

Client Alert

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A Summary of 2015's Proposed Patent Reform Legislation

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This year's debate on federal patent reform has begun in earnest. Last Friday, the White House expressed its support for the leading Senate bill, the Protecting American Talent and Entrepreneurship (PATENT) Act (S. 1137), and the Senate Judiciary Committee held its first hearing on the PATENT Act earlier today.

Aside from the PATENT Act, there are several other proposed bills in both the House of Representatives and the Senate directed at curbing perceived litigation abuse by non-practicing entities. Below, we provide a summary of the competing legislation, with special attention to the two leading bills: the Innovation Act and the PATENT Act.

1. THE INNOVATION ACT (H.R. 9)

- **Introduced:** February 5, 2015, by Representative Bob Goodlatte (R-VA), chairman of the House Judiciary Committee. The bill had 19 co-sponsors at introduction, and now has 22 co-sponsors in total (11 Democrats and 11 Republicans). The Innovation Act is the same bill that the House passed as H.R. 3309 with broad bipartisan approval in the last Congress.
- **Key provisions:** The Innovation Act includes a comprehensive set of amendments to the patent statute and the Leahy-Smith America Invents Act (AIA).
 - **Fee-shifting.** The bill establishes a rebuttable presumption in favor of fee-shifting in patent litigation. It mandates an award of attorneys' fees to the prevailing party, *unless* the court finds that the losing party's position and conduct were "reasonably justified in law and fact" or "special circumstances" make fee-shifting unjust. If a patent assertion entity is unable to pay a fee award, the bill allows a prevailing defendant to join and recover fees from third parties that hold a right to enforce or sublicense the patent, or have a direct financial interest in the patent.
 - **Pleading requirements.** The bill requires a patent infringement complaint to specify the claims that are allegedly infringed, the name and model number of the accused products, and detailed grounds for the alleged infringement. It also requires the complaint to describe the plaintiff's principal business and any prior litigation concerning the patent.
 - **Discovery limits.** The bill limits discovery to the information necessary for claim construction until after a court issues its claim construction ruling. The bill provides courts with the discretion to relax this limitation under appropriate circumstances, such as resolving a motion that raises issues requiring additional discovery.

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- **Demand letters.** The bill precludes a plaintiff from relying on pre-suit demand letters to establish willful infringement if the letters do not specify the asserted patent, the accused product, the plaintiff's ultimate parent entity, and the grounds for the alleged infringement.
- **Patent-owner transparency.** The bill requires a plaintiff to disclose to the court, the defendants, and the Patent and Trademark Office (PTO) any entity having rights to enforce the patent or a financial interest in the patent, and the plaintiff's ultimate parent entity.
- **Stay of customer suits.** Where the same patent has been asserted against a manufacturer and its customer, the bill requires a court to grant a stay of the customer suit if the manufacturer and the customer consent to the stay, and the customer agrees to be bound by any final decision on common issues in the manufacturer suit.
- **Claim construction in post-grant and *inter partes* reviews.** Currently, in post-grant and *inter partes* reviews under the AIA, the Patent Trial and Appeal Board (PTAB) applies the "broadest reasonable interpretation" when construing patent claims. The bill requires the PTAB to apply the narrower claim construction standard followed by district courts instead.
- **Commentary:** The Innovation Act is the same bill that the House passed by an overwhelming margin in December 2013. While the bill passed with relatively little press in 2013, this year the bill has attracted more attention and lobbying from both proponents and critics. Proponents favor the extent to which the Innovation Act aggressively targets "patent trolls" and seeks to curtail a broad range of abusive litigation practices. Critics argue that the bill's sweeping provisions will harm legitimate businesses that rely on the ability to enforce their patents, such as biotechnology companies and universities.

Much debate has focused on the bill's fee-shifting provision. Congress's inability to agree on fee-shifting was largely responsible for stalling, and ultimately ending, the efforts to enact federal patent reform last year. (See our previous alerts [here](#) and [here](#).) Shortly before last year's legislation was tabled, the Supreme Court relaxed the standard and burden of proof for fee-shifting in patent cases in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014). (Our alert on *Octane Fitness* may be found [here](#).) The Innovation Act seeks to lower the bar further by creating a presumption in favor of fee-shifting.

- **Status:** The Innovation Act is currently in the House Judiciary Committee, which held hearings on April 14, 2015.
- Available at: <https://www.congress.gov/114/bills/hr9/BILLS-114hr9ih.pdf>

2. THE PROTECTING AMERICAN TALENT AND ENTREPRENEURSHIP (PATENT) ACT OF 2015 (S. 1137)

- **Introduced:** April 29, 2015, by Senator Chuck Grassley (R-IA) of the Senate Judiciary Committee. It was co-sponsored at introduction by Senators Patrick Leahy (D-VT), John Cornyn (R-TX), Charles Schumer (D-NY), Mike Lee (R-UT), Orrin Hatch (R-UT), and Amy Klobuchar (D-MN).
- **Key provisions:** The PATENT Act includes many provisions similar to those in the Innovation Act, but takes a different approach on some key issues. Most notably, the PATENT Act does not create any presumption or

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default rule in favor of fee-shifting. It requires less disclosure in patent complaints than the Innovation Act, but does more to address the problem of abusive demand letters.

