



The State of Patent Law: The Interplay of Recent, Pending, and Proposed Changes

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Recent developments in the field of patent law have given weight to the old adage that the only thing that is constant is change. Enacted in 2011, the America Invents Act (AIA) instituted sweeping changes to rules related to obtaining, enforcing, and challenging patents. Since that time, the U.S. Supreme Court has issued several decisions in the field of patent law, touching on patentability, validity, claim construction, and enhanced damages.

While the impact of these changes is still reverberating through industry and the courts, additional changes are afoot. Amendments to the Federal Rules of Civil Procedure (Federal Rules) set to take effect later this year will impact pleading requirements for patent infringement actions and discovery practice. Meanwhile, in Congress, both the House and Senate Judiciary committees introduced, considered, and reported out bipartisan patent litigation reform primarily directed at curbing abusive patent litigation. Despite early indications to the contrary, however, the proposed legislation appears to have run into headwinds and none of the bills were considered prior to the summer recess.

Although it is difficult to know exactly why the momentum of support proposed bills slowed this summer, a review of the primary issues addressed by the bills shows that not only are there substantive differences between the bills that likely impacted the process, but also that upcoming changes to the Federal Rules and recent court decisions are directed to many of the same issues. As discussed below, this may have led to a cooling-off period in Congress while all involved consider the impact of these changes to determine what – if any – addi-

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tional legislation is necessary to curb abusive patent litigation.

Overview of the Pending Legislation

The House of Representatives and Senate this year each introduced several bills related to patent reform. The primary bills are:

- The House *Innovation Act* (H.R. 9)¹;
- The Senate *Protecting American Talent and Entrepreneurship Act* (S. 1137), known as the “PATENT Act.”²;
- The Senate *Support Technology and Research for our Nation’s Growth Patents Act* (S. 632), known as the “STRONG” Patents Act; and
- The House *Targeting Rogue and Opaque Letters Act* (H.R. 2045), known as the “TROL” Act.

Among other proposed changes, the House *Innovation Act* and Senate PATENT Act contain

¹ <http://www.judiciary.house.gov/index.cfm/the-innovation-act>

² <http://www.judiciary.senate.gov/meetings/judiciary-committee-members-introduce-bipartisan-patent-act>



provisions aimed at reducing costs associated with patent cases, including:

1. heightened pleading requirements;
2. limits on discovery;
3. transparency in patent ownership;
4. customer stays in certain circumstances;
5. awards of attorneys' fees to the prevailing party, including possible joinder of "interested parties" in order to satisfy the fee award; and
6. changes to the claim construction standard applied by the U.S. Patent and Trademark Office ("PTO") in post-grant challenges to patents.

The STRONG Patents Act also includes proposed rules regarding post-grant proceedings and additionally would govern what patent holders can say in demand letters that request licensing fees or settlements. TROL Act is primarily directed at demand letters.

Analysis of the State of Play

There appears to be a general consensus that any legislation should deal with abusive litigation. The particular areas addressed by the various legislation, such as pleading standards and attorneys' fees, are areas that could have direct impact on abusive patent litigation. So why has there been a delay? There are, to be sure, various interest groups and industry consortiums lobbying for and against various provisions. But there is likely more to the story – many of the issues addressed by the proposed legislation are already being addressed to some degree by changes in how the courts apply the law and in the upcoming changes to the Federal Rules. Using several key provisions of the pending legislation as a map, we consider how they differ and intersect with changes in the law and practice.

Heightened Pleading Requirements

The issue of pleading requirements in patent litigation has been hotly contested for a number of years. One of the primary issues is the application of the "notice pleading" requirement of Federal Rule of Civil Procedure 8(a). Under this rule, "[a] pleading that states a claim for relief must contain a short and plain statement of the claim showing that the pleader is entitled to relief." Historically, courts have interpreted this standard as requiring no more information than is sought in Form 18 to the Appendix of the Federal Rules. This is because Rule 84 states that "[t]he forms in the Appendix suffice under these rules and illustrate the simplicity and brevity that these rules contemplate." Form 18 requires only:

1. an allegation of jurisdiction;
2. a statement that the plaintiff owns the patent;
3. a statement that the defendant has been infringing the patent by making, selling, and using a device embodying the patent;
4. a statement that the plaintiff has given the defendant notice of its infringement; and
5. a demand for an injunction and damages.

Thus, under Form 18, a defendant accused of patent infringement may not, at the pleadings stage, know which claims of the patent are being asserted against it or, in some cases, which of its products or processes are accused of infringing each asserted claim.

