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What To Know About Patent Reform Bills Heading Into 2016

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As 2015 comes to a close, now seems like a good time to take inventory of pending legislative efforts focused on patent reform in anticipation of renewed activity likely to occur in 2016. A flurry of bills proposed in the 113th Congress have fallen to the wayside, while a trio of bills launched in the 114th Congress have hopes (or threats) of passage in 2016.

This article provides a brief summary of these three legislative efforts, two of which are moving in parallel through the House and Senate with similar provisions aimed at curbing abusive practices in patent litigation. The third effort pending in the Senate advances reforms to post-grant trial practice before the Patent Trial and Appeal Board in favor of patent owners who are concerned about the anti-patent climate and its effects on innovation.

What has emerged during the negotiations is a conflict between companies invested in the Internet economy (search giants and online retailers) and the biopharma industry (joined by universities, research institutions, patent licensors and venture capitalists) over the future of patent enforcement and post-grant challenges. Put simply, what has emerged is a split between groups who want patent litigation reform and those who support strong patent rights. Whether this split can be resolved may determine the success or failure of these legislative initiatives.

The Innovation Act Is Aimed to Curb Litigation Abuse by "Patent Trolls"

The Innovation Act (H.R. 9) aims to curb abusive practices in patent litigation through provisions including heightened pleadings requirements, fee-shifting, limitations on discovery, disclosure of real party-in-interest information, and stays of customer suits. On June 11, 2015, the House Judiciary Committee held a hearing to markup H.R. 9. A manager's amendment was published on June 9, 2015, that included alterations to several of the provisions. The manager's amendment also added provisions pertaining to venue and mandamus, disciplinary proceedings, trademark appeals and clarification of jurisdiction, among other things. Search, social network and online retail companies (e.g., Google Inc., Yahoo! Inc., LinkedIn Corp., Yelp Inc., Etsy Inc., Pinterest Inc., TripAdvisor Inc., Rackspace Inc., Gilt Groupe Inc.) have been advocates for H.R. 9, voicing support for legislation seeking to reform certain litigation practices exploited by so-called "patent trolls."[1] These groups have sought to strengthen some of the key provisions of H.R. 9, but have faced opposition from the biopharma industry, as well as universities, and large patent licensors such as Qualcomm Inc.[2]

Opponents of H.R. 9 won a tactical victory in July 2015 when House leadership pushed back a vote on the measure until after recess. The setback to supporters came after H.R. 9 won a 24-8 vote in the House Judiciary Committee in June and appeared to be on track for a vote by the full House in July 2015. The delay is being attributed to pressure from interest groups favoring strong patent protection, including (as mentioned) those in the life sciences, biopharma industry, as well as universities, research institutions, venture capitalists and licensing entities.

Lobbyists for the biotechnology and pharmaceutical industries have advocated including a provision that would exempt drug and biotechnology patents from the new trial-like validity proceedings before the U.S. Patent and Trademark Office, which were introduced as a lower-cost alternative to district court litigation for purposes of challenging the validity of patents.[3] But certain senior groups and Medicare organizations have opposed having unique protections for biopharma patents, arguing that such protections would have adverse effects on drug pricing.[4]

In July 2015, House Majority Whip Kevin McCarthy, R-Calif., and Judiciary Committee Chairman Bob Goodlatte, R-Va., conceded that "it is clear that some members still have concerns with the bill."[5] For example, since its initial introduction in 2013, when it claimed 325 members in support, many members have reversed their positions and withdrawn their endorsements. This year Reps. Karen Bass, D-Calif., and Ted Deutch, D-Fla., publicly acknowledged their withdrawal, explaining: "This new legal landscape means that only a bill that is narrowly tailored to target abusive practices and does not adversely affect the rights of legitimate patent owners can be justified ... . H.R. 9 does not meet that test."[6] Supporters have pushed back. Regardless, a vote by the House has been postponed. The delay likely means a greater focus on S.1137 which is proceeding in parallel through the Senate, but which is itself undergoing charged negotiations.

The Innovation Act (H.R. 9) has been scheduled for floor action, Calendar No. 177.

The PATENT ACT Roughly Parallels H.R. 9 With Sweeteners for Patentees

On June 4, 2015, the Senate Judiciary Committee approved an amended version of S. 1137, the Protecting American Talent and Entrepreneurship Act (PATENT Act) by a vote of 16-4. The PATENT Act was similarly introduced to address abusive patent litigation practices by so-called "patent trolls." Like its counterpart, H.R. 9, the bill includes heightened pleading standards, early infringement contention disclosure, stays of suits against customers, limits on discovery, and fee shifting provisions allowing for attorney fee awards. The PATENT Act also attempts to address the widespread sending of abusive demand letters by clarifying the Federal Trade Commission's regulatory authority in this area and establishing that a demand letter cannot be used to establish willful infringement unless certain information is provided.