- **Fee-shifting.** The PATENT Act requires an award of attorneys' fees to the prevailing party if the court finds that the losing party's position was "not objectively reasonable in law or fact" or the losing party's conduct was "not objectively reasonable." If a patent assertion entity is unable to pay a fee award, the bill allows recovery of fees from third parties with a "substantial financial interest" in the patent. The bill exempts universities from this fee-recovery provision.
- **Pleading requirements.** Like the Innovation Act, the PATENT Act requires a patent infringement complaint to specify the claims that are allegedly infringed, the name and model number of the accused products, and detailed grounds for the alleged infringement. Unlike the Innovation Act, the PATENT Act does not require that the complaint describe the plaintiff's principal business or any prior litigation concerning the patent.
- **Discovery limits.** The bill requires that a court stay discovery pending resolution of a motion to dismiss, a motion to transfer, or a motion to sever accused infringers, if the motion is filed before the first responsive pleading.
- **Demand letters.** The bill precludes a plaintiff from relying on pre-suit demand letters for purposes of establishing willful infringement, if the letters do not identify the asserted patent, the accused product, the grounds for the alleged infringement, the entities having the right to enforce the patent, and the basis for any proposed compensation. The bill also authorizes the Federal Trade Commission to impose civil penalties against a party that engages in the "widespread sending" of abusive demand letters.
- **Patent-owner transparency.** Like the Innovation Act, the bill requires a plaintiff to disclose to the court, the defendant(s), and the PTO any entity having rights to enforce the patent or a financial interest in the patent, and the plaintiff's ultimate parent entity.
- **Stay of customer suits.** Where the same patent has been asserted against a manufacturer and its customer, the bill requires a court to grant a stay of the customer suit if the customer agrees not to separately litigate any issues adjudicated in the manufacturer suit and to be bound by issue preclusion with respect to those issues.
- **Commentary:** The PATENT Act takes a more moderate approach on fee-shifting than the Innovation Act. Proponents of the PATENT Act favor its approach of not imposing any presumption or default rule requiring fee-shifting, as well as the exemption of universities from its fee-recovery provision. Critics argue that the PATENT Act's "not objectively reasonable" standard will impose too high a bar on fee-shifting and therefore fail to deter NPEs from bringing abusive litigation. In practice, the PATENT Act's standard may not differ meaningfully from the current standard for fee-shifting as set forth by the Supreme Court in *Octane Fitness*.

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The White House issued a statement on May 1, 2015, supporting the PATENT Act: “The administration applauds the introduction of balanced, bipartisan legislation in the Senate that would strengthen and modernize our nation’s patent laws.”

- **Status:** The PATENT Act is currently in the Senate Judiciary Committee, which held its initial hearing on the bill today (May 7, 2015). During today’s hearing, several committee members took note of concerns that the current bill does not address potential abuses of the *inter partes* review and post-grant review processes, and indicated that they will consider amendments to the bill on this issue.
- Available at: <http://www.judiciary.senate.gov/imo/media/doc/PATENT%20Act.pdf>

3. THE TARGETING ROGUE AND OPAQUE LETTERS (TROL) ACT OF 2015 (H.R. 2045)

- **Introduced:** April 28, 2015, by Representative Michael Burgess (R-TX) of the House Energy and Commerce Committee. It was co-sponsored at introduction by Representatives Marcy Kaptur (D-OH), Leonard Lance (R-NJ), Gregg Harper (R-MS), Markwayne Mullin (R-OK), and Adam Kinzinger (R-IL).
- **Key provisions:** The TROL Act makes it an unfair or deceptive act or practice under the Federal Trade Commission Act to engage in a “pattern or practice” of sending bad-faith demand letters asserting patent infringement. The bill authorizes the Federal Trade Commission and state attorneys general to bring enforcement actions and obtain civil penalties for violations. It expressly preempts state laws relating to patent demand letters.
- **Commentary:** The TROL Act focuses on one specific area of perceived abuse by NPEs—the sending of bad-faith demand letters. The primary debate regarding the bill is whether it goes far enough to combat this problem. Critics argue that the bill’s “pattern or practice” and “bad faith” requirements will make it too difficult for the FTC to prove violations, and that many states have already enacted legislation to address this problem.
- **Status:** The TROL Act was referred to the House Committee on Energy and Commerce on April 28, 2015. The Committee approved the bill by a 30-to-22 vote on April 29, 2015.
- Available at: <http://docs.house.gov/meetings/IF/IF17/20150416/103325/BILLS-114DiscussionDraftih-U1.pdf>