Plaintiffs have been using the limited requirements in Form 18 to skirt the Rule 8 notice pleading standard. In 2007, the Supreme Court explained the standard to be applied in assessing a party's claims under Rule 8. In *Bell Atlantic Corp. v. Twombly*, an antitrust case, the Court held that "a plaintiff's obli-



gation to provide the ‘grounds’ of his ‘entitle[ment] to relief’ requires more than labels and conclusions, and a formulaic recitation of the elements of a cause of action will not do.”³ In 2009, the Supreme Court clarified that this analysis was not limited to anti-trust cases and went on to hold that “[w]here a complaint pleads facts that are ‘merely consistent with’ a defendant’s liability, it ‘stops short of the line between possibility and plausibility of entitlement to relief.’”⁴

To date, however, the Court of Appeals for the Federal Circuit has not applied the Supreme Court’s instruction in *Twombly* to patent claims alleging direct infringement. Instead, the Federal Circuit consistently has relied upon Form 18 with respect to direct infringement claims, holding that “a patentee need only plead facts sufficient to place the alleged infringer on notice as to what he must defend A plaintiff in a patent infringement suit is not required to specifically include each element of the claims of the asserted patent.”⁵ In fact, the Federal Circuit has held that “to the extent . . . that *Twombly* and its progeny conflict with the Forms and create differing pleadings requirements, the Forms control,” and that “any changes to the Federal Rules of Civil Procedure ‘must be obtained by the process of amending the Federal Rules, and not by judicial interpretation.’”⁶

The Judicial Conference of the United States, the national policy-making body for the federal courts, heard the Federal Circuit loud and clear and in September 2014, voted to abolish Rule 84 and get rid of the forms, including Form 18. The Supreme Court

approved this change to the Federal Rules this past May, and absent Congressional modification, the change will go into effect on December 1, 2015.

In the meantime, since *Twombly*, defendants have attempted, with limited success, to have complaints containing the bare bones notice pleading of Form 18 dismissed. Indeed, some district courts have discounted Form 18 and instead applied the Supreme Court’s instruction in *Twombly* to all patent infringement claims, despite the Federal Circuit’s rulings to the contrary.⁷ Other district courts have enforced the limited applicability of Form 18, in line with the Federal Circuit’s guidance that it applies solely to allegations of direct infringement, and not to indirect infringement or validity counterclaims.⁸

In response to the concern about the limited information required by Form 18, several jurisdictions with large patent infringement caseloads utilize local patent rules (LPRs) that require early disclosure of many of the same facts that may be required by an application of *Twombly* or by the pending bills. For example, the LPRs for the Eastern District of Texas, the busiest patent litigation forum in the United States, require many of the same disclosures set out in the proposed House and Senate bills together with a related document production 10 days

⁷See e.g., *Deerpoint Group, Inc. v. Acqua Concepts, Inc.*, No. 1:14-cv-01503-SAB, 2014 WL 7178210 (E.D. Ca. Dec. 16, 2014); *Macronix International Co. v. Spansion Inc.*, 4 F. Supp. 3d 797 (E.D. Va. 2014).

⁸See e.g., *Aubin Industries, Inc. v. Caster Concepts, Inc.*, No. 2:14-cv-02082-MCE-CKD, 2015 WL 3914000 (E.D. Ca. June 25, 2015) (applying the *Iqbal* and *Twombly* standard to non-infringement counterclaims to the extent that the originating claims were for indirect infringement); *Virginia Innovation Sciences, Inc. v. Samsung Electronics Co., Ltd.*, 983 F. Supp. 2d 700, 704 (E.D. Va. 2013) (noting that the *Twombly* standard does not apply to direct infringement claims, but does apply to indirect or willful infringement claims); *Gradient Enterprises, Inc. v. Skype Technologies, S.A.*, 932 F. Supp. 2d 447, 452 (W.D.N.Y. 2013) (finding *Twombly* standard does not apply to direct infringement claims, but does apply to indirect infringement claims as well as patent invalidity claims).

³ *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 555 (2007) (internal citations omitted).

⁴ *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009) (quoting *Twombly*, 550 U.S. at 557).

⁵ *McZeal v. Sprint Nextel Corp.*, 501 F.3d 1354, 1357 (Fed. Cir. 2007) (vacating dismissal of *pro se* plaintiff’s complaint that conformed to Form 18 (then Form 16)).

⁶ *In re Bill of Lading Transmission and Processing System Patent Litigation*, 681 F.3d 1323, 1334 (Fed. Cir. 2012) (internal citations omitted).



prior to the Initial Case Management Conference.⁹ The Initial Case Management Conference, however, does not have to occur until 60 days after the first defendant appears.¹⁰

Nevertheless, proponents of heightened pleading standards argue that LPRs are insufficient to curb abusive behavior because the defendant is still required to enter an appearance, respond to the complaint, and engage in discovery. The plaintiff can pay lip service to the LPRs and get deep into discovery before a motion can be filed by the defendant, much less decided. Absent settlement, the defendant is left to incur substantial cost and provide responsive information that the plaintiff properly should have obtained on its own, pursuant to its pre-filing investigation. Proponents also claim that the elimination of Form 18 does not go far enough to address these issues.

In response to these concerns, 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. Proponents of the bills assert that by requiring additional information at the pleading stage the plaintiff will be required to engage in a fulsome pre-filing investigation and the defendant will be able to file a more meaningful motion to dismiss before making an appearance.