During markup, the committee approved a managers' amendment that included changes to post-grant proceedings before the PTAB, such as a new requirement to construe claims in the same manner as they are in district court litigation — effectively doing away with the "broadest reasonable interpretation" standard employed by the patent office. Additionally, the committee adopted an amendment proposed by Sen. Dianne Feinstein, D-Calif., to the demand letter provision, as well as an amendment proposed by Sen. John Cornyn, R-Texas, to define universities and nonprofit research organizations as micro-entities. The provision aimed at harmonizing the claim construction standard between district court litigation and post-grant challenges before PTAB can be seen as an attempt to make the legislation more palatable to patent owners, by seeking to address a key concern raised by patent owners and included in the

competing pro-patent legislative proposal discussed below.

While the PATENT Act won passage in the Senate Judiciary Committee it, like its House counterpart, faces opposition from biopharma, universities, and research institutions who are being represented in these negotiations largely by the Biotechnology Industry Organization, the Pharmaceutical Research and Manufacturers of America, and university groups such as the Association of American Universities and the Association of Public and Land-grant Universities. Biopharma has again advocated for limits on (including an industry-specific exemption from) post-grant proceedings before the PTAB. But efforts to create sui generis exemptions for such patents have been notably opposed by senior and Medicare lobbying groups, as with H.R. 9.

The PATENT Act (S.1137) has been scheduled for floor action, Calendar No. 203.

The STRONG Patents Act Represents the Pro-Patent Legislative Agenda

On March 3, 2015, Sens. Chris Coons, D-Del., Dick Durbin, D-Ill., and Mazie Hirono, D-Hawaii, introduced an alternative patent reform proposal entitled the Support Technology and Research for Our Nations Growth Patents Act (STRONG Patents Act), S. 632, which — in its current form — has been endorsed by the Biotechnology Industry Organization, the Innovation Alliance, the Association of American Universities, and the Association of Public and Land-grant Universities. Among other things, S. 632 aims to counter H.R. 9 and S.1137 by advancing changes to post-grant proceedings before the U.S. Patent and Trademark Office that aim to make them less unfavorable to patent owners. The legislative proposal embodies a series of criticisms to the current post-grant regime at the PTAB and attempts to reset the balance to some degree.

S. 632: (1) requires that claims challenged in post-grant proceedings be construed under the same standard as they are in district court, effectively eliminating the broadest reasonable interpretation standard; (2) requires that the PTAB allow entry of a first amendment as a matter of right, with later amendments then permitted; (3) provides that validity is presumed in post-grant proceedings such that the clear and convincing standard applies to issued claims, reserving the preponderance of the evidence standard for proposed amended claims only; (4) requires that petitioners seeking inter partes review meet a standing requirement analogous to declaratory judgment standing; (5) bars institution of a post-grant proceeding that involves a patent currently in a reissue or re-examination; (6) requires that PTAB judges participating in the decision to institute a trial may not sit on the panel hearing for the case. Other provisions of S. 632 would eliminate diversion of patent office fees, give district courts discretion to award increased damages after finding willfulness or bad faith, eliminate the single entity rule for the divided infringement of process claims, and empower the Federal Trade Commission to act against bad faith demand letters.

These last provisions were presumably added to make this proposal more palatable to the patent office as well as to the anti-troll contingent by focusing on abusive demand letters, albeit to the exclusion of other patent litigation reforms. Specifically, the fee diversion provision would allow the patent office to spend all fee revenue that it collects without further appropriation or fiscal year limitation. The demand letter provision would make it an unfair or deceptive practice under the Federal Trade Commission Act to wrongly and in bad faith misrepresent information in the demand letter, allowing the Federal Trade Commission to regulate such abuses.

Since its introduction in March 2015, there has been little to no action on S.632, although features of the proposal have been incorporated into H.R. 9 and S.1137— notably harmonization of the claim

construction standard between district court litigation and post-grant proceedings.

Comparison of the Bills as They Relate to Reform of PTAB Post-Grant Proceedings

The Congressional Research Service prepared a report synthesizing the reform initiatives, juxtaposing specific treatment of initiatives across the various bills.[7] As can be seen, the devil is in the details. Not only does the CRS report provide a comprehensive analysis of the current landscape, but it includes useful summary charts highlighting the differences between the bills with respect to implementation of the various reforms. As can be seen below, while each bill includes some degree of reform to post-grant proceedings before the PTAB, each reform is different and likely to impact patentees, petitioners and practitioners differently. Accordingly, this is an area interested parties should monitor closely as negotiations recommence in 2016.

