

Client Alert

Intellectual Property and Government Advocacy & Public Policy Practice Groups

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Patent Pending: The Outlook for Patent Legislation in the 114th Congress

The field of patent law is in a state of flux. Just four years after the America Invents Act (“AIA”) went into effect, Congress is taking up the issue once again, this time seeking to pass legislation to curb abusive patent litigation. Already in 2015, the House and Senate Judiciary Committees have introduced, considered, and passed bipartisan patent litigation reform in each chamber. The House and Senate bills are similar in many respects, and share a general consensus that legislation should deal with abusive litigation through increased transparency, more limited discovery, heightened pleading standards, and “loser pays” fee shifting.

There are, however, several key differences between the bills that are likely to be the subject of much debate. For example, the Court of Appeals for the Federal Circuit just last week issued a 6-5 *en banc* decision letting stand the standard of review used by the U.S. Patent and Trademark Office (“PTO”) in post-grant proceedings authorized by the AIA¹—a standard the Senate bill would leave unchanged in accord with the majority decision and that the House bill would change to a narrower standard supported by the dissenting judges.

King & Spalding’s public policy and intellectual property attorneys are closely monitoring these developments and will be issuing an ongoing series of Client Alerts to keep you apprised. In this Client Alert, we consider several key provisions of the House and Senate bills, including how they differ and have been received by industry. Upcoming Alerts will consider the pending changes to the Federal Rules of Civil Procedure, the Supreme Court’s recent decisions, and the relation of each to Congress’s ongoing efforts.

Pending Legislation

The House Innovation Act

Earlier this year in the U.S. House of Representatives Rep. Bob Goodlatte (R-VA), Chairman of the House Judiciary Committee, along with 10 Democrats and 9 other Republicans, reintroduced the Innovation Act (H.R. 9).² The measure is essentially the same bipartisan legislation that passed the House in the last Congress.

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In a nutshell, the Innovation Act includes provisions aimed at reducing costs associated with patent cases, including, among others: (i) heightened pleading requirements, (ii) limits on discovery until after a claim construction ruling, and (iii) a presumptive award of attorneys' fees to the prevailing party, including possible joinder of "interested parties" in order to satisfy the fee award. On June 11, 2015, the House Judiciary Committee passed the measure, along with several amendments, by a vote of 24 to 8.³

The Senate PATENT Act

In the Senate, Judiciary Committee Chairman Charles Grassley (R-IA) and fellow committee members Orrin Hatch (R-UT), John Cornyn (R-TX), Mike Lee (R-UT), Patrick Leahy (D-VT), Chuck Schumer (D-NY), and Amy Klobuchar (D-MN) introduced the Protecting American Talent and Entrepreneurship Act (S. 1137), otherwise known as the "PATENT Act."⁴

Although the PATENT Act addresses essentially the same subjects as the Innovation Act, there are some significant differences in approach, as discussed below. Senate bill supporters have noted that a number of the bill's key provisions were the result of negotiated compromises, aimed at balancing the need to effectively deter patent litigation abuse without hindering innovation by limiting patent owners' rights to enforce their patents against infringers.

On June 4, 2015, the Senate Judiciary Committee approved the PATENT Act, as amended by the Manager's Amendment, by a vote of 16 to 4.⁵ Nevertheless, some committee members have expressed continued concern that some of the bill's litigation reform provisions are overly broad and do not adequately differentiate between good and bad actors.

The STRONG Patents Act and TROL Act

A narrower approach to the patent reform question has been proposed by Senator Chris Coons (D-DE) and others in the form of S. 632, the Support Technology and Research for Our Nation's Growth Patents Act (the "STRONG Patents Act"), introduced and referred to committee on March 3, 2015. That bill would set new rules governing what patent holders can say in demand letters that request licensing fees or settlements. A similar bill, H.R. 2045, the Targeting Rogue and Opaque Letters Act (the "TROL Act"), has been introduced in the House of Representatives and was approved by the House Energy and Commerce Committee on April 29, 2015.

Comparison of Key Provisions of the House Innovation Act and Senate PATENT Act

- *Heightened Pleading Requirements:* Both the House and Senate bills significantly raise the pleading requirements for patent cases by requiring plaintiffs to assert the particular patents and claims at issue, the specific accused products, and information on how the accused products allegedly infringe each asserted claim. The House bill additionally requires details about the principal business of the party alleging infringement, identification of any other litigations asserting the patent(s), and whether the asserted patents are essential to practicing an industry standard.