Regardless of whether Congress formally changes the pleading standards, it would seem likely that without Form 18 to rely upon, the district courts

will interpret *Twombly* to require some additional specificity in order to satisfy the notice provisions of Rule 8(a). Additional information regarding the accused products is likely, especially in cases where a broad allegation of infringement could include large numbers of disparate products. Courts also may conclude that notice pleading under Rule 8 requires additional specificity regarding the particular patent claims that the accused products are alleged to infringe and the particular types of infringement alleged, especially where the patent includes large numbers of products and/or claims. There is the possibility, however, that courts with extensive LPRs and early disclosure requirements will continue to point to those rules and adopt fairly low pleading requirements for allegations of infringement, even if they cannot expressly continue to rely on Form 18.

No matter the jurisdiction, the cost of pre-filing investigations is likely to increase, as are early motions practice regarding the sufficiency of allegations in a complaint and attempts to amend complaints to accuse additional products and discovery motions, as discussed in more detail below.

Limits on Discovery

The burden of discovery on defendants in a patent litigation can be tremendous. For larger companies with broad product portfolios, multiple divisions, and far-flung design and manufacturing facilities, costs can quickly escalate. For smaller companies, the overall cost may be smaller, but the potential impact on daily operations can be difficult to limit. By contrast, non-practicing entities (NPEs), a frequent plaintiff in patent litigation, often have comparatively little documentation to produce, as they by definition do not make a product that practices the asserted patent(s). As a result, perhaps even more than in other types of litigation, patent litigation often has a disproportionate cost and disruption impact on defendants, which can enable

⁹ See Local Patent Rules for the Eastern District of Texas at Appendix B, Patent Rule 3-1.

¹⁰ See *id.* at CV-16.



aggressive plaintiffs to extract a settlement on claims that may lack merit.

Amendments to the Federal Rules set to go into effect this December make significant changes to the scope, timing, and nature of discovery that will impact the administration and strategy employed in patent cases, with a particular impact on NPE patent litigation. One of the key changes is the inclusion of a “proportionality” requirement to the overall scope of discovery. Amended Rule 26(b)(1) states that in addition to the prior requirement that “parties may obtain discovery regarding any nonprivileged matter that is relevant to any party’s claim or defense,” the discovery must be “proportional to the needs of the case, considering the importance of the issues at stake in the action, the amount in controversy, the parties’ relative access to relevant information, the parties’ resources, the importance of the discovery in resolving the issues, and whether the burden or expense of the proposed discovery outweighs its likely benefit.” The language is familiar, as it is transferred in large part from current Rule 26(b)(2)(C)(iii), a rule that had been applied more in the context of motions than as a threshold requirement.

In fact, the Advisory Committee notes to the amended rule explain that proportionality has always been part of the discovery analysis and the 2015 amendments seek to clarify that point. The notes explain that the intent is for the proportionality requirement to apply to all parties, and not to create a burden on the party issuing discovery to establish proportionality. Despite that objective and the Advisory Committee’s admonition that the new wording should not be used as a boilerplate objection, it is likely that objections to discovery requests will cite this language. Parties propounding discovery will no doubt point to those same factors to justify broad requests, leaving the courts to resolve what is likely to be an initial surge in motions practice regarding the amended rule. The revised rule should nonetheless benefit defendants in NPE pa-

tent litigation to the extent the rule has the effect of limiting the volume of discovery, given the relatively small amount of documents in the possession, custody, or control of the NPE as compared to the potentially enormous number of documents with a defendant.

Perhaps in an attempt to appear even-handed and assist plaintiffs seeking broad discovery, Amended Rule 26(b)(1) eliminates the wording “reasonably calculated to lead to the discovery of admissible evidence,” and states instead that “Information within the scope of discovery need not be admissible in evidence to be discoverable.” The Advisory Committee notes indicate that the amendment is directed to eliminating the standard objection that a request is not reasonably calculated to lead to the discovery of admissible evidence. The discovery requests, however still must be relevant to a party’s claim or defense in combination with the proportionality factors.

Another amendment places additional obligations on the timing of production and objections to discovery requests. Currently, a party responding to a discovery request will commonly state that it will produce responsive documents subject to its objections. This is in keeping with the wording of Rule 34(b)(2) that a responding party must state that the production “will be permitted as requested or state [an objection] to the request, including the reasons.” Frequently, the reason provided would simply be that the request is “overly broad and unduly burdensome.” Such a general response will no longer be sufficient under Amended Rule 34(b)(2)(B). The newly amended rule will require the responding party to “state with *specificity* the grounds for objecting to the request” including the reasons. Amended Rule 34(b)(2)(B) will still allow the responding party to state that it will produce documents or ESI rather than an inspection, but if it does so, “the production must then be complete no later than the time for inspection specified in the



request or another reasonable time specified in the response.”

What may be the most difficult change for parties to implement when responding to discovery requests will be Amended Rule 34(b)(2)(C), which adds a new requirement that “[a]n objection must state whether any responsive materials are being withheld on the basis of [an] objection.” Even where a party unilaterally limits the scope of its search to certain time periods, it may not fully know what documents are being withheld by the time its objections are due, leading to potential complications at the time of the response and later. Perhaps anticipating this issue, the Amended Rule 26(d)(2) allows a party to deliver Rule 34 discovery requests 21 days after the summons and complaint are served on a party, though the requests are not deemed served until the first Rule 26(f) conference. Allowing delivery of discovery requests before the first Rule 26(f) conference is intended to foster early discussion of any problems with the requests. While this mechanism could enable parties to identify and hopefully resolve discovery disputes on their own, litigants may be unwilling to utilize the option lest they give the other party an advantage in the form of additional time.

