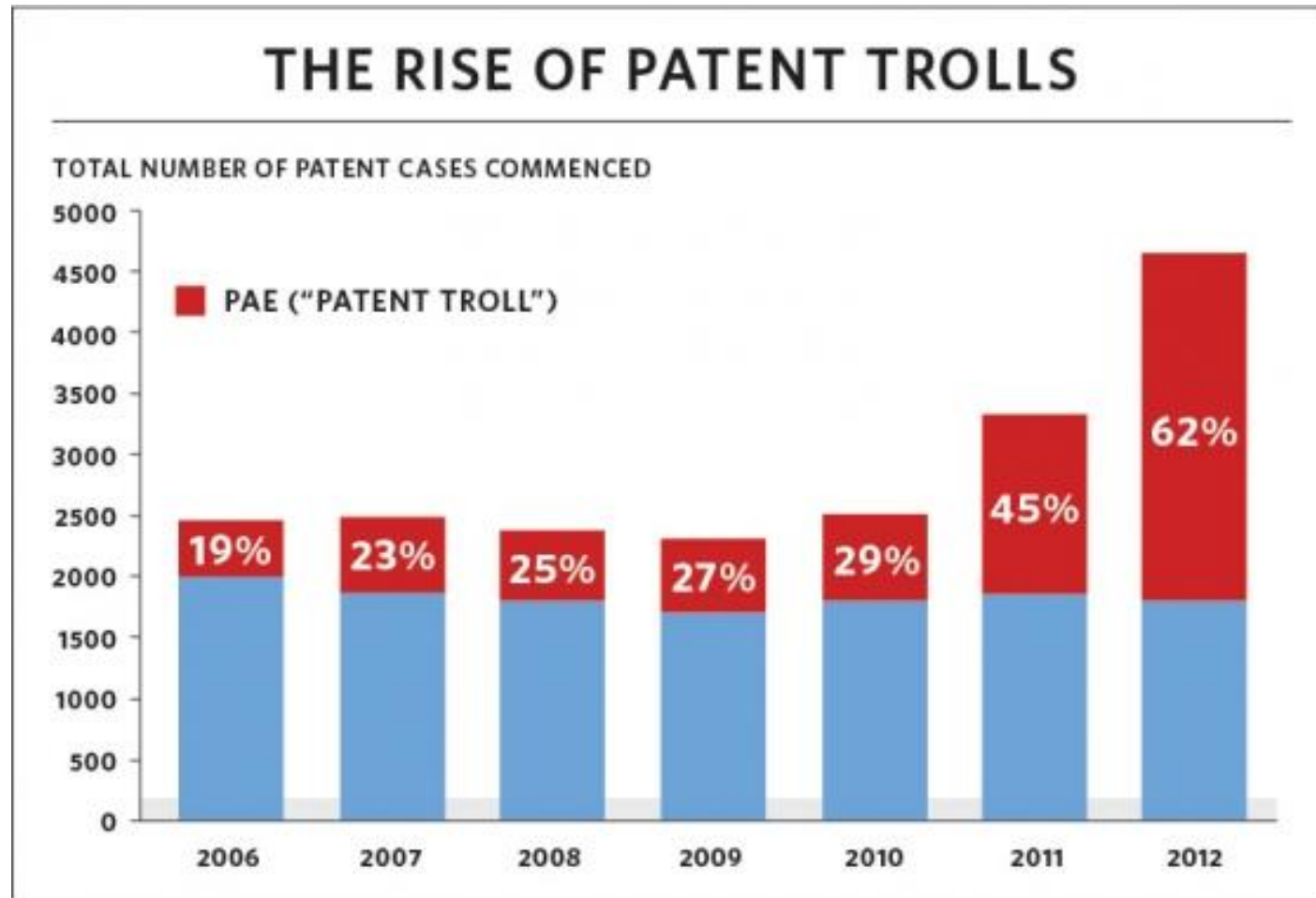
**Mar. 4, 1997**

**Sheet 1 of 4**

**Des. 378,308**



# How Big is the Problem?



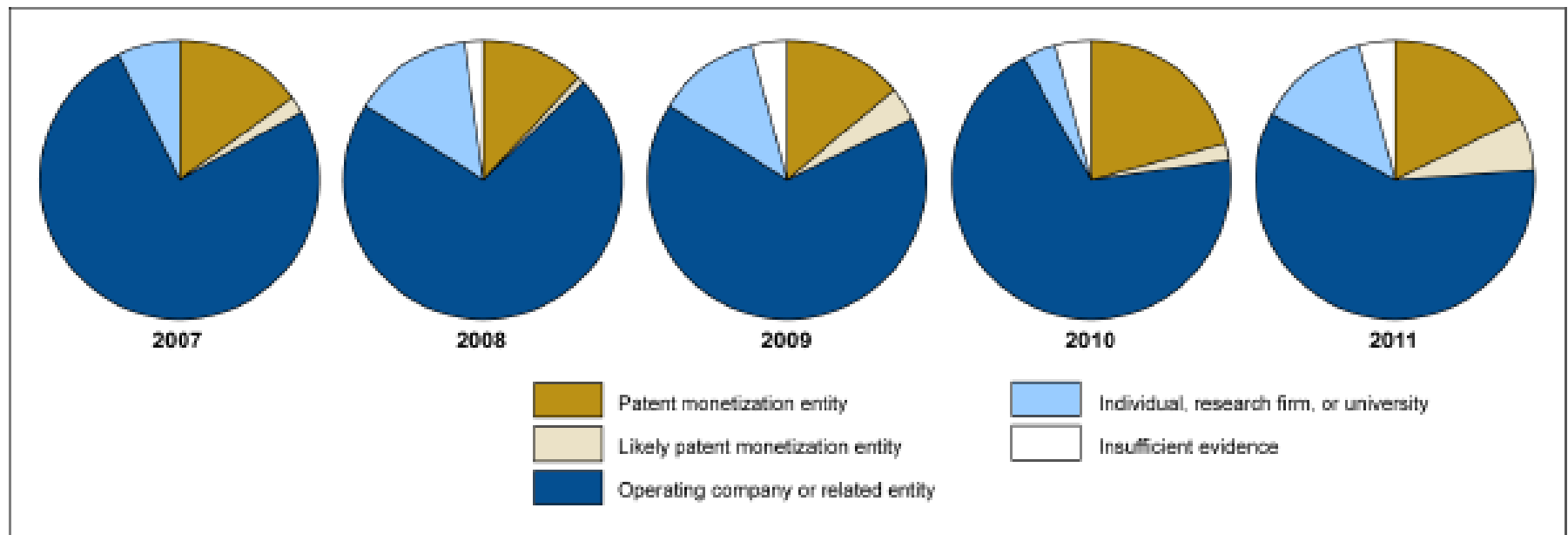
Source: <http://www.whitehouse.gov/blog/2013/06/04/taking-patent-trolls-protect-american-innovation>



# How Big is the Problem?

- Government Accountability Office Report – August 2013

Figure 4: Estimated Patent Infringement Lawsuits by Type of Plaintiff, 2007 to 2011



Source: GAO analysis of Lex Machina data.

# How Big is the Problem?

- Operating companies brought most of the patent infringement lawsuits from 2007 to 2011.
- Operating companies and related entities brought an estimated 68 percent of all lawsuits; PMEs and likely PMEs brought 19 percent of the lawsuits.
- PMEs and likely PMEs brought 17 percent of all lawsuits in 2007 and 24 percent in 2011, although this increase was not statistically significant



# How Big is the Problem?

- GAO CONCLUSIONS
- Public discussion surrounding patent infringement litigation often focuses on the increasing role of NPEs. However, our analysis indicates that regardless of the type of litigant, lawsuits involving software-related patents accounted for about 89 percent of the increase in defendants between 2007 and 2011, and most of the suits brought by PME's involved software-related patents. This suggests that the focus on the identity of the litigant—rather than the type of patent—may be misplaced.



# Innovation Act

- “Goodlatte Bill”
- H.R. 3309
- Passed House December 5, 2013



# Innovation Act (cont'd)

- Heightened Pleading Requirements
- Plaintiff must include in the court pleadings, unless the information is not reasonably accessible, the following:
  - each claim of each patent allegedly infringed;
  - “with detailed specificity,” how each “accused instrumentality” is alleged to infringe each limitation of each claim;
  - acts of the alleged indirect infringer that contribute to, or are inducing, a direct infringement;





# Innovation Act (cont'd)

- Plaintiff must include...
  - the principal business, if any, of the party alleging infringement;
  - the authority of the party alleging infringement to assert each patent and the grounds for the court's jurisdiction
  - each complaint filed that asserts any of the same patents; and
  - whether the patent is essential or potentially essential to any standard



# Innovation Act (cont'd)

- Fee Shifting
  - “The court **shall** award, to a prevailing party reasonable fees and other expenses incurred by that party ... unless”
- Current Law: 35 USC § 285
  - The court in exceptional cases **may** award reasonable attorney fees to the prevailing party.



