

Client Alert

April 16, 2014

Patent Troll Legislation Stuck in Fee-Shifting Debate

By Eric Pai and Colette Verkuil

Patent reform legislation has garnered much national attention over the past year, as Congress has introduced numerous proposals to curb perceived litigation abuse by patent trolls. (See our previous alert [here](#).) The House of Representatives overwhelmingly passed the Innovation Act (H.R. 3309) in December, and the Senate appeared ready to move forward quickly by passing its own patent reform bill. Since then, however, several months have passed and the legislation has encountered a series of delays in the Senate.

The Patent Transparency and Improvements Act (S. 1720), which was introduced by Senate Judiciary Committee Chairman Patrick Leahy (D-VT) last November, is the main Senate bill currently under consideration. The Judiciary Committee was scheduled to mark up and vote on the bill in early April, but those proceedings have been postponed four times over the past several weeks. Committee members are debating new language to address certain "contentious issues" raised in a proposal circulated by Senator Chuck Schumer (D-NY) last week. We summarize and discuss these issues in more detail below.

As Congress is now in recess for two weeks, the committee cannot proceed on the bill until April 28 at the earliest. Senator Leahy has stated that he expects to circulate a revised version of the bill once Congress is back in session.

FEE-SHIFTING PROVISIONS

The debate in the Senate Judiciary Committee has focused on fee-shifting provisions, which would require the losing party in patent litigation to pay the prevailing party's attorneys' fees. The Innovation Act (H.R. 3309) passed by the House has a provision that shifts attorneys' fees unless the court finds that the losing party's position and conduct were "reasonably justified in law and fact" or there are "special circumstances" making an award unjust. By contrast, the current version of Senator Leahy's bill, the Patent Transparency and Improvements Act (S. 1720), does not include any fee-shifting provision.

Senator Schumer's recent proposal would add a fee-shifting provision to the bill. A fee-shifting provision was included in an earlier competing bill introduced by Senator John Cornyn (R-TX), the Patent Abuse Reduction Act (S. 1013). Senator Leahy has expressed a willingness to add some form of a fee-shifting provision to his proposed bill.

Proponents of fee-shifting say it is a key measure to deter patent trolls from filing abusive and frivolous lawsuits. Others disagree, noting that fee-shifting arises only at the end of a lawsuit and arguing that patent trolls will be able to meet the "reasonably justified" standard in most cases. Critics also note that patent trolls can circumvent fee-shifting by setting up shell entities that hold no assets besides the patents they are asserting.

HEIGHTENED PLEADING STANDARDS

As currently drafted, the Patent Transparency and Improvements Act (S. 1720) does not address the issue of pleading standards in patent litigation. By contrast, a provision in the Innovation Act (H.R. 3309) requires plaintiffs

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to identify each product that allegedly infringes each asserted patent claim and to describe "with detailed specificity" how each limitation of each claim is met by the product. While it is unclear what specific provisions Senator Leahy will include in his amended bill, Senator Schumer's recent proposal includes a provision requiring heightened pleading standards in patent cases. This difference between the House and Senate bills will need to be reconciled if the Senate passes the legislation.

Supporters of a heightened pleading standards provision believe that it will make it more difficult for patent trolls to file bare-bones complaints against large numbers of differently situated defendants without conducting a detailed infringement analysis against each defendant's products. Critics counter that more sophisticated patent trolls often already provide potential defendants with detailed claim charts during pre-litigation discussions. They also note that many of the most commonly selected jurisdictions for patent litigation have patent local rules requiring plaintiffs to disclose their infringement contentions shortly after filing suit.

BAD-FAITH DEMAND LETTERS

The current version of the Senate bill includes a provision imposing specificity requirements on demand letters alleging patent infringement. The bill also would make the sending of a materially misleading demand letter an unfair or deceptive trade practice under Section 5 of the Federal Trade Commission Act, with enforcement by Federal Trade Commission.

The Innovation Act (H.R. 3309), as passed by the House, has a slightly different provision concerning demand letters. It proposes that "purposely evasive" demand letters be considered "an exceptional circumstance when considering whether the litigation is abusive," and provides that deficient demand letters may not be used as evidence of willful infringement. Unlike the Senate version, the House bill does not provide for any specific enforcement authority by the Federal Trade Commission.

Again, the differences between the House and Senate bills will need to be reconciled. It is worth noting that several state legislatures, including those in Vermont, Oregon, Virginia, Wisconsin, and Idaho, have already passed legislation addressing bad-faith demand letters. Similar legislation is pending in numerous other states.

NEXT STEPS

It remains to be seen how these issues will be addressed in the amended version of the Senate bill that the Judiciary Committee will take up after the recess. If the bill makes it out of committee and is passed by the Senate, it will then need to be reconciled with the Innovation Act (H.R. 3309) in conference committee between the House and Senate before the legislation can be presented to President Obama for signature.

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