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Patents/Legislation

Senate Hearing Observers See PTAB Changes As New Battleground for Patent Trolling Bills

■ **Questions:** *Does the STRONG Patent Act contain provisions to address post-grant challenge changes demanded by the life sciences industry before it can agree to legislation addressing litigation abuses? And if so, is Congress willing to adopt them?*

Witnesses at a May 7 Senate Judiciary Committee hearing on legislation to address patent litigation abuses stated a clear preference for the Senate version over the House version, but they also expressed concern that both bills lack provisions to attack alleged abuses in administrative proceedings.

“The battleground is going to be in what changes are made in the post-grant procedures at the Patent Trial and Appeal Board,” Brian W. Nolan of Mayer Brown LLP, New York, told Bloomberg BNA after listening to the testimony.

But are the gap-filling provisions already in front of the legislators?

“When I look at the STRONG bill, frankly, I rather like it,” Monte L. Falcoff of Harness Dickey, Troy, Mich., said, referring to a separate bill in the Senate.

Falcoff, currently involved in six inter partes review cases before the PTAB representing both patent owners and patent challengers, said that the bill's provisions provide “the right balance” to correct the misuse of IPR and the other America Invents Act-enabled post-grant opposition actions.

Whether the Senate will see it that way is anyone's guess at this point. And the House doesn't even have a STRONG Patents Act equivalent to consider yet.

Reverse Trolling at Issue. The PATENT Act (S. 1137) in the Senate (90 PTCJ 1850, 5/1/15) and Innovation Act (H.R. 9) in the House (89 PTCJ 1698, 4/17/15) ostensibly address “patent trolling” behavior by shifting the economics of a patent infringement lawsuit.

The abuse, sponsors argue, is filing suit as a threat to get an alleged infringer to settle simply to avoid the cost of the defense, rather than on the merits. By such devices as “loser pays” fee-shifting and postponing discovery, the abusive patent owner has less leverage to force that settlement.

Mark Chandler, Washington-based general counsel for Cisco Systems Inc., spoke at the Senate hearing about a different form of trolling (90 PTCJ 1925, 5/8/15).

He cited the “reverse trolling” largely attributed to hedge funds (89 PTCJ 1451, 3/27/15).

According to that theory, the abuse is made possible not by the economics of a PTAB proceeding, but by the fact that IPR and covered business method challenges at the PTAB have so far shown a better-than-expected success rate for petitioners (89 PTCJ 1705, 4/17/15).

Thus, the hedge fund's alleged abuse is in taking a short position on a company's stock, filing the IPR challenge, and reaping the benefits of a lowered stock price when the market assumes that the company's patent is likely to be invalidated.

Chandler—a fan of the PTAB proceedings as they are today—argued that “targeted securities law changes” should take care of the problem. But Henry Hadad, deputy general counsel, intellectual property, at Bristol-Myers Squibb in New York, represented the pharmaceutical industry, and he confirmed statements made by Pharmaceutical Researchers and Manufacturers of America executives in an April 30 press briefing (90 PTCJ 1926, 5/8/15): Life science industries' support of any patent litigation bill will depend on modifications to the PTAB procedures themselves.

Changing Standing Maybe Too Much. But as Mayer Brown's Nolan said, “Everyone is saying that the problem is with hedge funds, but the provisions they're asking for weren't specifically addressed to them.”

The STRONG Patents Act (S. 632) directly addresses the issue by requiring a change to the standing requirements for IPR and CBM petitioners: “A person may not file with the Office a petition to institute an inter partes [or post-grant] review of a patent unless the person, or a real party in interest or privy of the person, has been—(A) sued for infringement of the patent; or (B) charged with infringement under the patent.”

But, as Falcoff of Harness Dickey said, that would take out advocacy groups as well. For example, the Electronic Frontier Foundation's successful challenge to a patent on podcasting could not have been brought under that language (89 PTCJ 1697, 4/17/15).

Falcoff asked, “Would that be good for public policy? If someone is willing to put forward the resources to do this correctly, why is it not in the public good to rid ourselves of invalid patents? It's not a minor undertaking.”

“The hedge fund issue is what has gotten people talking,” Nolan said, “but it's the disproportionate success rate that everyone is really looking at.”

While standing may be “the easy answer,” he said, he didn't expect Congress to give in on that point, with the “battleground” really being about the standards the PTAB uses to conduct patent challenges. Hedge funds “will be less able to monetize the IPR challenge” if stan-

dards more likely to favor the patent owner reduce the stock market's expectation that the challenge will win.

Change PTAB Standards? Hadad requested three changes to PTAB rules and procedures in the hearing:

(1) Require the PTAB to adopt district court standards for claim construction, presumption of validity and clear-and-convincing proof of invalidity.

(2) Allow minor amendments to claims prior to the trial institution decision.

(3) Allow an equal opportunity to give evidence, including live testimony, and after one judge or panel makes a decision to subject the patent to a one-year trial, either add judges or substitute new ones to make the final decision.

PTO Director Michelle K. Lee has already hinted that the office is looking into making the change related to adding judges (89 PTCJ 1525, 4/3/15), which PTAB practitioner Falcoff endorsed.

He said, though, that a change in the presumption of validity and burden of proof is the modification most likely to make the difference the proponents of these provisions are seeking.

"There are many situations where it's just simply a battle of the experts," he said. "In some cases, those positions are not grounded on objective evidence. If it's a close call or a tie-type situation, the burden of proof change makes a big difference."

He strongly supported aligning the claim construction standards, and not necessarily because it decreases the likelihood of an invalidity finding. Rather he said, "There are efficiencies, because if a patent survives and

goes back into litigation, the judge can simply take the opinion from PTAB judges and use it."

Otherwise, the court may have to hold a claim construction hearing simply because of the different standard it must use, Falcoff said. And we're all better off if the PTAB's judgment is adopted by courts, he added.

"In many or most situations in litigation, the judges are not technically trained or not familiar with patent law," Falcoff said. "It makes more sense to have administrative patent judges making decisions and carry them through."

He rejected the call for live testimony, though.

"It offends me from a cost standpoint," he said. "If one party does it the other party is going to have to do it, and then both sides are spending a lot more money. That is counter to the stated objectives of the IPR proceedings."

That May Not Be So Easy. Among Hadad's three requests, the House's Innovation Act addresses only the claim construction issue—requiring the PTAB to use the *Phillips* standard required in federal courts, but the Senate's S. 1137 leaves that out.

The STRONG Patents Act includes provisions for all but the live testimony issue. But will the Senate amend S. 1137 to incorporate provisions from S. 632? "That's going to be a sticking point going forward," Nolan said, recalling the hearing.

Sen. Charles E. Schumer (D-N.Y.), one of S. 1137's sponsors, said he would not vote for any bill that contained attempts to "gut" the IPR and CBM proceedings.

BY TONY DUTRA

Full text of S. 1137 at <http://pub.bna.com/ptcj/PATENTActIntro.pdf>.