

## High-Tech Patent Issues

On June 4, 2013, the White House Task Force on High-Tech Patent Issues released its “Legislative Priorities & Executive Actions,” designed to protect innovators in technology from frivolous lawsuits and to safeguard the quality of patents in our system. Consisting of seven legislative recommendations and five executive actions, the Task Force’s proposals are aimed at patent assertion entities, organizations the Administration claims are responsible for 62 percent of all patent infringement lawsuits filed in the United States. Along with several bills recently drafted by members of Congress, these actions demonstrate recognition of the difficulties high technology companies experience defending against patent assertion entity litigation.

### I. Background

Patent rights are based on a provision in the United States Constitution that authorizes Congress to enact laws that will provide incentives to inventors by protecting their work.<sup>1</sup> A patent is a grant by the United States Patent and Trademark Office (“USPTO”) that provides the owner of an invention with the right to exclude others from making, using or selling the invention throughout the United States for a specified length of time. Stated another way, a patent protects against making, using or selling the invention defined by the claims of the patent in the United States during the period of the patent’s enforceability, generally for 20 years. Granting these exclusive rights to the patent holder is intended to encourage the investment of time and resources into the development of new and useful discoveries.<sup>2</sup>

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<sup>1</sup> U.S. Const., art. I, s. 8, cl. 8.

<sup>2</sup> An invention is owned in the first instance by the inventor. As a general rule, only the “inventor” may make an application, limiting the availability of patent protection to individuals, thereby excluding corporations. As with other personal property, however, a patent may be transferred or assigned to corporations as well as to individuals, subject to certain limitations sometimes imposed as to employee-inventors. An invention is owned in the first instance by the inventor. It is most often the case that the inventor has a contractual obligation to assign to an employer or business.

In order to secure patent protection, the claimed invention must consist of unique and useful subject matter, which generally falls into one of three categories:

- Utility patents, such as a machine, composition of matter, or process;
- Plant patents (for asexually reproduced plants); and
- Design patents, for the ornamental design of a utilitarian object.

In exchange for what amounts to a limited monopoly, the patent holder is required to disclose the invention to the USPTO as part of a patent application, which becomes public when a patent issues, in sufficient detail to enable those of ordinary skill in the art to make and use the invention.<sup>3</sup> The application's "claims" are the heart of the patent, forming the basis for the determination of novelty and patentability for issuance of the patent and questions of infringement following issuance. The USPTO maintains the confidentiality of rejected and abandoned patent applications. Thus, members of the public can learn about the invention and how it works and may use that information to produce a non-infringing, different and better production process. The resulting disclosure and the eventual dedication of information to the public are primary purposes of granting patent protection. Once a patent has issued, a patent notice should be placed on the invention or, if impractical due to its nature, on a label affixed to the packages containing the invention.

Upon expiration of the patent, the patent owner or holder loses all rights in the invention, and everyone is free to use it without regard to the expired patent. Those who engage in these acts without the permission of the owner or holder during the term of the patent can be held liable for infringement and may be enjoined from further infringing acts. But patent rights are not self-enforcing. The patent holder must enforce its rights by filing infringement suits in federal court against anyone who makes, uses, sells, or imports the patented technology, regardless of whether it was copied or developed independently. A patent holder can also enforce its rights by filing a complaint with the International Trade Commission

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<sup>3</sup> See *In re Wands*, 858 F.2d 731 (Fed Cir. 1988).

(“ITC”) which may issue an exclusion order blocking importation of the infringing product into the United States. The ITC, though, is not authorized to issue damages.

A patent is an intangible asset and all or some of its rights can be contracted to and enforced by another through an assignment or license agreement. Assignments of patents, patent applications and certain grants of rights in either must be in writing and recorded with the USPTO within three months from the date of the assignment or the transfer is void against a subsequent purchaser without notice of the assignment.

### A. Patent Trolls

Congress has recently exhibited interest in litigation brought by “patent assertion entities” (“PAEs”), businesses that acquire and enforce patents rather than engaging in research and development, manufacturing, or otherwise selling technology. These PAEs are informally referred to as “trolls,” after the legendary creatures who would come out from under a bridge to ambush travelers in order to charge them a fee to use something that the trolls were not in any way involved with building or maintaining, i.e. the bridge.<sup>4</sup> PAEs engage in buying and asserting patents against companies that have already begun using the invention protected by the patent, often after independently developing them without knowledge of

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<sup>4</sup> In Section 34 of the America Invents Act (AIA”), Congress required the Government Accountability Office (“GAO”), in consultation with the USPTO, to study the consequences of patent litigation by PAEs. The study will include the amount of litigation in the 20 years before enactment of the AIA, the number of cases found to be without merit after judicial review, the impact of litigation on the time to resolve patent claims, the costs with such litigation, its economic impact on the U.S. economy and job creation, and any benefits created by PAEs. Within one year from the date of enactment of the AIA, i.e., by September 16, 2012, the GAO must report to Congress the results of this study, including recommendations to minimize any negative impact of such patent litigation. The author was unable to find such report as of this writing.

the PAE's patent and often only after it has become pervasive or standard-essential in an industry.<sup>5</sup>

## II. Task Force on High-Tech Patent Issues

### A. Legislative Recommendations

The Task Force's list of legislative recommendations identifies a number of measures that the Administration believes "would have immediate effect on some major problems innovators face," including:

