

# H.R. 9, THE “INNOVATION ACT”

## Section-by-Section Summary

July 2015

### *Sec. 3. Patent infringement actions:*

- 1) **Heightened initial pleading requirements** – provides for enhanced initial pleading requirements that would require a patentee to identify the patents and include all claims necessary to identify each “accused instrumentality” (the allegedly infringing product or process), and more specificity as to exactly how they are infringed. Goal is to reduce repetition and redundant explanations, to provide efficient and useful pleadings.
- 2) **§285 Fee Shifting** -- aligns fee shifting in patent cases with the standard that is used for awarding fees against the U.S. under the Equal Access to Justice Act (28 U.S.C. §2412(d)). The EAJA was enacted in 1980, and there is now a well-developed body of case law explaining how the standard operates in the fee-shifting context. The standard is fair and predictable and is reliably enforced.
- 3) **Joinder provision (Shell Company)** – The provision also allows for very limited joinder of parties (ex: parent entity) to satisfy a fee-shifting award against an insolvent shell company, allowing courts to join parties that have an interest in the patent or patents at issue. Includes language to ensure that joinder activates when a party to a patent infringement case is unable to satisfy a fee award; and provides a clear notice provision up front, so a potential party is aware. Also includes a certification provision for parties to indicate whether they have the financial capacity to satisfy a fee award. Includes language to ensure that the provision is targeted to insolvent shell companies, and does not include inventors, legitimate start-ups, banks, and VCs, or those engaged in research in that field.
- 4) **Venue** – includes a provision that will restore Congress’s intent that patent infringement suits only be brought in judicial districts that have some reasonable connection to the dispute. Since 1897, Congress has regulated the venue in which patent actions may be brought. These limits protect parties against the burden and inconvenience of litigating patent lawsuits in districts that are remote from any of the underlying events in the case. In 1990 the U.S. Court of Appeals for the Federal Circuit “reinterpreted” that statute in a way that robbed it of all effect. The Innovation Act corrects the Federal Circuit’s error, and restores the congressional purpose of placing some reasonable limits on the venue where a patent action may be brought. This common-sense reform is long overdue—and entirely consistent with the longstanding congressional policy of placing reasonable limits on venue in patent cases.
- 5) **Discovery Stays for Preliminary Motions in patent cases** – gives courts ability to limit discovery until preliminary motions are decided. This ensures that discovery stays cannot be gamed. The amendment provides a stay for preliminary motions to sever a claim or drop a party for misjoinder; transfer the action under Section 1404(a) of title 28; and, transfer or dismiss the action under section 1406(a) of title 28. It also includes a discovery stay for a ‘motion to dismiss’ in patent cases. (*This provision replaced the Markman Discovery Stay in the introduced bill*)

- 6) **Demand Letters** - makes clear that purposely evasive demand letters to end users are against public policy, calling for such pre-suit notifications to provide sufficient information, if not, then the plaintiff would forfeit enhanced damages.

#### ***Sec. 4. Transparency of Patent Ownership:***

- 1) Upon filing the initial complaint the plaintiff is required to provide parties, the Court and the PTO with basic information about the patent (ex: ultimate parent entity, parties with a financial interest, etc.). Also requires the patentee to keep that information updated for the life of the patent.

#### ***Sec. 5. Customer-suit exception:***

- 1) Allows a case against a customer to be stayed while the manufacturer litigates the alleged infringement, provided that the manufacturer is involved in a lawsuit in the US involving the same issues. The customer stay is available only to those at the end of the supply chain, who are selling or using a technology that they acquired from a manufacturer, without materially modifying it. Allows for a stay to be lifted where it would cause undue prejudice or be manifestly unjust. *(Language updated)*

#### ***Sec. 6. Procedures and Practices to Implement and Recommendations to the Judicial Conference:***

- 1) **Judicial Conference Rules** - Requires the Judicial Conference to start developing and implementing rules and procedures on core document discovery and case management, as part of the patent pilot program. Case management, provides for procedures to ensure initial disclosure and early case management conference practices in District Courts, to help identify any potentially case-dispositive issues.
- 2) **Revision of form for filing a patent infringement case** – includes eliminating Form 18 and allows for development of an updated form.
- 3) **Protection of IP licenses in bankruptcy** – ensures that U.S. law is followed and not foreign law, that IP licenses are not eliminated in bankruptcy. Section 365(n) of title 11 prevents a bankruptcy trustee from terminating licenses to patents and other intellectual-property of the debtor. When Congress enacted § 365(n) in 1989, it recognized that allowing patent and other IP licenses to be revoked in bankruptcy would be extremely disruptive to the economy and damaging both to patent owners and to licensing manufacturers. Manufacturers often invest billions of dollars in reliance on their right to practice a technology pursuant to a license. Allowing the license to be eliminated in bankruptcy would create commercial uncertainty and would undermine manufacturing investment.

#### ***Sec. 7. Small Business Education, Outreach, and Information Access:***

- 1) PTO educational resources and outreach programs for small business concerns arising from patent infringement and abusive patent litigation practices.

- 2) Develop PTO website to include patent transparency information.

***Sec. 8. Studies on Patent Transactions, Quality, and Examination:***

- 1) Study on secondary market oversight for patent transactions to promote transparency and ethical business practices.
- 2) Study on patents owned by the U.S. government.
- 3) Study on patent quality and access to the best information during examination.
- 4) Study on the procedures needed for patent small claims within the court's patent pilot program.
- 5) Study on abusive demand letters.
- 6) Study on business method patent quality.
- 7) Study on Judicial Conference Discovery Procedures

***Sec. 9. Improvements and Technical Corrections to the Leahy-Smith America Invents Act:***

- 1) **Post-Grant Review technical amendment** – estoppel fix (“issues raised”), ensures that we promote high quality patents going forward and that PGR functions effectively.
- 2) **Reform of Patent Trial and Appeal Board Proceedings** –
  - a. Ensures that claims of issued patents be construed as a matter of law in post-grant and inter partes review, since the proceedings are an adjudication of the validity of issued patent claims and not a reexamination of the claims of an issued patent. Ensures that the proceedings are implemented in line with Congressional intent, and brings consistency to PTO proceedings, which uses judicial claim construction in reexaminations where the claims are no longer permitted to be freely amended. Provision ensures that PTO considers prosecution history, prior statements, etc. to help reach proper claim construction (ensuring that a patent is properly construed to reduce future litigation).
  - b. Includes important reforms to IPR/PGR, allowing declaration evidence in a preliminary response to a petition for IPR; prohibits market manipulation; and ensures that IPR operates fairly and provides due process. While the Committee continues to examine the IPR proceedings to ensure they operate fairly and to curb abuses of the proceedings, it is important to note, that the USPTO has broad rulemaking authority, and the necessary flexibility, to address a wide range of issues pertaining to IPR.
- 3) **Prior art in cases of double patenting** – codifies the double-patenting doctrine and applies it to first to file patents, controlling the effects of exceptions to prior art that permit a patentee to obtain multiple patents for what is basically the same invention and then sell those patents to different parties, requiring others to obtain multiple licenses from multiple parties to practice the invention.