



Intellectual Property ADVISORY ■

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House Passes Innovation Act (H.R. 3309) on Patent Reform

For the past several years, Congress has been interested in addressing the perceived abuse of the patent litigation system by non-practicing entities (NPEs). For example, through the Leahy-Smith America Invents Act, enacted in 2011, Congress mandated that the Government Accountability Office conduct a study of the consequences of litigation by NPEs. Published this past summer, the study concluded that an examination of the types of patents being increasingly asserted may bear fruit in addressing perceived litigation abuse. The White House likewise issued several executive actions and legislative recommendations regarding reform of patent litigation this past June, including calls for greater transparency in patent ownership, more discretion in awarding fees to prevailing parties and stays of judicial proceedings with respect to downstream consumers. As a milestone in Congress's efforts, on December 5, the House passed Representative Goodlatte's (R-VA) Innovation Act (H.R. 3309) by a vote of 325-91. The Act addresses several of these recommendations, in addition to making other changes intended to ameliorate abusive patent litigation practices. This advisory summarizes key provisions of the Innovation Act and discusses next steps in the legislative process.

Heightened Pleading Requirements

As passed, the Innovation Act makes a number of changes to heighten the pleading requirements in a case alleging patent infringement. Under the Act, a plaintiff is not only required to identify each patent that is allegedly infringed, but also to identify each allegedly infringed claim of each patent, as well as each accused instrumentality (i.e., process, machine, manufacture or composition of matter) alleged to infringe each claim. Furthermore, the Innovation Act requires a plaintiff to provide the name or model number and description of each accused instrumentality, along with a clear and concise statement of where each element of the claim is found, and how each limitation of each claim identified is met by the accused instrumentality.

The Act also requires a plaintiff to include a list of each complaint filed that asserts or asserted any of the patents identified in the complaint and to disclose whether the patent or patents are considered standard-essential patents. Because a plaintiff may need to disclose confidential information to meet the pleading requirements, the Act provides that a plaintiff may file such information under seal.

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Transparency of Patent Ownership

The Innovation Act also adds several provisions designed to increase the transparency of patent ownership. Currently, patent assignees may, but are not required to, record their assignment with the Patent and Trademark Office (PTO).

In contrast, the Innovation Act requires a plaintiff to disclose to the PTO, the court and each adverse party in the litigation the assignee of the patent(s) at issue, along with any entity with a right to sublicense or enforce the patent(s) at issue, any entity other than the plaintiff that the plaintiff knows to have a financial interest in the patent(s) at issue or in the plaintiff, and the ultimate parent entity of any identified assignee.

Under the Act, the duty of disclosure persists throughout a case, requiring a plaintiff to submit such information within 90 days of any change. If a plaintiff fails to comply with this section, the plaintiff will not be entitled to reasonable fees under Section 285 or increased damages under Section 284 for the infringing activities taking place during any period of noncompliance. Furthermore, a plaintiff would be obligated to pay a prevailing party accused of infringement reasonable fees and expenses under Section 285 that are incurred to discover the updated assignee or entity.

Fee Shifting

The fee shifting provisions of the Innovation Act present another notable change from existing law. The Act amends Section 285 such that the default is for the nonprevailing party to be responsible for the reasonable fees and other expenses occurred by the prevailing party, unless the court finds that the position and conduct of the nonprevailing party were “reasonably justified in law and fact,” or that special circumstances would make an award unjust.

If the nonprevailing party is unable to pay these fees, the court may hold an interested party joined to the case liable for the unsatisfied portion of the award. Under the Act, the court must join an interested party if the prevailing party shows that the nonprevailing party has “no substantial interest in the subject matter at issue” other than asserting the patents. However, the court will deny joinder if the party to be joined did not receive adequate notice that it is subject to such joinder provisions. The court also has certain discretion to deny a motion to join, such as if the joinder would deprive the court of subject matter jurisdiction or make venue improper.

Discovery Reform

The Act also makes a number of changes to discovery in patent infringement cases. First, in cases that require claim construction, discovery is limited to only those documents that are necessary to construe the claims until a *Markman* ruling is received. This broad limitation, however, has several exceptions that give courts discretion to expand discovery. For example, courts could allow limited additional discovery to ensure the timely resolution of an action, resolve a motion properly raised by a party or prevent a “manifest injustice.” Additionally, the discovery limitation does not apply to actions that seek a preliminary injunction to redress harm arising from the use, sale or offer for sale of any allegedly infringing instrumentality. The Innovation Act likewise allows parties to voluntarily consent to be excluded from the limitation on discovery by entering a signed stipulation to the court.

The Act also states that it is the “sense of Congress” that “purposely evasive” demand letters to end users alleging patent infringement should be considered a fraudulent or deceptive practice and an “exceptional circumstance” when considering whether related litigation is abusive. Furthermore, the Act prevents plaintiffs from relying on evidence of pre-suit notification of infringement in an effort to establish willful infringement unless the notification meets a number of requirements, including identifying the asserted patent, accused product or process, identifying the ultimate parent entity of the claimant and explaining with particularity how the product or process infringes one or more claims of the patent.

Finally, the Innovation Act requires the Judicial Conference to develop several rules and procedures, including implementing rules regarding the discovery of “core documentary evidence,” which includes documents relating to the core issues in a patent infringement case, including conception, reduction to practice and application for patent; documents sufficient to show the technical operation of the accused product or process; and documents related to knowledge of infringement, among other things. The Judicial Conference is also tasked with developing rules and procedures regarding whether parties are entitled to receive core documentary evidence, what party should be responsible for the costs of production and whether each party can seek non-documentary evidence. The Judicial Conference is likewise ordered to develop rules regarding discovery of electronic communication, as well as additional document discovery, which would be allowed, but only if the party requesting it bears the costs.

Customer Stays

With respect to customer stays, the Innovation Act requires a court to stay at least a portion of a patent-based civil action against downstream customers, provided certain conditions are met. These conditions require that a manufacturer and its customer are parties to the same action, or a separate action involving the same patent(s) related to the same product or process. Additionally, both manufacturer and customer must consent to the stay and the customer must agree to be bound by any final decisions of the court on issues held in common with the manufacturer. However, the legislation allows customer-defendants to file a motion seeking not to be bound by a final decision on common issues in cases where the manufacturer seeks or agrees to a consent judgment or where the manufacturer declines to appeal a final decision.

Other Additions and Reforms

Among other reforms, the Innovation Act also requires the PTO to utilize the district-court claim construction standard in post-grant and *inter partes* reviews. The PTO currently uses a “broadest reasonable interpretation” standard in such reviews.

The Act also narrows the estoppel that a petitioner in a post-grant review encounters in subsequent proceedings by no longer estopping the petitioner from raising invalidity claims on grounds that “reasonably could have been raised” during the post-grant review.

Finally, in addition to ordering a variety of studies and providing for technical corrections to certain provisions of the Leahy-Smith America Invents Act, the legislation seeks to protect intellectual property licenses in bankruptcy proceedings and creates new resources for small businesses to address concerns arising from patent infringement.

Next Steps

Having passed the House, much of the action surrounding the issues addressed by the Innovation Act is now moving to the Senate. Sen. Leahy (D-VT) recently introduced a companion bill to the Innovation Act, entitled the Patent Transparency and Improvements Act of 2013 (S. 1720). Any bill passed by the Senate will need to be synced with that passed by the House. The White House has expressed its support for the Innovation Act, while noting certain reservations regarding changes to post-issuance review proceedings. We will issue further updates as these issues progress.

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