

## IP Legislation And Regulation To Watch In 2016

By **Erin Coe**

*Law360, San Diego (December 24, 2015, 8:38 PM ET)* -- While two of the leading patent reform measures stalled in Congress in 2015, U.S. lawmakers are expected to push ahead with efforts to merge the bills into a single piece of legislation in 2016, and they also may be ready to act on proposals to curb demand-letter abuses and to allow suits alleging trade secret misappropriation to be brought in federal court.

Here, attorneys point to the intellectual property legislation and regulation to track in 2016:

### Patent Reform Measures

Lawmakers introduced a flurry of patent bills that ground to a halt in the summer of 2015, but the two front-runners — a House of Representatives bill that is perceived as being more favorable to accused infringers and a Senate bill that is seen as being more friendly to patent owners — are likely to be combined into one measure in 2016, though what the legislation will look like remains unclear.

The Innovation Act, which was introduced in February by Rep. Bob Goodlatte, R-Va., seeks to curb abusive litigation by so-called patent trolls. H.R. 9 proposes a host of changes to patent law that would apply to all litigation, such as raising pleading standards for patent complaints, limiting discovery, limiting the venues in which patent suits can be brought and requiring fee-shifting in many cases.

The Support Technology and Research for Our Nation's Growth, or STRONG, Patents Act, which was floated by Sen. Chris Coons, D-Del., and others in March, is geared toward concerns that America Invents Act reviews have made it too easy to invalidate patents. S. 632 looks to make significant modifications to inter partes review, post-grant and reexamination proceedings, including how Patent Trial and Appeal Board panels are structured and how the PTAB can construe patent claims. It also proposes making it easier to show willful infringement.

"I could see these two bills coming together, but they are competing in many ways, and it's very hard to tell which provisions will survive," said Mark Scarsi, a partner at Milbank Tweed Hadley & McCloy LLP.

While the House bill tends to align with the interests of technology companies in favor of a system that is seen as limiting patent rights, the Senate bill tends to reflect the interests of pharmaceutical companies that spend years on research and development and want a framework that strengthens patents.

"The leading bills in the House and Senate are coming from two separate perspectives, and they are really not reconcilable," said Lionel Lavenue, a partner at Finnegan Henderson Farabow Garrett & Dunner LLP. "I

think that is the main reason so far we haven't seen one unified bill make it through Congress."

Lavenue predicted that lawmakers may water down the provisions of the House and Senate bills to make them easier to combine and pass as one measure.

"The bills could go from major tweaks to the system to minor tweaks to the system, and that could pass," he said.

However, another likely option could be that no action on patent reform takes place until after the U.S. presidential election, according to attorneys.

"I don't think realistically anything will be significantly done or anything will pass until after the election," said Teresa Stanek Rea, a Crowell & Moring LLP partner and a former acting and deputy director of the USPTO. "Patent legislation is on simmer. People will be working on the language and working with constituency groups and on lobbying efforts to keep things going so that it's teed up."

Even if proposed legislation passes, it may not lead to a major shift in patent litigation, particularly since the new federal rules raising the pleading standards for patent cases took effect in December and since courts have become more willing to award attorneys' fees in exceptional cases and dismiss weak patent cases on early dispositive motions, according to Scott Llewellyn, deputy chair of Morrison & Foerster LLP's IP litigation group.

"The legislation has lagged behind developments in the law as applied by the courts," he said. "While it would have changed the world five years ago, it's now somewhat behind the curve. If it passes, it may codify what is already occurring. The legislation ultimately may seem like a nonevent unless it has key provisions like mandatory fee-shifting."

### **Demand Letter Bills**

Lawmakers also introduced patent measures in 2015 seeking to deter so-called patent trolls from blanketing small companies with demand letters that seek fees for vague patent infringement allegations, and attorneys say this more targeted legislation may gain traction in 2016.

"Some companies are sending demand letters to hundreds of small firms to try to get a token settlement," Scarsi said. "Small companies don't have the ability to fight these cases like Microsoft or HP would, and that's why it becomes an abuse that is good to curb."