The proposed House and Senate bills take a different approach, as they would stay discovery in certain situations. In cases where the claims of a patent need to be construed by the court, 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. Both proposals have been subject to criticism that they will have the effect of slowing litigation, result in the filing of additional early motions, and in practice lead to a waste rather than conservation of judicial resources.

Even without additional legislative changes, the effect of the forthcoming changes to the Federal Rules will be widespread. Using the changes to pleading requirements discussed above as an example, if courts interpret *Twombly* to require District court responses to this issue will likely vary by jurisdiction. If, for example, a plaintiff accuses categories or product lines in a complaint and exemplar products in each such group, a court may determine that the plaintiff did not need to identify each sub-product in the complaint if the differences between the identified and non-identified products are not relevant to the question of infringement. A court that follows this approach may find that fact and expert discovery become protracted as additional products are added unless the court or parties can agree on representative products and streamlined proofs.

The answer may be very different in jurisdictions that have LPRs that address the timing and scope of discovery. The Eastern District of Texas, for example, requires disclosures at least as specific as the proposed bills prior to discovery, and the repercussions for failing to identify accused products where the necessary information was publicly known can result in exclusion of those products even where that plaintiffs identify particular products in a complaint to satisfy Rule 8, plaintiffs that elect to identify fewer products may face the risk that they cannot later accuse or obtain damages on additional products not included in the complaint if those products were available to the plaintiff at the time of filing. Plaintiffs faced with this situation will no doubt seek broad early discovery to identify additional products in advance of pleading amendment deadlines, pointing to the proportionality requirements to claim that the information sought – such as CAD drawings, schematics, or other non-public information – is on balance more easily and cost-effectively obtained from the defendant and is important to resolution of the issues in the case. Defendants, for their part, will argue that the scope of the case was set in the pleading, and that the bur-



den was on plaintiff to identify accused products based on publicly available information prior to filing the plaintiff identified categories.¹¹

Given the uncertainty surrounding how courts will interpret and apply the amended Federal Rules, parties to patent litigation will need to reevaluate longstanding litigation strategies. Hope springs eternal that the risks attendant to this uncertainty will lead more litigants to engage in meaningful discussions regarding the scope and conduct of discovery.

Customer Stay

A common concern in patent litigation is the effect on customers of the allegedly infringing product. Oftentimes, the patent owner will choose not to file suit against the original supplier of the product, but instead will sue any number of its customers (frequently at the same time). If the supplier then seeks to intervene in the actions, or files a declaratory judgment action against the patent owner, it is met with a firestorm of motions by the patent owner seeking to prevent it from getting involved. Historically, courts have tackled the issue head-on and recognized the waste of resources and the potential for inconsistent verdicts in adjudicating multiple customer cases in parallel, potentially in different jurisdictions. Traditionally, a later filed case would be stayed, assuming the two actions sufficiently overlapped, under a doctrine referred to as the “first-to-file rule.” However, in the cases where those first-filed suits are against customers and the later-filed suit is with the supplier of the accused product(s), the first-to-file rule is trumped by the judicial economy presented in staying the customer suits and simply proceeding with the single suit

brought by (or against) the source of the infringing products.¹²

Presumably to provide a clear direction to the courts on this issue, another measure included in each Congressional bill is a “customer stay” aimed at curbing the proliferation of co-pending litigations against the provider of an allegedly infringing product and its customers. Each bill includes protections for those customers, 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 to another 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 and excludes “an entity that manufactures or causes the manufacture of a covered product or covered process, or a relevant part thereof.”

Shifting of Attorney Fees

A prevailing party in patent litigation seeking an award of attorneys’ fees previously faced a high Supreme Court’s 2014 decision in *Octane Fitness v. Icon Health & Fitness, Inc.*, however, effected a sea change on the issue of attorneys’ fees.¹³

In *Octane Fitness*, the Supreme Court rejected the Federal Circuit’s formulation for evaluating whether a case is “exceptional” under Section 285 of the Patent Act and thus potentially subject to an award of attorney fees. The Federal Circuit had required that to establish a case is exceptional, a prevailing party must show “material inappropriate conduct” or that the case was both “objectively baseless” and “brought in subjective bad faith” by clear and convincing evidence. The Supreme Court rejected that

¹¹ See e.g. *Keranos v. Silicon Storage*, 2015 WL 4790475, Case Nos. 14-1360 and 14-1500 (Fed. Cir. August 13, 2015).

¹² See e.g., *In re Google Inc.*, 588 Fed. Appx. 988 (Fed. Cir. 2014).

¹³ *Octane Fitness v. Icon Health & Fitness, Inc.*, 572 U.S. ___, 134 S.Ct. 1749 (2014).



test as too stringent, and held “that an ‘exceptional’ case is simply one that stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.” The Supreme Court further held that the clear and convincing evidence standard was incorrect, and “district courts may determine whether a case is exceptional on a case-by-case exercise of their discretion based on a totality of the circumstances,” based on a preponderance of the evidence standard.