1. Requiring patentees and applicants to disclose the "Real Party-in-Interest," by requiring that any party sending demand letters, filing an infringement suit or seeking USPTO review of a patent to file updated ownership information, and enabling the USPTO or district courts to impose sanctions for non-compliance.
2. Providing courts with more discretion in awarding fees to prevailing parties in patent cases, giving district courts more discretion to award attorney's fees under 35 USC 285 as a sanction for abusive court filings (similar to the legal standard that applies in copyright infringement cases).
3. Expanding the USPTO's transitional program for covered business method patents to include a broader category of computer-enabled patents and permit a wider range of challengers to petition for review of issued patents before the Patent Trial and Appeals Board (PTAB).
4. Providing better legal protection in cases concerning off-the-shelf use by consumers and businesses by providing them with protection against liability for a product being used off-the-shelf and solely for its intended use.
5. Change the ITC standard for obtaining an injunction to be consistent with the standard applied by district courts.
6. Use demand letter transparency to help curb abusive suits by making them accessible and searchable to the public.

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<sup>5</sup> Federal Trade Commission, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* 50 - 51 (2011).

7. Ensure the ITC has adequate flexibility in hiring qualified Administrative Law Judges.

B. Executive Orders

The Administration issued five executive actions “to help bring about greater transparency to the patent system and level the playing field for innovators.” These steps include:

1. Making “Real Party-in-Interest” the New Default. The USPTO will begin a rulemaking process to require patent applicants and owners to designate the “ultimate parent entity” in control of the patent or application when they are involved in proceedings before it.
2. Tightening Functional Claiming. The USPTO will provide new targeted training to its examiners on scrutiny of functional claims and will develop strategies to improve claim clarity, such as by use of glossaries in patent specifications to assist examiners in the software field.
3. Empowering Downstream Users. The USPTO will publish new education and outreach materials, including an accessible, plain-English web site offering answers to common questions by those facing demands from a possible troll.
4. Expanding Dedicated Outreach and Study. The USPTO, DOJ, and FTC will expand their outreach efforts to stakeholders such as patent holders, research institutions, consumer advocates, public interest groups, and the general public. This will include events across the country to develop new ideas and consensus around updates to patent policies and laws. The USPTO will also expand its Edison Scholars Program to develop more robust data and research on the issues bearing on abusive litigation.
5. Strengthen Enforcement Process of Exclusion Orders. The U.S. Intellectual Property Enforcement Coordinator will launch an interagency review of existing procedures that Customs and Border Protection and the U.S. International Trade Commission use to evaluate the scope of exclusion orders and work to ensure the process and standards utilized during exclusion order enforcement activities are transparent, effective, and efficient.

III. Congressional Action

A. Saving High-Tech Innovators from Egregious Legal Disputes (SHIELD) Act

In February of 2013, Representatives Peter DeFazio (D-OR) and Jason Chaffetz (R-UT) introduced the Saving High-Tech Innovators from Egregious Legal Disputes (SHIELD) Act (H.R. 845). The legislation would amend the Patent Act to provide authority for a court to award full litigation costs (including reasonable attorney’s fees) to the defendant in a lawsuit alleging the infringement of a computer hardware or software patent (or in an action disputing the validity of such patent), if the court makes a determination that the patent holder “did not have a reasonable likelihood of succeeding” in the suit.

The Patent Act currently provides a court with the power to award reasonable attorney fees to the prevailing party “in exceptional cases.” The SHIELD Act would make that power more generally available, in any case involving a computer hardware or software patent, whether it is a plaintiff’s action alleging patent infringement or a potential defendant’s declaratory judgment action challenging the validity of the patent. In either action, the patent owner would bear the burden of demonstrating to the court a “reasonable likelihood of succeeding” in the case to avoid potentially being required to pay the defendant’s litigation costs.

However, the SHIELD Act provides that a federal court “may” award such costs, thus leaving the judge discretion to award the costs to the defendant even if he or she finds that the plaintiff had no likelihood of success. In addition, nothing in the SHIELD Act refers specifically to PAEs and thus any patent holder in an action involving a computer hardware or software patent, whether a PAE or product-producing competitor, would be required to satisfy the new requirement.

B. Representative Robert W. Goodlatte’s Discussion Draft

And, on May 23, 2013, Representative Robert W. Goodlatte (R-Va.) released “discussion draft” legislation (38-page proposal) to “address the issues that businesses of all sizes and industries face from patent troll-type behavior” to “correct the current asymmetries surrounding abusive patent litigation” and to reduce “the costs of frivolous litigation.” Accord-

ing to a press release from Representative Goodlatte's office, the “discussion draft is the result of bipartisan, bicameral collaboration between Chairman Goodlatte and ... Senator Patrick J. Leahy (D-Vt).” Representative Goodlatte’s draft legislation includes provisions to help reduce abusive discovery tactics by developing procedures providing for limited initial discovery to focus document production on core materials. The draft legislation further requires the Supreme Court to update the current model allegation of patent infringement form to require more information and greater specificity.

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The White House Task Force on High-Tech Patent Issues “Legislative Priorities & Executive Actions” is available at <http://www.whitehouse.gov/the-press-office/2013/06/04/fact-sheet-white-house-task-force-high-tech-patent-issues>

The Saving High-Tech Innovators from Egregious Legal Disputes (SHIELD) Act is available at <http://beta.congress.gov/113/bills/hr845/113hr845ih.xml>

Representative Robert W. Goodlatte’s Discussion Draft is available at <http://judiciary.house.gov/news/2013/05232013%20-%20Patent%20Discussion%20Draft.pdf>

*This Committee Update provides general information and not legal advice or opinions on specific facts*