There has been some question as to whether, and to what extent, the proposed specific pleading requirements included in these bills are necessary due to recent amendments to the Federal Rules of Civil Procedure. Among other changes, the forthcoming amendments, which are set to go into effect on December 1 absent congressional intervention, will remove Federal Rule of Civil Procedure 84 that permits reliance on certain forms appended to the rules, including Form 18, a bare-bones pleading form for patent infringement. Due to the limited information required by Form 18, plaintiffs

using that form have thus far effectively been able to avoid the pleading standards set out in the Supreme Court's rulings in *Twombly* and *Iqbal*.⁶

- *Limits on Discovery:* Both the House and Senate bills alter the cost and structure of discovery in patent cases. When a patent claim construction is necessary, the Innovation Act proposes to limit discovery “to information necessary for the court to determine the meaning of the terms used in the patent claim.” The PATENT Act, by contrast, proposes a stay of discovery pending the resolution of motions to dismiss, transfer venue, or sever parties. The forthcoming amendments to the Federal Rules also make changes to the scope and nature of discovery that will likely impact patent cases.
- *Transparency of Patent Ownership:* Both bills contain new requirements for “transparency” in patent ownership. The bills would require that the plaintiff disclose the assignee(s) of the patents, any licensee empowered to sublicense or enforce the patents, any other entity having a “financial interest” in the patents, and the “ultimate parent entity” of any of the parties. These requirements are ongoing and “failure to comply” will prevent a successor from recovering fees and expenses or increased damages.
- *Customer Stay:* Both bills also include protections for end users, and would require a court to stay an infringement litigation against a customer of a product, if (in addition to other requirements) the manufacturer of the product is a party to the same or other infringement action on the same patent. The stay is available only to those at the end of the supply chain who are selling or using a technology acquired from a manufacturer without materially modifying it.

In earlier versions of the Innovation Act the term “covered customer” was quite broad. In the Manager’s Amendment of the current bill, the customer stay provision was narrowed to end users and retailers, with retailers being defined to exclude “an entity that manufactures or causes the manufacture of a covered product or covered process, or a relevant part thereof.”

- *Shifting of Attorney Fees:* Perhaps the most controversial provision in both the House and Senate bills involves fee-shifting. There has been a fair degree of negative reaction to the fee-shifting provisions and there appears to be little agreement on how to move forward or whether the provision will actually be helpful in reducing abusive litigation. It has been argued that the fee-shifting provisions may actually encourage smaller firms and individual patent holders (and innovators) to settle a case, rather than take the risk of losing and paying for the winner’s attorneys’ fees in addition their own attorney fees. There are also questions as to whether any fee-shifting legislation is necessary given the Supreme Court’s recent decision in *Octane Fitness* that gives district court judges broad discretion to award attorney fees by (1) lowering the standard for determining when a case is “exceptional” under Section 285 of the Patent Act, and (2) lowering the evidentiary standard to a preponderance of the evidence.⁷

In addition, while both the House and Senate bills allow for consideration of “special circumstances,” they take opposite approaches to the initial legal presumptions made and who will wind up bearing the ultimate burden of proof. The House’s Innovation Act would stand in contrast to the traditional American Rule for attorneys’ fees and create a rebuttable presumption that attorneys’ fees are to be awarded to the prevailing party unless the court finds that the non-prevailing party’s position and conduct “were reasonably justified in law and fact or that special circumstances...make an award unjust.”

The Senate PATENT Act, by contrast, requires an award of attorneys' fees if the winning party files a motion for them and the district court makes a finding that the non-prevailing party was not "objectively reasonable." During its markup, the Senate Judiciary Committee further amended its fee-shifting provision to allow a judge to consider "undue economic hardship to a named inventor or institution of higher education" when determining if "special circumstances" make a fee award unjust.

The House and Senate bills also differ on the mechanics of enforcement of an attorney fees award. The House bill addresses the issue at the end of the litigation, stating that when a party is unable to pay an award of attorney fees and has no substantial interest in the litigation beyond asserting the patent, a district court shall grant a motion to join another interested party that has a direct financial interest in the patents. The Senate bill does not directly mention joinder, but allows the defendant to notify the Court that it believes the plaintiff is a non-practicing entity ("NPE"), triggering an obligation by plaintiff to dispute the assertion, state that it would have sufficient funds to pay a fee award, or identify another party that can. This would presumably allow for an early motion for joinder if appropriate.

