



“Patent Reform”

King County Bar Association, 1200 Fifth Avenue, Suite 600, Seattle

April 3, 2014

0.75 General **AV** CLE Credit Approved: approval #374251

AGENDA

- Various Congressional initiatives directed to patent infringement suits;
- States efforts to curb certain patent infringement suits; and
- Judicial attempts to effect patent reform.

SPEAKER BIO:

Jared Schuettenhelm – Jared’s practice focuses on intellectual property litigation, counseling, and opinion work. He has represented clients across a wide range of technological areas, including LED televisions, tablet computers, computer security and encryption systems, printing technologies, and computer networking and architecture, among others. Jared also utilizes his experience as a scientist to represent clients in the medical device and pharmaceuticals industries. He represents both U.S. and international clients, with a particular emphasis on representing Japanese clients in intellectual property matters.

Jared has been closely involved in all aspects of litigation, including infringement and invalidity analysis and preparation of contentions; drafting claim construction briefs, discovery and evidentiary motions, and summary judgment motions; and preparing for trial. Jared represents clients in a wide variety of intellectual property disputes before U.S. district courts and the U.S. International Trade Commission (ITC), and has also represented clients in trade secret matters before state courts.

A registered patent attorney before the U.S. Patent and Trademark Office (USPTO), Jared also has experience prosecuting pharmaceutical and

biotechnology patent applications to issue. Jared leverages his prosecution and litigation experience to help clients develop effective strategies to analyze and protect their patent portfolios.

Prior to becoming an attorney, Jared worked for nearly eight years as a process engineer and scientist in the medical device industry. During this time, Jared worked closely with hospitals, the FDA, and customers to help develop and optimize innovative products, solutions, and point-of-care devices. During his career as a scientist, Jared obtained a Black Belt in Six-Sigma process improvement Methodology.

HOW DO I EARN CREDIT FOR SELF-STUDY OR AUDIO/VISUAL (A/V) COURSES?

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Only 22.5 credits must be live.

For pre-recorded A/V (self-study) programs, although the sponsor should apply for accreditation, **lawyers need to report the credits earned for taking the course.** If the program has been approved, you can simply add it to your roster and

(a) indicate the date(s) you took the course, and

(b) the number of credits you earned.

- To add an approved course to your roster, follow the procedures below:
- Go to the "mywsba" website at www.mywsba.org/.
- Log in.
- Click on the "Access MCLE" link in the "MCLE Info" box on your home profile page.
- Click on "Add Activity." Search to find the approved course in our system. (See search suggestions on the screen.)
 - ** If you already know the Activity ID number for the course, you need only enter that information on the search screen.
 - ** If you do not know the Activity ID number, you will need to do a search to see if a Form 1 has been approved for the course.
 - ** "Add Approved Activities" lists can be sorted, by clicking on the column headings, to make finding a course easier.
- Locate the approved course (activity) on the list and click on the Activity ID link to add it to your roster.
 - For live courses, correct the number of credits earned, if needed.
 - For A/V courses, (1) indicate the date(s) you took the course, and (2) the number of credits you earned.
- Click the "Add Activity" Button.

If you were not able to find the Form 1 for the course, click the Live or A/V Form 1 button on the search results screen, fill out the form, and submit the course for accreditation review. Form 1 applications must include a detailed agenda of the activity, including the start and end times for each session and break. Without a detailed agenda, no credit can be granted.

One (1) MCLE credit may be claimed for each 60 minutes of participation in an accredited activity. Time spent on course registration, introductions, breaks, and business meetings are not included in activity accreditation and may not be counted. Bar members are responsible for making appropriate adjustments to their records when the actual time spent in an accredited activity is less than the maximum approved credit-hours. Adjustments must also be made for late arrival, early departure or other periods of absence or non-participation.

- You can Edit or Delete any activity on your Current Reporting Period roster by clicking on the hyperlink to the right of an activity.
- Your online CLE credit roster is provided only for your convenience and is not an official record. At the end of your reporting period you must certify your credits with the online or paper CLE Certification (C2) form to meet Supreme Court MCLE compliance requirements.
- A "Certificate of Attendance" or other sponsor-provided certification is not sufficient to receive course credit.

For further assistance, contact the State Bar Service Center at 206-443- (9722) or 800-945-9722, or questions@wsba.org.

Update On The Status Of United States Patent Reform

Presented to KCBA IP Section
April 3, 2014

Jared Schuettenhelm
Seattle, WA

Patent Reform—Why Now?

