

Yet Another Attempt by Congress to Solve the Patent Troll Problem

The Innovation Act

Part II

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Two bills are pending in Congress that if consensus is reached will be called the Innovation Act. The Act is intended to address the problem of abusive patent litigation that is sometimes referred to as patent trolling. The disapproved, yet fully legal, practice of patent trolling involves acquiring (typically over-broad) patents which are the basis of a lawsuit against an individual or a small company. Because patent litigation is very expensive, it is frequently cheaper to simply settle the lawsuit rather than go through extensive, expensive litigation - even though a victory is possible. The patent assertion entity, i.e. those that practice patent trolling, is interested in bringing suit and settling quickly. The previous bill, the America Invents Acts, was passed to thwart these abusive litigation tactics.

Unfortunately, it left loopholes and carried with it unintended consequences. However, not to be dissuaded, Congress has once again stepped up to address the troll problem. There are two pending bills, one in the House of Representative and one in the Senate. The House Bill HR9-Goodlatte and the Senate Bill is S1137-Grassley. The provisions of both bills can be neatly classified into distinct categories of issues. The first is the change in pleading requirements from existing law. The second is transparency requirements of patent ownership. Third contains provisions relating to customer suits being stayed while the manufacturer of the infringing product is being sued. A fourth category relates to discovery.

The **pleading requirements** essentially cover the same subject matter. In the House bill, the patent assertion entity (PAE) / Troll is additionally required to show authority to assert the patent. While in the Senate Bill such is not the case. Also, there is a provision that says the court may not dismiss the patent assertion entity / Troll if it states a plausible claim to relief if in accordance with the federal rules of civil procedure.

In the **transparency of ownership**, both bills are similar except the House Bill-Goodlatte creates an ongoing duty of disclosure while the Senate Bill-Grassley does not have such an ongoing duty of disclosure. It merely provides that changes in ownership must be disclosed.

In the provisions relating to **stays of the lawsuit against customers**, the House Bill-Goodlatte provides a stay must be granted where the parties consent to the stay. The consumer must agree to be bound by the decision that applies to the manufacturer. In the Senate Bill- Grassley, the court's decision to grant or expand stays otherwise permitted by

law stands except where the manufacturing party and the customer both agree to a stay. The Senate Bill does provide a definition of covered customer as a retailer or end user accused of infringement based on sales / use without material modification. The House Bill has no such definition.

In the **discovery provision**, the House Bill Goodlatte, limits discovery to claim construction until a Markman hearing is held. It also provides that a court must allow discovery where resolution of an issue within a select period affects the rights of a party. In contrast, the Senate Bill limits discovery, prior to ruling, on motions, to dismissal, transference, venue and release of accused infringers. The court may allow discovery to preserve evidence or prevent prejudice to a party. The Senate Bill has an exception for discovery in abbreviated new drug application (ANDA) suits. While the House Bill does not.

Continuing the analysis of the House and Senate Bills which is Congress attempting to address the abusive patent litigation techniques of patent assertion companies (PAC) or Troll entities:

There are five additional categories of issues that are addressed by House Bill9-Goodlette and Senate Bill 1137-Grassley. The five additional categories of issues are: 1) Discovery/judicial conference rules and procedures, 2) attorney fees, 3) fee recovery, 4) demand letters, and lastly, 5) post grant review and inter-partes review.

In the **discovery / judicial conference rules and procedures** portion, the House Bill differs from the Senate Bill in that, while both address whether the parties are entitled to the discovery of "core documents", the timing of that discovery, whether parties may seek additional discovery, rules on electronic discovery and case management procedure, the Senate Bill goes further to include a definition of "core documents" as those related to obtaining a patent, prior art, licensing profits, accused infringers' knowledge, patentees' knowledge, and marketing. It further requires a judicial conference to study the efficacy of the rules.

As for **attorney fees**, the House bill, by statute, awards fees to the prevailing party unless the non-prevailing party had reasonable justification in law or fact for their special circumstances. In the meantime, the Senate Bill provides for such benefits on motion of the prevailing party and therefore by court order. In the House bill, the basis for awarding attorney fees is "...was the plaintiff's activities reasonably justified in law or in fact" whereas, in the Senate Bill the basis is whether the non-prevailing parties' position was objectively reasonable in law or fact. This is merely a war of the adjectives.

As to the matter of **fee recovery**, in the House Bill the court may require any party to certify that it will be able to pay fees if awarded. It further provides that the court may join interested parties identified by the plaintiff in the initial disclosure, if the defendant can show the plaintiffs sole interest is in asserting the patent.

The Senate Bill takes several steps to achieve the same end. Here the defendant may state in good faith that he believes the plaintiffs primary business is asserting or enforcing patents, then the plaintiff must certify that its financials are sufficient to satisfy a fee award and that its primary business is not patent enforcement or it has to identify interested parties (interested parties means investors). In either bill, the interested party may renounce its ownership and avoid having to pay fees, if awarded. The Senate Bill provides an exception for universities, non-profit tech-transfer organizations, and abbreviated new drug application suits. The House Bill has no such provisions.

