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IP Legislation To Watch In 2014

By **Ryan Davis**

Law360, New York (January 01, 2014, 10:08 AM ET) -- The question of how to crack down on abusive litigation tactics by so-called patent trolls will dominate Congress' intellectual property agenda in 2014, with several competing bills on the controversial issue now under consideration by the U.S. Senate.

A sweeping anti-patent troll bill has already passed the U.S. House of Representatives, so the upper chamber will now grapple with whether to endorse provisions in the House bill that make controversial changes to patent law, such as raising pleading standards and requiring losing parties to pay the litigation expenses of opponents.

At a hearing in December, several senators called for greater study of how the measures being proposed would impact patent law, which could slow down a process that had been fast-tracked in the House.

"One of the problems with this legislation is that it's moving too quickly," said Marylee Jenkins of Arent Fox LLP. "I was happy to hear that at the recent hearing, some of the senators said they wanted to step back."

If the Senate passes a patent troll bill that is significantly different from the one endorsed by the House, it could set up a contentious fight in a conference committee to reconcile the two. But while it may take work to hammer out a bill that both houses of Congress can agree on, it seems likely that something will be enacted this year, given the support for the effort from leaders of both parties and the White House, attorneys said.

"People really want to do something," said Greg Corbett of Wolf Greenfield & Sacks PC. "It seems to me that the desire to rein in patent trolls is reaching levels we've never seen before."

Here is a overview of the key provisions that will be under consideration in the new year.

Transparency and Stays

In December, the House of Representatives overwhelmingly passed the Innovation Act, H.R. 3309, which includes many significant changes to patent law, such as requiring more detail in patent complaints and limiting discovery, but the real fight in 2014 will take place in the Senate.

In the Senate, Judiciary Committee Chairman Patrick Leahy, D-Vt., is leading the effort against patent trolls with his Patent Transparency and Improvements Act, S. 1720, which was introduced in

November and lacks most of the biggest changes found in the House bill.

"The Innovation Act that passed the House would be a pretty fundamental sea change in patent litigation," said Mark Supko of Crowell & Moring LLP. "The bill introduced by Sen. Leahy takes a fairly significant step back. It's a significantly more tempered approach."

The two provisions at the core of Leahy's bill exist in a similar form in the Innovation Act and appear relatively noncontroversial. One would require patent owners to provide greater disclosure to courts and adverse parties about who has a interest in the litigation, which Leahy describes as an way to prevent trolls from concealing their financial backers by using shell companies.

The second would require courts to stay patent lawsuits against end users, like coffee shops that offer Wi-Fi to customers, when the manufacturer of the product at issue, like a Wi-Fi router, is a defendant in a case over the same patent. That measure is aimed at preventing trolls from targeting small businesses that are unsophisticated about patent law and more likely to settle, Leahy has said.

The transparency provision "would be useful in providing the ability to understand who's behind the litigation without profoundly changing the way litigation is conducted," said Christian Mammen of Hogan Lovells.

The stay provision could be effective at curbing suits against business that only use, but do not make, the allegedly infringing technology, though it is narrowly focused on a relatively small subset of cases in which the manufacturer has also been sued for infringement of the same patent and the customer is willing to be bound by the outcome of the suit against the manufacturer, he said.

Other bills introduced in the Senate are in line with the more wide-ranging features of the Innovation Act. If those measures gain traction, the changes would apply to all patent litigation, noted Michael Oblon of Perkins Coie LLP.

"They're coming up with legislation that seems to affect everyone and will have an impact on legitimate patent lawsuits," he said. "Many of the provisions in the proposed legislation also throttle a judge's discretion to manage discovery according to the particular circumstances in that case."

Fee-Shifting

Many of the Innovation Act's more contentious provisions are included in a competing bill introduced in May by Sen. John Cornyn, R-Texas, which appeared to have the backing of some senators and witnesses at the December hearing.

The Patent Abuse Reduction Act, S. 1013, would create a fee-shifting system for patent litigation, raise pleading requirements and limit discovery in patent cases prior to claim construction.

The fee-shifting provision would require the losing party in patent litigation to pay the prevailing party's litigation costs unless the losing party's conduct was found to be "substantially justified," in an effort to create consequences when patent trolls file frivolous suits.