Not surprisingly, district courts have awarded attorneys’ fees far more often since *Octane Fitness*. Earlier this year, the Federal Circuit Bar Association sent a letter to the House Judiciary Committee summarizing the results of an analysis of all orders on fee-shifting since the April 2014 *Octane Fitness* decision, finding that fee motions were granted at a rate almost three times as high – 36 percent – as the 13 percent rate in the year preceding *Octane Fitness*, and that the grant rate was 50 percent for the first three months of substantive and evidentiary standard. Many have posited that the low risk of an attorneys’ fee award against a non-prevailing party was a key factor behind many patent litigations. The Supreme Court’s 2014 decision in *Octane Fitness v. Icon Health & Fitness, Inc.*, however, effected a sea change on the issue of attorneys’ fees.

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respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.” The Supreme Court further held that the clear and convincing evidence standard was incorrect, and “district courts may determine whether a case is exceptional on a case-by-case exercise of their discretion based on a totality of the circumstances,” based on a preponderance of the evidence standard.

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Against this backdrop, both the House Innovation Act and the Senate Patent Act include provisions related to fee shifting. The Senate approach includes a test similar to the one set forth in *Octane Fitness*, and would require an award of attorneys’ fees when the winning party files a motion and the district court makes a finding that the non-prevailing party was not “objectively reasonable.” The provision would also 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, apparently in response to concerns that fee-shifting provisions may encourage smaller organizations and individual patent holders to settle a case, rather than take the risk of losing and paying for the winner’s attorneys’ fees.

¹⁴ See April 13, 2015, Letter from Edgar Haug, President Elect Federal Circuit Bar Association, to Chairman Bob Goodlatte and Ranking Member John Conyers, Jr.



Those concerns would be more pronounced under the fee-shifting provisions of the House Innovation Act. The Innovation Act would move beyond *Octane* (and the Senate PATENT Act). Often, NPEs create separate entities that have little or no assets for the purpose of asserting different patents or for different infringement suits. Despite the fact that there is ultimately a separate entity with a financial interest in the case, that interested entity is not disclosed, hindering the ability of defendants to enforce fee awards or to obtain potentially relevant discovery. And NPEs have consistently avoided attempts by defendants to get such information. For example, a recent case in the Southern District of Texas settled shortly after the defendants were able to serve a third-party complaint on the purported parent of the NPE plaintiff. During oral argument, counsel for defendants put the issue to the Court, arguing that “[NPEs] can sue defendants, make them spend attorneys’ fees, or settle. And if they lose on attorneys’ fees, the plaintiff – the made-up plaintiff – is judgment 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.” Proponents of the *Innovation Act* may well point to recent statistics showing that 2015 is set to be a record year for patent filings, and more definitive fee-shifting provisions remain necessary to address abusive patent litigation.¹⁵

The delay in consideration of the pending House and Senate bills will provide additional time to evaluate the effect of *Octane Fitness* on the number and substantive merit of patent infringement filings as well as any resulting fee awards. That additional information may enable Congress and industry to

determine whether further changes to the law regarding fee awards are necessary.

Transparency of Patent Ownership

Related to the issue of fee awards is transparency of ownership of asserted patents.

Often, NPEs create separate entities that have little or no assets for the purpose of asserting different patents or for different infringement suits. Despite the fact that there is ultimately a separate entity with a financial interest in the case, that interested entity is not disclosed, hindering the ability of defendants to enforce fee awards or to obtain potentially relevant discovery. And NPEs have consistently avoided attempts by defendants to get such information. For example, a recent case in the Southern District of Texas settled shortly after the defendants were able to serve a third-party complaint on the purported parent of the NPE plaintiff.¹⁶ During oral argument, counsel for defendants put the issue to the Court, arguing that “[NPEs] can sue defendants, make them spend attorneys’ fees, or settle. And if they lose on attorneys’ fees, the plaintiff – the made-up plaintiff – is judgment proof.”¹⁷

In response to this concern, the House Innovation Act and Senate PATENT Act 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.

¹⁵ Amanda Ciccatelli, “Record Number of New Federal Patent Cases Filed in First Half of 2015,” *Inside Counsel*, July 20, 2015.

¹⁶ See *Parallel Separation Innovations LLC v. National Oilwell Varco, Inc. et al*, 2:14-cv-00556 (S.D.TX) at D.I. 68, 68, 85, and 86.

¹⁷ See Law360, July 24, 2015, http://www.law360.com/ip/articles/683308?nl_pk=79db45d8-fbc5-4857-b87c-45f1b71434d4&utm_source=newsletter&utm_medium=email&utm_campaign=ip



The House and Senate bills also contain provisions regarding the mechanics of enforcement of an attorneys' fees award aimed directly at the "real" party. The House bill addresses the issue at the end of the litigation, stating that when a party is unable to pay an award of attorneys' 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. Presumably, the plaintiff would have disclosed that other interested party previously pursuant to the transparency provisions discussed above. While the Senate bill does not directly mention joinder, it allows the defendant to notify the Court that it believes the plaintiff is an 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 presumably would allow for an early motion for joinder if appropriate.