- Over the past 5-6 years, number of suits increasing exponentially
 - Perceived as significant burden on economy
 - Overwhelming district courts with complicated cases
- Significant increase in media attention
- Corporate pressure for political intervention has increased
- But to date, attempts at reform have been slow
 - The legislative process is burdensome
 - Political hurdles

Patent Reform—Who Is Responsible?

- Currently, there are several different approaches to patent reform taking place
 - Legislative in the United States Congress
 - Judicial in the Court of Appeals for the Federal Circuit and the United States Supreme Court
 - Legislative in the states

Patent Reform In Congress

Current Patent Reform Efforts In Congress

- 12 different legislative bills have been proposed
- Some of the more significant bills include the following
 - House of Representatives
 - **The Innovation Act**
 - Patent Litigation and Innovation Act
 - Demand Letter Transparency Act
 - Senate
 - **The Patent Transparency and Improvements Act of 2013**
 - The Patent Litigation Integrity Act of 2013
 - The Patent Abuse Reduction Act

Innovation Act

- Has made the most progress to date
- Represents a comprehensive attempt at patent reform which targets many of the perceived issues in the current system
- Has already passed the House and is up for debate in the Senate

Innovation Act

.....
(Original Signature of Member)

113TH CONGRESS
1ST SESSION

H. R. _____

To amend title 35, United States Code, and the Leahy-Smith America Invents Act to make improvements and technical corrections, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

Mr. GOODLATTE (for himself, Mr. DEFazio, Mr. COBLE, Ms. LOPGREN, Mr. SMITH of TEXAS, Ms. ESHOO, Mr. CHAFFETZ, Mr. BACHUS, Mr. MARINO, Mr. FARENTHOLD, and Mr. HOLDING) introduced the following bill; which was referred to the Committee on _____

A BILL

To amend title 35, United States Code, and the Leahy-Smith America Invents Act to make improvements and technical corrections, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**
4 (a) SHORT TITLE.—This Act may be cited as the
5 “Innovation Act”.
6 (b) TABLE OF CONTENTS.—The table of contents for
7 this Act is as follows:

- Introduced in the House of Representatives (Rep. Goodlatte, VA) on October 22, 2013
- Passed by the House on December 5, 2013

Innovation Act—Key Provisions

- Heightened pleading standards
- Fee shifting provisions
- Transparency regarding real party in interest
- Discovery reform
- Staying customer suits

Innovation Act—Heightened Pleading Standards

- Complaint for patent infringement would be required to:
 - Identify each claim of each patent that is accused of infringement
 - Identify with particularity each instrumentality alleged to infringe each claim
 - Explain, for each accused instrumentality:
 - Where each claim element is found in the instrumentality
 - Whether the claim element is infringed literally or under the doctrine of equivalents; and
 - How the claim terms correspond to the functionality of the instrumentality with detailed specificity

Innovation Act—Heightened Pleading Standards

- If indirect infringement alleged, the complaint must describe
 - The direct infringement
 - Any person alleged to be a direct infringer
 - The acts of the alleged indirect infringer that contribute to or induce infringement
- Complaint must also:
 - Describe the principal business of the plaintiff
 - Contain a list of every other complaint that has been filed asserting the patents
 - Identify whether the patents have been declared essential to any standards setting organization

Innovation Act—Fee Shifting Provision

- Prevailing party would be entitled to an award of reasonable fees and expenses, unless the court finds that:
 - Position of the non-prevailing party was substantially justified; or
 - Special circumstances make such an award unjust
- A party that asserts a claim for relief against another party, and subsequently extends a unilateral covenant not to sue that other party, would be considered a non-prevailing party

Innovation Act—Fee Shifting Provision

- Concept of fee-shifting is controversial
 - Runs counter to the thesis underlying US judicial system (access to the courts for all)
- While the intent is to curb meritless patent infringement claims, could also impact accused infringers with viable, but challenging, defenses
 - How does a court determine what is “substantially justified,” particularly in light of the impact of claim construction?

Innovation Act—Discovery Reform

- Discovery prior to claim construction would generally be limited to information necessary for the court to issue its claim construction order
 - Should be minimal if any
- Court retains discretion to allow early discovery prior to issuance of a claim construction order:
 - Where resolution of the action would necessarily affect the rights of a party with respect to the patent
 - Where necessary to resolve a motion that is brought prior to the claim construction order

Innovation Act—Discovery Reform

- Would delay the majority of the cost of discovery until after claim construction
- Would allow parties to more accurately assess potential settlement in light of anticipated discovery costs