With respect to **demand letters**, which are letters sent by the patent holder demanding a response to the suggestion of infringement (which may be as straightforward as paying money immediately), the House Bill simply provides that if the plaintiff is seeking to establish willful infringement (where damages may be tripled), the pre-suit demand letter or notification has to be quite detailed with respect to patents infringed by which products or processes based upon reasonable investigation or inquiry.

On the other hand, the Senate Bill is much more complicated in that each patent in the accusation be identified and at least one claim of each patent to be identified by at least one process or product. The Senate Bill also provides that the warning letter notify the recipient of the possibility of the recipient's customer's suits may be stayed while the suit between the two of them proceeds. If the above criteria are not met, the defendant's time for response is extended by thirty days. Further, the Senate Bill excludes certain communications, essentially as to negotiations or licenses or deals that are already in place. Further the Senate Bill provides that it's a violation of the FTC Act to engage in widespread sending of demand letters where communications misrepresent whether or not suit has already been filed or will be filed and contain false statements or a lack of reasonable basis in law and fact. The Senate Bill does not preempt state legislation addressing the same sending of letters.

Post grant review and inter-partes review (IPR) – both the senate and house bills have a very important provision which is that evidence and arguments which reasonably could have been raised during the post grant review or are no longer barred from being raised in subsequent lawsuit.

The House Bill has one other provision with respect to post grant review, which is that the patent office is required to use the **plain meaning of the claim** wording just like the courts use rather than the **broadest reasonable interpretation** that is the old patent office standard. This provision in the House Bill means that both patent office and the courts will be using the same standard for interpreting the meaning of the claims and thus the patent office decision if it is the forerunner of a court decision should be given heavy weight by the court.

Again, Congress is doing what Congress does... playing with the words, i.e. the war of adjectives, while not addressing patent quality by providing the funds to hire more high quality examiners so that only good patents issue. Congress would also do well to limit recoveries by defining the base upon which royalties will be calculated and thus reduce damages eliminating the effectiveness of trolling because high litigation costs and awards force early settlement of unjust claims.

Subsequently, on June 11, 2015, the House Judiciary Committee approved an amended version of H.R. 9 that included changes to bring it closer to the Senate version and at the same time added strict venue provisions which could dramatically change patent litigation strategies – most likely with more unintended consequences hurting real inventors seeking rewards for their innovations.

The venue provisions includes one that would ensure that patent infringement suits are only brought in judicial districts that have some reasonable connection to the dispute. The provision appears to have been aimed at the Eastern District of Texas because of its pro-plaintiff disposition in patent litigation. During the discussions it was stated that a high percentage of are brought there even though there is little or no manufacturing, research or development there. In fact many believe that a root cause of the lack of such activities is because they were all exported to China. The speculation continues that a previous Judge, C. John Ward, created a favorable litigation environment to save his court and the region knowing that Plaintiffs chose the venue to bring suits. An abundance of suits meant an influx in visitors, attorneys, staff and an increase in demand for local services. All of these served to spur the local economy. Unfortunately, the overall affect was to create active venue shopping in patent infringement cases which now Congress seeks to remedy.

The proposed venue provisions are that a patent infringement suit can be brought only in a district where:

1. Where the defendant has its principal place of business or is incorporated;
2. Where the defendant has committed an act of infringement of a patent in suit and has a regular and established physical facility that gives rise to the act of infringement
3. Where the defendant has agreed or consented to be sued in the instant action;

4. Where an inventor named on the patent in suit conducted research or development that led to the application for the patent in suit;
5. Where a party has a regular and established physical facility that such party controls and operates not primarily for the purpose of creating venue and has:
 - a. Engaged in management of significant research and development of an invention claimed in a patent in suit prior to the effective filing date of the patent;
 - b. Manufactured a tangible product that is alleged to embody an invention claimed in a patent in suit ; or
 - c. Implemented a manufacturing process for a tangible good in which the process is alleged to embody an invention claimed in a patent in suit; or
6. For foreign defendants that do not meet the requirements of paragraphs 1 or 2, according to Section 1391(d) of this title.

The likely unintended consequences are that legitimate inventors that don't manufacture anything may well be denied access to courts having expedited rules or they may be forced into a defendant friendly jurisdiction. Moreover, available jurisdictions could be more remote and be a greater burden on the smaller companies – especially if the defendants have more resources.

“And the Beat Goes On”!!

From the above discussion above, it's clear that except for the venue provision and possibly the scope of interpretation and bar issues that can be raised after an IPR, the others in either bill are not earth-shaking and carry a higher risk of unintended consequences than writing a real solution to the troll problem. Indeed, the private sector solution of Patent Assertion Entity Infringement Defense Cost Reimbursement Insurance, or Troll Defense Insurance, is a much preferred solution.

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