Post-Grant Review Reforms

The AIA created new procedures to seek post-grant review of issued patents at the PTO that have become a frequent tool of patent litigation defendants. The two main post-grant proceedings, post grant review (PGR) and inter partes review (IPR), cost substantially less than patent litigation and can provide grounds to stay litigation pending completion of the review by the PTO. In exchange, parties that seek post-grant review (or those in privity with them) generally are prevented from raising in court an argument they could have raised at the PTO.

Perhaps the most contentious aspect of these proceedings is that the standard applied in post-grant review proceedings differs from that applied by the district courts. The PTO applies the Broadest Reasonable Interpretation (BRI) standard to construe the meaning of a challenged patent claim, while the district courts apply a narrower standard, namely "the meaning that [a] term would have to a person of ordinary skill in the art in question at the time of

the invention."¹⁸ The broader BRI standard, of course, makes it easier to challenge patent claims at the PTO because broadly construing a patent claim makes it more vulnerable to invalidity arguments of anticipation and obviousness. As a result, there has been a tidal wave of post-grant proceedings instituted since the effective date of the AIA.

Patentees have complained that the AIA should be amended to require the PTO to replace the BRI standard with the narrower standard applied by the district courts. Earlier this year, however, the Federal Circuit issued a six to five en banc decision letting the BRI standard stand, with the dissenting judges writing in support of the standard applied by the district courts.¹⁹ Unless the Supreme Court decides to take up the issue, it appears that there will be no change to BRI standard at the PTO absent legislation.

Bills introduced by the House and Senate seek to do just that. The House Innovation Act and the Senate PATENT Act and STRONG Patents Act all include provisions that would supplant the BRI standard with the claim construction standard used by the district courts. Not surprisingly, the proposed change has been the subject of much debate.

The PTO, for its part, has issued revisions to the post-grant review process to allow patentees to more easily amend claims during the process and obtain additional discovery. The logic is that the broader BRI standard, as used during examination, is appropriate if patentees will now be allowed to amend claims in response to anticipation and obviousness arguments more like they could during examination. If not, opponents say, using a broader standard without any real ability to amend claims takes the "review" out of post-grant review and makes the PTO act as judge and jury under a differ-

¹⁸ *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005) (en banc).

¹⁹ *In re: Cuozzo Speed Technologies, LLC*, 2015 WL 4097949, Case No. 14-1301 (Fed. Cir. July 8, 2015).



ent standard than in district court, unfairly impinging on the rights of patentees.

It appears that the public criticism of, and recent amendments to, the rules for post-grant review proceedings are having some effect. Recent statistics indicate that the PTO may be accepting fewer petitions for post-grant review, and allowing more amendments. These numbers may simply reflect that the initial deluge of post-grant review proceedings attacked mostly business method patents, which were generally viewed as weak and granted without in-depth review by the PTO at the advent of the Internet age, and that the patents now being asserted are of a more “patentable” nature. Regardless of the reason, proponents of the current post-grant review BRI standard believe that the conclusion to be drawn is that the current standard is correct. The issue is far from resolved.

Conclusion

Many thought that the AIA and recent Supreme Court decisions would be the death knell for NPE patent litigation. After a temporary decrease, however, filings by NPEs are on the uptick, with over 3,100 new federal patent cases filed in the first half of 2015, on pace to set a record.²⁰ Some argue that this is due simply to the fact that the dust has yet to settle from passage of the AIA and the subsequent spate of decisions from the Supreme Court, and that further legislation is premature at this point in time, especially given the upcoming changes to the Federal Rules.

Due to the delay in enactment of any additional legislation, Congress, industry, and the courts will have an opportunity to assess the impact of the upcoming changes to the Federal Rules in combination with further application of the Supreme Court’s recent

decisions. Given the stakes involved, these issues will continue to be the subject of heated debate for the foreseeable future.

Trans-Pacific Partnership IP Provisions Remain At Forefront As Scrutiny Of Text

Joseph A. Laroski Jr. and Bonnie Byers

With the working text (comprising 30 Chapters, multiple Annexes, over 100 bilateral side letters, and well over 5,500 pages) of the 12-country Trans-Pacific Partnership Agreement (TPP) released to the public last month, the Obama Administration has embarked on the task of demonstrating to a skeptical Congress, industry groups, and to the American public how the TPP has achieved its ambition of a “21st Century Agreement.” Provisions of the intellectual property rights (IPR) chapter were among the final hurdles to reaching agreement on the TPP text in October and will remain at the forefront of the debate over whether the United States should implement the text as-agreed, or return to the negotiating table for further revision. Below we review the key provisions of the IPR chapter and TPP’s prospects for signature, Congressional, implementation and entry into force.

Once implemented, the agreement among 12 Pacific Rim countries – Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, and Vietnam – will create an integrated regional economy accounting for 40 percent of global GDP. Approximately 98 percent of U.S. industrial and consumer exports to the new TPP countries will be eligible for immediate, duty-free treatment. In addition to tariff reductions, the TPP contains numerous provisions aimed at eliminating trade friction between TPP partners and imposing new disciplines on the “behind-the-border” trade barriers that have impeded the export growth of U.S. companies operating in heavily-regulated industries. Many of these provi-

²⁰ Amanda Ciccatelli, “Record Number of New Federal Patent Cases Filed in First Half of 2015,” *Inside Counsel*, July 20, 2015 (<http://www.insidecounsel.com/2015/07/20/record-number-of-new-federal-patent-cases-filed-in>).



sions, including certain provisions of the IPR chapter, are considered “WTO plus” provisions because they impose obligations that exceed current obligations under the World Trade Organization Agreements.