The Demand Letter Transparency Act, which was proposed in April by Reps. Jared Polis, D-Colo., Tom Marino, R-Pa., and Ted Deutch, D-Fla., aims to make demand letters more transparent and detailed, while ramping up enforcement and oversight. Under the bill, H.R. 1896, if a party sends out 20 or more demand letters a year, it will be required to file a report with the USPTO that provides information on the patent, its business affiliations and any litigation the entity has filed involving the patent.

Another House bill, the Targeting Rogue and Opaque Letters (TROL) Act, would give the Federal Trade Commission and state attorneys general the authority to impose civil penalties on companies that send misleading letters in bad faith demanding that the recipients license patents, including letters sent by those who don't actually have the rights to the patents or that falsely state that others have licensed the patent. The measure, H.R. 2045, was introduced by Reps. Michael Burgess, R-Texas, and Marcy Kaptur, D-Ohio, in April.

While the Demand Letter Transparency bill sets up an administrative apparatus and allows the USPTO to hold information on these entities, the TROL Act may be more effective because it creates a separate cause of action, Scarsi said.

“[The Demand Letter Transparency bill] relies on small companies to make some sense of what a demand letter is saying, but the [TROL Act] gives industrious lawyers an incentive to sue trolls under the Federal Trade Commission Act and seek damages,” he said.

Because there is no lobby strongly in favor of sending out demand letters, the measures may have an easier time getting through Congress than broader patent reform legislation, he said.

“I could see these two bills combining and passing or being encompassed in other bills at the House,” he said. “But if they stay separate, they may pass because they are not that controversial.”

Some of the wide-spanning patent reform measures already have customer stay provisions that seek to protect end users of a product, such as a flower shop that uses software by a third party that allegedly infringes a patent, and so the stand-alone demand letter measures may have a better chance of passing if they are rolled into broader reform efforts, according to Rea.

### **Trade Secrets Legislation**

IP legislation that may have the best shot at gaining lawmakers’ approval in 2016 is a trade secrets proposal that would allow for companies to pursue private civil actions in federal court to protect their trade secrets under the Economic Espionage Act of 1996.

The Defend Trade Secrets Act was introduced in July by a bipartisan lawmaker group and aims to update the 1996 law, which made trade secret theft a crime and currently provides only for criminal cases lodged by prosecutors.

Unlike patents, copyrights and most trademarks, trade secrets are an area of intellectual property law largely left to the states. Trade secrets are often an overlooked area of IP law, but this legislation could change that perception, according to Scarsi.

“A lot of companies might feel that protecting trade secrets under state law might not give them as much of an ability to go after competitors, but if this legislation passes, we could see more companies bringing trade secrets actions if a cause of action is available at the federal level,” he said. “This really has the potential to transform the way people think of trade secrets and make trade secrets law more important.”

The lawmaker group noted when it introduced H.R. 3326 and S. 1890 that civil trade secret laws at the state level aren’t sufficient to stop interstate theft and that federal courts are better suited to work across state and national boundaries to facilitate discovery, serve defendants and witnesses and prevent a party from leaving the country. In addition, the patchwork of state laws has made it difficult for companies to craft consistent policies.

The bill does not seek to preempt state law, but rather aims to establish a uniform standard for what constitutes trade secret theft and provide an additional layer of protection for companies with trade secrets.

Opening up a new forum to litigation, particularly one perceived to be of higher quality than other options, may drive a significant portion of existing work to that forum and provide opportunities for forum shopping, according to Llewellyn.

“There’s currently no federal district for trade secrets litigation equivalent to the Eastern District of Texas or Delaware [for patent litigation], but [if the legislation passes], now there might be,” he said.

The bill could put more restrictions on employees’ mobility, which might affect states like California that provide greater protections for employees to move freely between companies, according to Scarsi. But he thinks the bill has significant momentum behind it because there are no major lobby groups fighting the measure and because trade secrets provide an important tool for companies to protect their technological know-how and advancements in the electronic age where information is being transferred with the push of a button.

“This is a very pro-business bill, and you could arguably say, it’s a pro-jobs bill,” he said. “While not a lot tends to happen in an election year, trade secret legislation is something that might actually get done.”