- *Post-Grant Review Reforms:* Both the House and Senate bills contain provisions directed to post-grant review at the PTO. The post grant review process allows entities to request that the PTO initiate a review of an issued U.S. Patent. The two main proceedings, post grant review ("PGR") and inter partes review ("IPR"), both prevent parties that have used the proceedings from raising in court an argument they could have raised at the PTO.

The House bill contains the more contentious proposed change to PGR, as it would change the standard that the PTO applies to construe the meaning of a challenged patent claim from the current Broadest Reasonable Interpretation ("BRI") standard to the narrower standard currently applied by the district courts. This change will make it less likely that the PTO will cancel challenged patent claims, because narrowly construing a patent claim makes it less vulnerable to invalidity arguments of anticipation and obviousness. This provision was also in last year's Senate bill, but is not in the current bill. Given the Federal Circuit's recent decision on this very issue, it is likely to be the subject of much discussion in both the House and Senate.

While the Senate bill preserves IPR as a potential alternative to litigation, it also attempts to restrict the use of the IPR proceeding to engage in market manipulation, and reduce the potential for abuse of the post-grant review process by third parties improperly seeking payment from patent owners in exchange for not filing post-grant review of a patent. Both bills would also narrow the estoppel effect arising from a PGR.

- *Venue:* While neither the House nor the Senate bills originally addressed the subject of venue, the House Judiciary Committee adopted a venue provision introduced by Rep. Darryl Issa (R-CA) during the markup of the House bill. The Manager's Amendment included a provision that seeks to ensure that patent infringement suits are only brought in judicial districts that "have some reasonable connection to the dispute." No similar venue provision currently exists in the Senate bill.

What next?

The AIA, signed into law in 2011, represents the most significant rewrite of U.S. patent law in more than 50 years. The Supreme Court has also been active, issuing numerous decisions that fundamentally change patent law. Many

commentators posited that the combination of the AIA and the Supreme Court's decisions would greatly limit the number of patent litigations brought by NPEs. After a temporary decrease, however, filings by NPEs are on the uptick, with over 100 new litigations already filed this month in Texas, California, Delaware, and Florida alone. Some argue that this is due simply to the fact that the dust has not yet settled from passage of AIA and the spate of subsequent Supreme Court decisions, and that further legislation is premature at this point in time.

The House of Representatives is expected to consider the Innovation Act later this month, where it will likely pass. The debate will then move back to the Senate where the ultimate fate of patent litigation reform is far less certain. There appears to be broad consensus that any new patent legislation should address abusive patent litigation without risking harm to the value and enforceability of legitimate patents. Although there is much agreement between Republicans and Democrats, Congress and the White House, there remain several significant sticking points, that if not resolved, will hinder progress on patent litigation reform legislation in the current Congress.

We'll delve into the potential effect of the Supreme Court's recent patent decisions and the pending amendments to the Federal Rules of Civil Procedure on the pending House and Senate bills in our next Client Alert, together with any updates on the proposed legislation.

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This alert provides a general summary of recent legal developments. It is not intended to be and should not be relied upon as legal advice. In some jurisdictions, this may be considered "Attorney Advertising."

¹ *In re: Cuozzo Speed Technologies, LLC*, Case No. 14-1301 (Fed. Cir. July 8, 2015).

² <http://www.judiciary.house.gov/index.cfm/the-innovation-act>

³ <http://www.judiciary.house.gov/index.cfm/markups-meetings?ID=2848E2C2-F705-4A03-800C-64930626A395>

⁴ <http://www.judiciary.senate.gov/meetings/judiciary-committee-members-introduce-bipartisan-patent-act>

⁵ <http://www.judiciary.senate.gov/imo/media/doc/S.%201137%20Managers'%20Amendment.pdf>

⁶ *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544 (2007); *Ashcroft v. Iqbal*, 556 U.S. (2009).

⁷ *Octane Fitness v. Icon Health & Fitness, Inc.*, 572 U.S. ___, 134 S.Ct. 1749 (2014).