The Intellectual Property Rights Chapter

According to the Office of the U.S. Trade Representative, the IPR chapter will “promote high standards of protection, safeguard U.S. exports and consumers against IP infringement, and provide fair access to legal systems in the region to enforce those rights.” The Chapter affirms international norms drawn from the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) as well as other international best practices, including relevant exclusions. The TPP also commits each party to ratify or accede to a common set of international agreements governing IPR. The chapter contains transition periods for implementation of certain commitments, taking into account each Party’s level of development and capacity as well as its existing laws and international obligations. We review some of the key features of the TPP IPR chapter text below.

Patents. With respect to Patents, the IPR chapter includes commitments to:

- establish a 12-month grace period in which certain public disclosures of an invention will not be used to deny a patent application;
- help facilitate the processing of patent applications in multiple jurisdictions, with minimum duplication of efforts; and
- provide for an adjustment to patent terms for pharmaceutical products to compensate for unreasonable curtailment of patent terms due to the marketing approval process

Protection for Regulatory Test Data. The IPR chapter protects undisclosed test and other data generated to obtain marketing approval of pharmaceuticals and agricultural chemicals. For biologics, the United States was unable to secure the 12-year data exclusivity period sought by industry. The chapter provides for a minimum 5 to 8 years of data exclusivity. Nevertheless, implementation of the biologics provisions will require changes to the laws of Brunei, Malaysia, Mexico, Peru, and Vietnam. The U.S. failure to secure the 12-year data exclusivity period remains a controversial issue for key industry and Congressional factions.

Trademarks and Geographical Indications (“GI”). With respect to Trademarks and GI, the IPR chapter includes commitments to clarify and strengthen protection of brand names and other signs or symbols used to distinguish goods or services, prevent the overprotection of geographical indications by providing opportunities for due process and requiring guidelines on how to determine whether a term is generic in its market; and ensure efficient and transparent procedures governing trademark applications, including electronic trademark registration mechanisms and promotion of regional harmonization of trademark systems.

Domain Name Cyber-Squatting. In an effort to reduce domain name cybersquatting, the TPP ensures that, in connection with a Party’s country-code top-level domain name registration system, appropriate remedies are available in cases of bad faith registration of domain names that are confusingly similar to registered trademarks.

Copyright. The IPR chapter’s copyright provisions:

- “include strong and balanced provisions on technological protection measures and rights management information, and advance transparency in systems for copyright royalty collection;”



- promote exceptions and limitations to copyright for legitimate purposes, such as criticism, comment, news reporting, teaching, scholarship, and research; and
- obligate each Party to establish copyright safe harbors for Internet Service Providers (with safeguards against abuse of such regimes).

Trade Secrets. The IPR chapter requires each Party to provide for the legal means to prevent misappropriation of trade secrets, including misappropriation conducted by state-owned enterprises (SOEs). It also requires for the first time in a U.S. free trade agreement that each party establish criminal procedures and penalties for trade secret theft.

Enforcement. The IPR chapter contains commitments that seek to:

- ensure the availability of mechanisms to enforce intellectual property rights, including border measures and criminal enforcement (including new disciplines on camcording in movie theaters and theft of encrypted program-carrying satellite and cable signals); and
- close loopholes used by counterfeiters and enhance penalties against trafficking in counterfeit trademark products that threaten health and safety.

Other Provisions Related to IPR

In addition to the provisions contained in the IP chapter, the Technical Barriers to Trade (TBT) includes several provisions that bear noting in the context of IPR. The TBT chapter seeks to ensure that standards, conformity assessment procedures, and technical regulations are fair and transparently developed, with opportunities for meaningful input from stakeholders. It includes provisions that increase transparency and opportunities for stakeholder input, limit the information required with respect to proprietary formulas for prepack-

aged foods and food additives, and establish rules regarding the labeling of wines and distilled spirits.

Next Steps for TPP

On November 5, 2015, President Obama formally notified Congress of his intent to sign the TPP, an action required by the fast-track procedures. Under fast track, this notification triggered a 90-day Congressional review period during which Congress reviews the text, after which the President may formally sign the Agreement. There is reportedly a consensus building around a proposal to sign the agreement on February 4 in New Zealand.

Trade agreements are not self-executing under U.S. law. Rather, such agreements must be implemented through legislation. Within 60 days of signing TPP, the President must submit to Congress a description of any required changes to existing laws. At least 30 days before formally submitting the TPP legislation to Congress, the President must provide Congress a copy of the final legal text and draft SAA proposed to implement the agreement. Within 60 legislative days of the introduction of implementing legislation, the House of Representatives holds an up-or-down vote (no amendments are permitted under fast track). Within 90 legislative days of introduction of implementing legislation, the Senate holds its vote (up-or-down).