Innovation Act H.R. 9

- Requires the PTAB to apply the same claim construction standard as district courts;

- Narrows the estoppel resulting from a post-grant review from "reasonably could have raised" to actually raised;

- Revises the transitional covered business method review program to expand the scope of prior art that may be used in a challenge;

- Allows the patent office, for good cause, to allow a party to join a new petition to an inter partes review to which it is already a party;

- Prohibits initiation of IPR or PGR unless petitioner certifies that (1) it is not filing to exploit a market effect (e.g., hedge or offset); and (2) has not attempted to extort payment for not filing the petition unless the petitioner has been sued or charged with infringement of the patent; and

- Allow affidavits or declarations of supporting evidence and opinions in preliminary responses to review petitions.

PATENT Act S. 1137

- Requires the PTAB to apply the same claim construction standard as district courts;

- Narrows the estoppel resulting from a post-grant review from “reasonably could have raised” to actually raised;

- Revises the transitional CBM review program to expand the scope of prior art that may be used in a challenge;

- Allows patent owners filing a preliminary response to include affidavits or declarations of supporting evidence and opinions and permits petitioners to reply to new issues raised in a preliminary response;

- Gives the director broader discretion to refuse to institute “if the Director determines that institution would not serve the interest of justice”;

- Requires that panels deciding institution have no more than one judge overlapping in the panel making a final decision;

- Prohibits an IPR from being instituted on the basis that the evidentiary standard before the patent office differs from that used in a district court;

- Allows a petitioner to petition to add claims in an instituted IPR if such petition is made within one year after that petitioner, or the real party in interest or its privy, is served with an amended complaint for the first time alleging that any of them infringed the patent claims to be added; and

- Binds parties in subsequent patent office or court proceedings (or their real parties in interest or privy) to any representations they made regarding claim construction with respect to the prosecution history of the patent that were finally adopted by the patent office in deciding the review.

STRONG Patents Act S. 632

- Requires the PTAB to apply the same claim construction standard as district courts and requires the patent office to consider a district court's claim construction if the court has previously construed the claim in a civil action to which the patent owner was a party;

- Allow affidavits or declarations of supporting evidence and opinions in preliminary responses to review petitions;

- Prohibits reviews from being heard by PTAB members who participated in a decision to institute the review;

- Requires a patent owner's motion to amend a patent during a post-issuance review to be granted if the owner has not already amended the patent during the review and the proposed number of substitute claims is reasonable;

- Requires the PTAB to apply a presumption of validity in post-grant proceedings and makes petitioner's burden to proving unpatentability of: (1) an issued claim by clear and convincing evidence, and (2) an amended claim by a preponderance of evidence;

- Allows discovery to identify evidence of the petitioner's real party in interest;

- Prohibits IPR and PGR proceedings while the patent is the subject of a reissue or re-examination proceeding; and

- Requires re-examination requests to identify real parties in interest and prohibits ex parte re-examinations if the request is filed more than one year after the requester, real party in interest, or its privy, is served with a complaint alleging infringement.

—By Pauline Pelletier and Eric Steffe, Sterne Kessler Goldstein & Fox PLLC

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[2] M. Trujillo, McCarthy: 'More work' needed before patent reform gets vote, The Hill (Jul. 21, 2015), http://thehill.com/policy/technology/248681-mccarthy-more-work-needed-before-patent-reform-gets-vote; K. Gupta, The Innovation Act vs. The Innovation System, IP Watchdog (Mar. 15, 2015), http://www.ipwatchdog.com/2015/03/15/the-innovation-act-vs-the-innovation-system/id=55742/.

[3] R. Davis, Drugmakers Have Tough Task In Quest For AIA Exemption, Law360 (Sept. 11, 2015), http://www.law360.com/articles/700894/drugmakers-have-tough-task-in-quest-for-aia-exemption.

[4] M. Bultman, Medicare Group Opposes Carveout For Drug Patents, Law360 (Sept. 22, 2015), http://www.law360.com/articles/705730/medicare-group-opposes-carveout-for-drug-patents.

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[6] R. Davis, Innovation Act Vote Delayed As Opposition Voices Get Louder, Law360 (July 16, 2015), http://www.law360.com/ip/articles/679966?nl_pk=398e8b40-d06a-4211-9c4c-2d371977a796.

[7] B. Yeh and E. Lanza, Patent Litigation Reform Legislation in the 114th Congress, Congressional Research Service, 7-5700, R43979 (July 29, 2015).