"I like the attorneys' fees provision," Jenkins said. "That's an interesting incentive to get people to consider not filing suit by having them think of the repercussions at the end of a lawsuit."

However, it could be difficult to collect fees if a nonpracticing entity has been structured not to have any assets, she said. A separate bill introduced in October by Sen. Orrin Hatch, R-Utah, would address that concern by requiring patent plaintiffs to post a bond at the outset of litigation, which Jenkins said could be helpful.

While patent law currently allows a prevailing party to recover fees due frivolous or bad faith litigation behavior, that rarely happens. According to statistics compiled by the IP analytics firm Lex Machina, there were only six awards of attorneys fees between 2010 and 2012, out of 997 contested patent judgments.

The provision is designed to make it easier to recover fees, "so if it does pass, it could change how companies and law firms view and approach patent lawsuits," said Lex Machina CEO Josh Becker.

According to Oblon, the fee-shifting provision is the biggest issue under consideration in the patent reform debate because it would be a major departure from the present system where each side typically pays its own costs.

"It changes the whole framework for civil controversy in the U.S," he said. "We don't have an automatic 'loser pays' system."

While fee-shifting is pitched as a way of preventing nonpracticing entities from filing baseless suits, it would cut both ways, possibly allowing patent trolls that prevail in litigation to recover fees from defendants, Oblon said.

"Conceivably, fee shifting might encourage troll litigation, rather than the other way around," he said.

Pleading Standards and Discovery

Cornyn's bill also includes two other key features of the Innovation Act that have proven to be contentious. One would require patent complaints to include far more detail than they do now, such as listing each each allegedly infringing product and a theory of how each one infringes the patents, in an effort to prevent trolls from filing vague, confusing lawsuits.

The other would limit discovery in patent cases before claim construction to information necessary to construe the claims, as a way to keep trolls from using the high cost of discovery to leverage settlements.

According to Scott Llewellyn of Morrison & Foerster LLP, the limits on discovery, combined with the fee-shifting provision, would encourage more defendants sued by patent trolls to defend themselves by taking aim at litigation expenses.

"It would likely mean that more parties would be willing to fight at least part of the way, rather than settle to avoid the cost of discovery," he said.

Yet the heightened pleading standards and discovery limits have raised concern that Congress is taking away the authority of judges to manage case by establishing new standards that apply to all patent litigation.

"Judges are on the front lines and can handle these issues on a case-by-case basis," said P. Anthony

Sammi of Skadden Arps Slate Meagher & Flom LLP. "Setting broad-brush, mandatory rules could cause more problems."

His Skadden colleague Douglas Nemec said that the proposals "could have a chilling effect on all patent litigation." He noted that the America Invents Act created a pilot program in which patent cases can be assigned to judges that are more well-versed in patent law, which could address some of the concerns about abusive litigation tactics if given time to mature.

"This legislation is trying to correct the problems overnight, which is perhaps a bit too abrupt," Nemec said.

Expanded Patent Review

Also on the table is a bill by Sen. Chuck Schumer, D-N.Y., which would expand an America Invents Act program that allows the U.S. Patent and Trademark Office to review the validity of business method patents.

The program currently applies only to patents related to the financial industry, but the Patent Quality Improvement Act, S. 866, introduced in May, would make it available to all business method patents.

A more modest expansion of the program was dropped from the Innovation Act before it was passed by the House, but Schumer pushed his plan with a heated speech at the December Senate hearing. He said that trolls thrive on low-quality patents, and any bill that did not include a way to weed them out is "treating the symptoms instead of the disease."

Jenkins said that expanding the business method review program could be problematic because it would create more work for the patent office without any additional funding at a time when its budget has been cut due to sequestration.

"The office works hard to meet the demands created by legislation," she said. "But if you expect the patent system to work, you have to fund it."

While lengthy debates may lie ahead in the Senate, and possibly in a conference committee if a bill is passed that is different from the House version, attorneys expect Congress to take some action on patent trolls in 2014, less than three years after the America Invents Act was passed.

"It looks like there will be another round of patent reform," said James Klaiber of Pryor Cashman LLP. "There seems to be a great deal of momentum."

--Editing by Katherine Rautenberg.