Innovation Act—Transparency of Ownership

- Plaintiff would be required to disclose the identity of:
 - The assignee of the patent(s)
 - Any entity with a right to sublicense or enforce the patent(s)
 - Any entity that plaintiff knows to have a financial interest in the patent(s)
 - Name, correspondence information, corporate information
 - Any parent entities for each of the above
- Plaintiff must disclose this information to the court, each adverse party, and to the Patent Office

Innovation Act—Transparency of Ownership

- The plaintiff would have an ongoing duty of disclosure to the Patent Office
- Transparency would allow defendant(s) to immediately seek discovery from those with financial stake in outcome

Innovation Act—Stay Of Suits Against Customers

- If a plaintiff sues a customer for patent infringement, the customer would be entitled to stay the lawsuit where:
 - The manufacturer is a party to the lawsuit or to a separate lawsuit involving the same patent(s) related to the same product or process
 - The manufacturer and the customer consent in writing to the stay
 - The customer agrees to be bound by any judgment entered against the manufacturer to the same extent that the manufacturer is bound

Innovation Act—Summary

- Not passed the Senate
 - More controversial provisions including fee shifting could be removed or significantly altered by the Senate version prior to a vote
- A number of competing bills in the Senate have some, but not all, of these provisions
 - Senate may simply not vote on the Innovation Act, choosing to instead vote on one of the Senate bills
 - The Patent Transparency and Improvements Act of 2013 (“Patent Transparency Act”) is one Bill currently garnering attention in the Senate

Patent Transparency Act

ALB13912 S.L.C.

113TH CONGRESS
1ST SESSION

S. _____

A bill to promote transparency in patent ownership and make other improvements to the patent system, and for other purposes.

IN THE SENATE OF THE UNITED STATES

Mr. LEAHY (for himself, Mr. LEE, and Mr. WHITEHOUSE) introduced the following bill; which was read twice and referred to the Committee on _____

A BILL

A bill to promote transparency in patent ownership and make other improvements to the patent system, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) **SHORT TITLE.**—This Act may be cited as the
5 “Patent Transparency and Improvements Act of 2013”.

6 (b) **TABLE OF CONTENTS.**—The table of contents for
7 this Act is as follows:

Sec. 1. Short title; table of contents.
Sec. 2. Definitions.
Sec. 3. Transparency of patent ownership.
Sec. 4. Customer stay.

- Introduced in the Senate (Sen. Leahy, Vt.) on November 17, 2013
- Could be voted on soon

Patent Transparency Act

- Less ambitious than the Innovation Act
- Key Provisions
 - Provisions similar to the Innovation Act
 - Transparency of patent ownership
 - Stay of customer suits
 - Other notable provisions
 - Provision addressing bad faith demand letters

Patent Transparency Act – Bad Faith Demand

- Provides that it is an unfair or deceptive act to send a written communication stating that a party infringes if:
 - The communication falsely threatens that relief will be sought if compensation is not paid
 - The assertion contained in the communication lacks a reasonable basis in fact or law
 - The communication is likely to materially mislead the recipient
 - E.g., fails to include facts necessary to inform the recipient of the reasons for the assertion of patent infringement
- Provides for enforcement by the FTC

Summary – Legislative Reform

Provision	Innovation Act (House)	Patent Transparency Act (Senate)
Stay of customer suit	Yes	Yes
Patent ownership transparency	Yes	Yes
Fee shifting	Yes	--
Discovery reform	Yes	--
Heightened pleading requirements	Yes	--
Bad faith demand letters	--	Yes

Patent Reform In The Courts

Judicial Attempts At Patent Reform

- Courts are often able to address issues more quickly than the legislative process
- In recent years, both the Supreme Court and the Federal Circuit have issued a number of decisions impacting patent litigation
- District courts have also implemented procedures to reduce cost and impact of patent infringement litigation

Supreme Court—Changes In Legal Standards

- The Supreme Court has granted certiorari in several cases likely to impact patent infringement litigation
 - *Limelight Networks v. Akamai Technologies*
 - Legal test for determining induced infringement
 - *Nautilus, Inc. v. Biosig Instruments, Inc*
 - Legal test for determining whether a patent claim is indefinite

Federal Circuit—Changes In Legal Standards

- It may be easier for defendants to obtain fees against plaintiffs that bring infringement actions
 - *Kilopass Technology v. Sidense Corp.* (2013)
 - In order to obtain fees, the defendant must show the plaintiff acted in subjective bad faith
 - But this can be shown in a variety of ways
 - May be established by objective baselessness

District Court—Procedural Changes

- Pleading standards
 - Traditionally, courts have held that a plaintiff need only comply with Form 18 to state a claim for direct patent infringement
 - Form 18 provides a sample complaint for patent infringement
 - Form 18 has been described as “bare-bones”
 - Recently, there have been efforts to end reliance on Form 18