The International Trade Commission (ITC) then has 105 days to complete its analysis of the impact of the TPP agreement on the U.S. economy. The ITC has initiated this investigation and expects to transmit its report to the President and Congress on May 18, 2015. Even if the President were to submit formal implementing legislation and draft statement of administrative action (SAA) language as soon as the ITC analysis is completed, passage before the end of the year is unlikely given the much abbreviated election-year calendar in the House and Senate. Based on current schedules, the House only has 59



legislative days and the Senate 77 legislative days, before the end of the year.

At the end of the day, timing will depend on whether and when there are sufficient votes to pass TPP. Much will turn on whether the President is able to convince a sufficient number of Congressional Democrats to support his trade bill to overcome those Republicans that will oppose passage. Sen. Orrin Hatch, who as Chairman of the Senate Finance Committee will be key to passage of TPP, has also expressed his concern about the substance of the deal, in particular the exclusivity period for IP protection of biologic drugs and stated that he will push the current administration to renegotiate these provisions. The White House has advised, however, that renegotiating any aspects of the TPP will almost certainly kill the agreement. It is not unprecedented for particular provisions to be revised after conclusion of an agreement. Doing so is far from easy, however, and could unravel the delicate balance of concessions achieved in negotiations.

King & Spalding News

Law360 Names Partner Kenneth Steinthal a 2015 Media and Entertainment Law MVP

SAN FRANCISCO, Dec. 15, 2015 — Law360 has recognized King & Spalding partner Kenneth Steinthal as among the year's most successful lawyers in media and entertainment law, earning him a 2015 MVP Award. The publication called him "a pioneer of the digital media practice."

Law360's annual awards acknowledge lawyers whose achievements in major litigation or transactions have set a new standard for accomplishment in

corporate law. Despite limiting firms to just two nominations per category, Law360 editors received more than 850 nominations this year. Of those, only five lawyers were named MVPs in the media and entertainment practice area.

In a profile of Steinthal, Law360 noted that many of the litigator's recent successes have arisen from his multi-year litigation work on behalf of Pandora Media, the country's largest Internet radio provider. The cases have broad implications for the evolution of streaming media platforms, as well as for consumers and artists.

MIP International Women's Leadership Forum

King & Spalding is proud to again serve as a primary sponsor of the Managing IP's International Women's Leadership Forum, scheduled for December 11, 2015, at The Fairmont San Jose, California. This exciting event will focus on IP developments in the US and globally and will provide an opportunity for women in IP to hear from thought leaders on subjects such as arbitration, litigation, licensing, enforcement, competition law, and patent reform.

This interactive Forum also examines best practices and innovation around leadership, networking and business development. It will feature leading general counsel and IP counsel who will share their thoughts and insights with the audience. The aim is to provide an inclusive debate around building the talent pipeline as well as discussing the latest developments in IP.

Topics on this year's agenda include:

- IP in Arbitration
- Challenges to Online Enforcement and Potential Pitfalls
- Practical Advice for Handling Post-Grant Challenges: Lessons learned from PTAB



- From Pay-for-Delay to SEPS – Where Does Canada Stand on IP and Competition Law
- Patent Reform in Europe
- The Importance of Leadership in Developing Your Career
- Recent Developments in Copyright and Trademark Law
- Trends in Licensing
- Ethical Conflicts in the IP Industry
- The Alice Corp. v. CLS Bank Decision

King & Spalding’s women partners Natasha Moffitt and Silvia Marchili will participate on the “IP in Arbitration” panel, which will cover:

- What is arbitration
- The pros and cons of arbitration vs. litigation, particularly in the context of IP disputes
- An overview of the different contexts in which an IP arbitration might arise, including contractually or pursuant to international investment agreements
- Drafting and negotiating arbitration clauses
- A discussion of various institutional rules, including rules governing IP disputes
- Available arbitral remedies and enforcing the arbitral award



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Our Intellectual Property Practice Group

King & Spalding offers clients a full-service intellectual property (IP) practice that combines proven first-chair trial and business lawyers with true scientific specialists. The firm's Intellectual Property Practice Group consists of more than 90 IP professionals, including more than 70 lawyers and patent agents with technical degrees, located in our Atlanta, Austin, Charlotte, Houston, Moscow, New York, San Francisco, Silicon Valley and Washington, D.C., offices. The practice was selected as a 2013 "Intellectual Property Practice Group of the Year" by Law360.

King & Spalding has specialized expertise in Section 337 cases before the International Trade Commission. Unique among firms, we have leading practices in the three disciplines necessary in Section 337 cases: we combine our broad-based patent litigation experience and technical expertise, international trade expertise and expertise in the ITC's procedures, and a strong governmental relations group. King & Spalding has been involved in some of the largest, most complex and precedent-setting Section 337 cases.

About King & Spalding

Celebrating more than 125 years of service, King & Spalding is an international law firm that represents a broad array of clients, including half of the Fortune Global 100, with 800 lawyers in 17 offices in the United States, Europe, the Middle East and Asia. The firm has handled matters in over 160 countries on six continents and is consistently recognized for the results it obtains, uncompromising commitment to quality, and dedication to understanding the business and culture of its clients. More information is available at www.kslaw.com.

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