Legislation Would Address Abusive Patent-Litigation Tactics

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On the heels of the Leahy-Smith America Invents Act, Congress is currently considering a number of bills designed to address abusive patent-litigation tactics associated with nonpracticing entities, often referred to as "patent trolls." On Dec. 5, 2013, the House of Representatives passed the Innovation Act, HR 3309, by a vote of 325 to 9. It has been sent to the Senate and referred to the Senate Judiciary Committee for consideration. Other bills under consideration and pending before the judiciary committee include the Patent Transparency and Improvements Act, S 1720; the Patent Abuse Reduction Act; the Patent Litigation Integrity Act; and the Patent Quality Improvement Act.

The Innovation Act includes a number of important provisions that would enact wide-ranging reform of the current rules and procedures of patent litigation as well as patent law generally, including:

• **Enhanced pleading requirements.** The Innovation Act would require a party alleging patent infringement to identify each claim of each patent allegedly infringed, including each accused instrumentality alleged to infringe; to identify for each claim of indirect infringement the acts of the alleged indirect infringer that contribute to, or are inducing, the direct infringement; to identify the principal business of the party alleging infringement; and to identify each complaint filed that asserts any of the same patents.

• **Mandatory fee shifting.** The Innovation Act would require courts to award reasonable attorney fees to the prevailing party unless the position and conduct of the losing party was reasonably justified or special circumstances make an award unjust.

• **Disclosure of interested parties.** The Innovation Act would require a plaintiff upon filing of an initial complaint to disclose real-party-in-interest information to the U.S. Patent and Trademark Office, the court and the adverse party. The Innovation Act would also require the court to join an interested party upon motion by a prevailing party in a case in which the losing party is unable to pay reasonable attorney fees and it is shown that the losing party has no substantial interest in the subject matter at issue.

• **Mandatory stays of customer suits.** The Innovation Act would require courts to stay actions against customers where the manufacturer is also party to the action or a separate action involving the same patent related to the same product or process and 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.

• **Limitations on discovery.** The Innovation Act would direct the Judicial Conference of the United States to develop rules and procedures that address limitations on discovery before claim construction.

• **Amendments to the America Invents Act.** The Innovation Act would estop a post-grant petitioner from asserting in subsequent civil actions grounds not actually raised during post-grant review and require claims in post-grant and inter partes review proceedings to be construed in the same manner as a court would construe such claims in a civil action to invalidate a patent.

The Senate bills under consideration contain similar provisions addressing the potential abuses by nonpracticing entities, but none of the Senate bills mirrors the Innovation Act. The Patent Transparency and Improvements Act also contains a provision making bad-faith demand letters subject to enforcement by the Federal Trade Commission.

The American Bar Association and its section of intellectual property law have each expressed their views to the Senate Judiciary Committee on the proposed bills. The primary concern expressed by the ABA is that the Senate bills would specifically direct changes to the federal rules, which has historically been within the province of the Judicial Conference.

The IP section addressed specific provisions of the bills concerning mandatory fee shifting, FTC enforcement regarding bad-faith demand letters, the duty to disclose interested parties, stays of customer suits, and the various amendments to the America Invents Act. The section opposes mandatory fee shifting and supports a more flexible approach to awarding fees when appropriate. It also supports FTC enforcement of bad-faith demand letters and a limited duty to disclose interested parties upon filing of an initial complaint. The section does not, however, support mandatory stays of customer suits but instead believes that judicial discretion in this regard should be broadened. With respect to the proposed amendments to the America Invents Act, the section supports narrowing the grounds for estoppel but opposes enactment of legislation dictating the claim-construction standard to be applied in post-grant and inter partes reviews.

U.S. Sen. Christopher Coons, D-Del., has publicly stated that the Senate must find a way to provide small businesses with relief from frivolous suits by patent trolls without making major changes that could weaken the patent system. He urged the Senate to take its time considering the legislation in order to get it right, noting that the America Invents Act was under consideration for six years before passage.

While it is unclear if or when legislation addressing abusive litigation tactics by nonpracticing entities will take effect, it is clear that such legislation could have a significant impact on the practice of patent litigation in Delaware federal court. As noted by both the ABA and Coons, the Senate bills aim to take discretion and rulemaking out of the hands of the courts and the Judicial Conference and place them instead in the legislative branch, leaving little room for input by lawyers or a case-by-case assessment of issues.

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