District Court—Procedural Changes

- Efforts to amend pleading standards for direct infringement
 - Judicial Conference of the U.S.
 - Proposed amendments to the Federal Rules of Civil Procedure
 - The proposed amendments would abrogate Rule 84, under which the model forms are provided
 - Cites “tension between the pleading forms and emerging pleading standards”
 - Specifically references inadequacies in Form 18
 - “[S]ome of the forms have come to seem inadequate, particularly the Form 18 complaint for patent infringement”

District Court—Procedural Changes

- At least one district court has recently required heightened pleading for direct infringement
 - *Macronix International Co. v. Spansion Inc.* (E.D. Va. Mar. 10, 2014)
 - Held that compliance with Form 18 was not sufficient to plead direct infringement
 - According to the district court, the plaintiff must ascertain
 - Exactly what claims are allegedly infringed
 - How they are infringed
 - This “will mean taking great care crafting a . . . patent complaint” and “may well, indeed likely will, require expert assistance”

District Court— Other Procedural Changes

- Infringement contentions
 - A number of courts require detailed infringement contentions
 - Some courts require showing of good cause to amend
- Discovery reform
 - Limits on custodians and email
- Limitations on asserted claims
- Limitations on number of claim terms to be construed

Patent Reform In The States

State Efforts At Patent Reform—Can They Do It?

- United States patents are governed by federal law, not state law
 - The patent system arises out of the United States Constitution
- There are questions regarding the ability of states to enforce laws that may impact patent rights
 - Expect significant challenges to constitutionality of attempts by the states

State Efforts At Patent Reform—What is being done?

- Primary vehicle has been through amendment of consumer protection laws
 - These laws are designed to protect the residents of a state from predatory acts by companies, especially those operating in bad faith

State Efforts At Patent Reform—Vermont

- Vermont has passed a law allowing companies to sue non-practicing entities for bad faith assertions of patent infringement
- Under Vermont’s law, “bad faith assertions” include:
 - Sending a licensing demand letter that lacks basic information about the alleged infringement
 - Failing to conduct an analysis comparing the claims to the allegedly infringing product
 - Sending a licensing demand letter that demands payment of a licensing fee in an unreasonable amount of time
 - Offering to grant a license for an amount that is not based on a reasonable estimate of the value of the license
 - Bringing a meritless or deceptive claim for patent infringement

State Efforts At Patent Reform—Vermont

- Remedies for violation of this consumer protection law
 - Damages
 - Costs and fees, including attorney's fees
 - Exemplary damages in an amount equal to \$50,000, or three times the total of damages, costs, and fees, whichever is greater

State Efforts At Patent Reform—Vermont

- Bond provisions
 - If an alleged infringer files a motion demonstrating a reasonable likelihood that an entity made a bad faith assertion of patent infringement, the court shall require the entity to pay a bond

State Efforts At Patent Reform—Vermont

- The Attorney General of Vermont has already filed a complaint against one patent assertion entity
 - *State of Vermont v. MPHJ Tech. Investments, LLC*
 - The entity allegedly sent demand letters to a number of small business and non-profit organizations in the State
 - Vermont alleges that these actions were unfair and deceptive
 - The case is still in the fairly early stages
 - MPHJ has raised constitutional challenges

State Efforts At Patent Reform

- Other states have enacted, or are in the process of enacting, similar legislation
 - Oregon
 - Wisconsin
 - Nebraska
 - Kentucky
 - Maine

State Efforts At Patent Reform—Nebraska

- The Nebraska Attorney General has also made a concerted effort to halt NPEs
 - The Attorney General launched an investigation of a law firm that represents NPEs
 - He also ordered the law firm to stop sending demand letters while he investigated whether it was violating consumer protection laws
 - A judge subsequently ruled that the Attorney General could not issue such an order
 - Regardless, it is clear that the Nebraska Attorney General intends to pursue NPEs aggressively

State Efforts At Patent Reform—New York

- New York has also sought to curb NPEs
 - New York's Attorney General sued MPHJ, the same NPE that the Vermont Attorney General sued
 - The Attorney General reached a settlement with MPHJ
- This same NPE (MPHJ) has recently sued the Federal Trade Commission (FTC) in Texas
 - Claims that the FTC is interfering with its rights to exploit its patents

Thank you!

Jared Schuettenhelm
Associate
Bracewell & Giuliani LLP
701 Fifth Ave.
Suite 6200
Seattle, WA 98104
jared.schuettenhelm@bgllp.com