4. THE DEMAND LETTER TRANSPARENCY ACT OF 2015 (H.R. 1896)

- **Introduced:** April 20, 2015, by Representative Jared Polis (D-CO) of the House Judiciary Committee. It was co-sponsored at introduction by Representatives Tom Marino (R-PA) and Theodore Deutch (D-FL).
- **Key provisions:** The bill requires that a patent demand letter include detailed disclosures satisfying a list of 18 specific requirements. The bill authorizes courts to impose monetary sanctions against a patent holder for failing to meet these requirements. The bill also requires an entity that sends 20 or more demand letters in a year to submit disclosures to the PTO for its use in establishing a publicly accessible and searchable demand letter database.

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- **Commentary:** The bill has not been the subject of significant public debate, but it has garnered support from interest groups favoring open technology and representing technology entrepreneurs and startups.
- **Status:** The bill was referred to the House Judiciary Committee on April 20, 2015.
- Available at: <https://www.congress.gov/114/bills/hr1896/BILLS-114hr1896ih.pdf>

5. THE INNOVATION PROTECTION ACT (H.R. 1832)

- **Introduced:** April 16, 2015, by Representative John Conyers, Jr. (D-MI), of the House Judiciary Committee. It was co-sponsored at introduction by Representatives James Sensenbrenner, Jr. (R-WI), Jerrold Nadler (D-NY), Trent Franks (R-AZ), Zoe Lofgren (D-CA), Doug Collins (R-GA), Theodore Deutch (D-FL), Dana Rohrabacher (R-CA), and Hakeem Jeffries (D-NY).
- **Key provisions:** The bill seeks to provide for the “permanent funding” of the PTO. It requires that all fees collected by the PTO remain available to the PTO until expended.
- **Commentary:** The bill effectively seeks to eliminate the problem of fee diversion, whereby Congress currently diverts some of the fees collected by the PTO each year for purposes unrelated to the PTO’s activities. Eliminating fee diversion has been a goal of patent reform proposals since before the AIA was enacted. (See our previous alert [here](#).)
- **Status:** The bill was referred to the House Judiciary Committee on April 16, 2015.
- Available at: <https://www.congress.gov/114/bills/hr1832/BILLS-114hr1832ih.pdf>

6. THE SUPPORT TECHNOLOGY AND RESEARCH FOR OUR NATION’S GROWTH (STRONG) PATENTS ACT OF 2015 (S. 632)

- **Introduced:** March 3, 2015, by Senator Christopher Coons (D-DE) of the Senate Judiciary Committee. It was co-sponsored at introduction by Senators Richard Durbin (D-IL) and Mazie Hirono (D-HI).
- **Key provisions:**
 - The bill modifies the rules for *inter partes* review and post-grant review to make invalidating patents more difficult in several ways.
 - The bill requires the PTAB to apply the narrower claim construction standard used in district courts, rather than the “broadest reasonable interpretation” standard that the PTAB currently uses.
 - The bill adds a presumption of validity for previously issued claims challenged in *inter partes* review and post-grant review proceedings, and requires “clear and convincing” evidence to invalidate a previously issued claim in such proceedings.
 - The bill provides that a party may not file a petition seeking to institute an *inter partes* review or a post-grant review unless the party has been sued for infringement or has been “charged

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with infringement” such that it would have standing to bring a declaratory judgment action in federal court.

- The bill reduces the burden of proof for willful infringement from the existing “clear and convincing evidence” standard to a “preponderance of the evidence” standard.
- The bill adds a “divided infringement” provision eliminating any requirement that the “steps of the patented process be practiced by a single entity” for purposes of induced or contributory infringement of a process patent. This amendment seeks to overturn the Supreme Court’s ruling on divided infringement in *Limelight Networks, Inc. v. Akamai Technologies, Inc.*, 134 S. Ct. 2111 (2014).
- **Commentary:** The STRONG Patents Act has been called “pro-patentee” patent reform, and its proponents include biotechnology companies and universities seeking stronger protection for their patent rights. Since the enactment of the AIA, the use of *inter partes* review has been broadly embraced both by accused infringers to challenge patent validity and, more recently, by hedge funds to profit from taking “short” investment positions in biotechnology and pharmaceutical companies and attacking their key patents. The STRONG Patents Act seeks to raise the bar for invalidating patents in *inter partes* review and restrict the availability of the procedure.
- **Status:** The bill was referred to the Senate Judiciary Committee on March 3, 2015.
- Available at: <https://www.congress.gov/114/bills/s632/BILLS-114s632is.pdf>

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