### **Radio Royalty Bill**

Copyright legislation seeking to force over-the-air radio stations to pay royalties to musical artists and record labels also is likely to get some play in 2016.

The Fair Play Fair Pay Act, which was floated by a bipartisan group of lawmakers in the House in April, seeks to make changes to the way music is licensed, most notably by creating a so-called terrestrial performance right for sound recordings.

H.R. 1733 would fix an anomaly in U.S. copyright law: While songwriters and publishers are paid for their compositional copyrights when songs are played by AM/FM radio stations, musical performers and record companies aren’t paid for their recording copyrights on the same songs.

Further complicating things, digital services like Internet and satellite radio have to pay for those sound recording copyrights, too, but terrestrial stations don’t.

“Right now, the terrestrial stations are grandfathered in to an exception in the Copyright Act, but this bill would bring some consistency to what all music delivery platforms are required to pay,” said Roger Behle Jr., who heads Foley Bezek Behle & Curtis LLP’s IP and entertainment law departments. “The legislation seeks to bridge that gap so that terrestrial stations are required to pay similar to what the digital services like Pandora and Spotify are required to pay.”

Behle, a proponent of the bill, said the measure would aid artists and sound recording owners by providing them with an additional stream of revenue and wouldn’t impose an unmanageable economic burden on terrestrial radio stations, but he expects stiff opposition from the radio lobby, which has fended off similar legislation in previous years.

The National Association of Broadcasters has vowed to “strongly oppose” the bill that it claims would “kill jobs, hurt artist promotion and devastate local economies.”

“It’s not something that is going to breeze through Congress,” Behle said. “The terrestrial stations are arguing that if they are required to pay the extra money, they won’t be able to play and promote as many

new recording artists and give them their big break ... but if you look at how many new artists are being played on digital platforms, you're not seeing those services going under because they have to pay royalties on sound recordings."

### **Changes To PTAB Reviews**

With the rising popularity of Patent Trial and Appeal Board reviews as a speedy avenue for challenging the validity of patents, the USPTO is planning to make some changes to the proceedings that could roll out in 2016.

In March, the USPTO proposed an initial round of changes to AIA reviews, in which the USPTO increased the page limits for some AIA review filings. In August, it announced another set of changes that would allow patent owners to include expert declarations and other testimonial evidence in their response to an AIA review petition and that would impose a requirement on PTAB practitioners akin to Rule 11 in district court, under which attorneys can be sanctioned for not doing an adequate pre-filing investigation.

"The PTAB regulations have worked well so far, but there are always improvements that can be made," said Rea, who led the agency through the implementation of the AIA reviews. "I'm highly optimistic that the regulations will make improvements to the system and that the user community will find them beneficial."

She said the proposal to allow patent owners to attach expert declarations had a high likelihood of passing because it would give the patent owner an opportunity to rebut a petitioner's declaration before the PTAB makes its decision on whether to institute a proceeding.

The patent office also announced in August that it is considering launching a pilot program in which decisions on whether to institute AIA inter partes reviews would be made by only one PTAB judge, rather than three, as is currently the case. However, Rea was not so sure one PTAB judge would become a reality.

"Three judges are better, frankly," she said. "It allows for more consistency, and I think that's why the PTAB is doing so well, because decisions have the benefit of three-judge panels."

Patent reform legislation also is expected to make modifications to the PTAB process, such as addressing estoppel provisions in AIA proceedings that have made some accused infringers wary of pursuing a review, according to Stuart Meyer, a partner at Fenwick & West LLP.

Currently, the law says that if petitioners file a post-grant review against a newly issued patent, they are barred from raising in a later suit any issue that was raised or could have been raised in the post-grant review, he said.

"The change in the law would stop the petitioner from reasserting any ground that actually was raised in the post-grant review, which is much narrower than the current estoppel provision," he said. "That way, someone won't have to gamble their entire suite of invalidity contentions on succeeding on the few that they have space to raise in the post-grant review papers."

--Editing by Sarah Golin and Rebecca Flanagan.

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