# Innovation Act (cont'd)

- Unless
  1. the court finds that the position and conduct of the nonprevailing party or parties were reasonably justified in law and fact; or
  2. that special circumstances (such as severe economic hardship to a named inventor) make an award unjust.



# Innovation Act (cont'd)

- If nonprevailing party alleging infringement is unable to pay the award of fees and other expenses, the court shall grant a motion by the prevailing party to join an interested party if such prevailing party shows that the nonprevailing party has no substantial interest in the subject matter at issue other than asserting such patent claim in litigation



# Innovation Act (cont'd)

- Supreme Court recently granted cert. on two Section 285 cases
  - Octane Fitness v. ICON Health & Fitness
    - Trial court denied fee award; Fed. Cir. affirmed
  - Highmark v. Allcare Health Management
    - Trial court awarded fees; Fed. Cir. overturned



# Innovation Act (cont'd)

- **Discovery Limitations**
  - If a claim construction ruling is required, only “information necessary to determine the meaning of” patent terms is discoverable until such ruling is issued.
  - Not applicable to an action seeking a preliminary injunction to redress competitive harm



# Innovation Act (cont'd)

- Heightened Notice Requirement for Willful Infringement
  - To establish willful infringement based on pre-suit notification, such notification must:
    1. identify the asserted patent, the product or process accused, and the ultimate parent entity of the claimant; and
    2. explain, to the extent possible following a reasonable investigation or inquiry, how the product or process infringes the claims of the patent.



# Innovation Act (cont'd)

- Customer Stay
- Requires courts to grant a motion to stay an action against a customer accused of infringing a patent when:
  1. the manufacturer is a party to the action or to a separate action involving the same patent related to the same product or process; and
  2. the customer agrees to be bound by any issues in common with, and finally decided as to, such manufacturer in the action to which the manufacturer is a party





# Innovation Act (cont'd)

- Post Grant Review (PGR) Change
  - Limit the grounds for invalidity of a patent claim that a PGR petitioner is prohibited, by estoppel, from asserting in subsequent civil actions to only those grounds that the petitioner actually raised during PGR
  - Currently, the petitioner is estopped from asserting claims that the petitioner raised or reasonably could have raised during PGR



# Innovation Act (cont'd)

## ■ PGR/Inter Partes Review (IPR) Change

- Requires claims of patent in PGR and IPR to be construed in the same manner as a court would construe such claims in a civil action to invalidate the patent, including by interpreting the claim in accordance with its ordinary and customary meaning, as well as the prosecution history pertaining to the patent
- Currently, the USPTO construes claims by considering the broadest reasonable interpretation



# Patent Transparency and Improvements Act

- “Leahy-Lee Bill”
- S. 1720
- Pending



# Patent Transparency and Improvements Act (cont'd)

- Interested Party Disclosure
  - Patentee must disclose to the court any persons, associations, corporations, or other entities known by the patentee to have:
    1. a financial interest in the subject matter in controversy or in a party to the proceeding, or
    2. any other interest that could be substantially affected by the outcome of the proceeding



# Patent Transparency and Improvements Act (cont'd)

- **Assignment Recordation**
  - Any assignment of all substantial rights in an issued patent that results in a change to the ultimate parent entity must be recorded with the USPTO within three months of the assignment
  - Non-Compliance will result in:
    - No recovery of increased damages or attorney's fees
    - Award to prevailing accused infringer reasonable attorney's fees and expenses incurred in discovering any previously undisclosed ultimate parent entities



# What will pass?

- Provisions in common between House and Senate bills
  - Customer Stay
  - Limits on PGR estoppel
  - PGR/IPR Claim Construction Change



# What will pass? (cont'd)

- Stopping the Offensive Use of Patents (STOP) Act
  - H.R. 2766
- Patent Quality Improvement Act
  - S. 866
- Expanded covered business method (CBM) review



# What will pass? (cont'd)

- CBM review available for 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.





**Questions?**



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Marginal Case

v.

Frivolous Case

# The Frivolous Case

Specification:



Claim:

- An apparatus comprising:
  - A seat portion
  - Three legs

# The Frivolous Case

Specification:



Claim:

- An apparatus comprising:
  - A seat portion
  - Three legs

Accused Product:

